



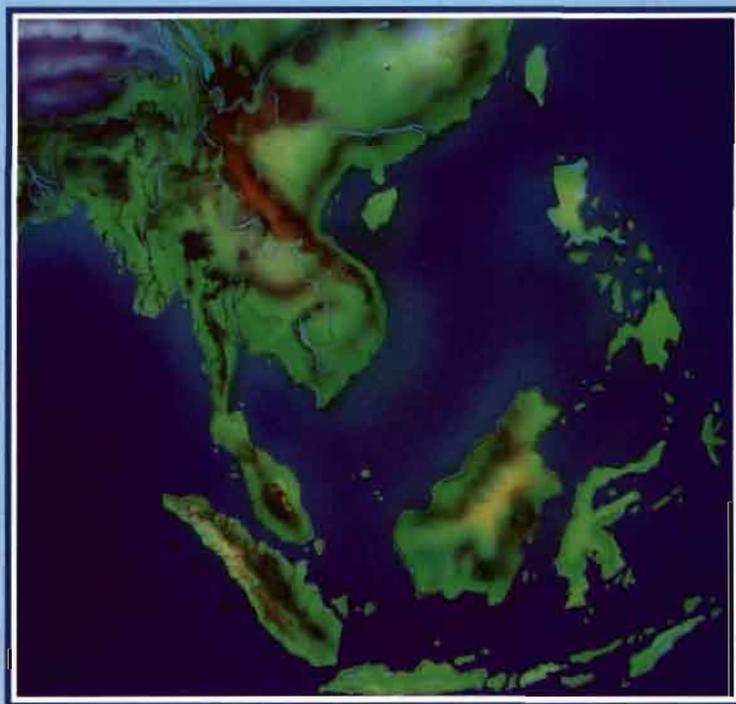
CUSRI

Chulalongkorn University
Social Research Institute

ORSTOM

French Institute of Scientific Research
for Development in Cooperation

*Entrepreneurship and Socio-economic
Transformation in Thailand
and Southeast Asia*



edited by
Amara Pongsapich
Somchai Ratanakomut
Xavier Oudin
Pascale Phélinas
Jean-Christophe Simon
Jean-Yves Weigel

Proceedings of the Seminar of Bangkok, February 1993
Chulalongkorn University

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Southeast Asia**

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FOREWORD

It is evident that entrepreneurship is a key factor of development. In the fast developing countries of Southeast Asia, extensive research has been made on entrepreneurs in big business, but the "spirit of enterprise" also exists among millions of peasants, fishermen, artisans, shopkeepers etc. One of the merits of this seminar is to take into account the wide variety of experiences which all have their impact on the economic development. Another merit is to show not only the economic dimension of entrepreneurship, but also the anthropological, cultural or geographical dimensions.

The Social Research Institute at Chulalongkorn University has always promoted multidisciplinary research in the social sciences. It is also our policy to encourage the dissemination and exchange of research results with concerned scholars throughout the world. The seminars that have been organised over the past years also reflect both the openness and forward looking character of our Institute, and the changing times in South-East Asia: it is indeed a timely period to strengthen our efforts to promote field research addressing emerging issues. I believe this view is shared by our partner, ORSTOM, the French Scientific Research Institute for Development through Cooperation.

In this respect, the International Seminar on "Entrepreneurship and Socio-Economic Transformation in Thailand and South East Asia", held in February 1993, was a landmark in our activity. Prepared by a Scientific Committee of the Institute and members of the CUSRI-ORSTOM programme, it was designed as a meeting of researchers and academics, interested in recent changes in the strategies of some key economic actors. The theme was selected to focus on both the rapidly changing context and the initiation of productive activities by actors in various walks of life.

Thanks to support from the Scientific Section of the French Embassy in Thailand, the international seminar brought together about 140 participants, including about 30 guests and invited presenters. During this seminar, researchers associated with CUSRI-ORSTOM programmes presented some aspects of investigations they have been conducting at the Institute over the past years. Most of the papers reflected recent field research and special focus was given to the interrelations between economic and social issues. Those papers are published here.

The aim of this publication is to encourage the dissemination of research on Thailand and South-East Asia. We hope that it will inspire further studies and be of benefit to an extended academic community.

Prof. Dr. Krayudh Dhiratayakinant,
Director of Chulalongkorn University Social Research Institute

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CONTENTS

Introduction, by <i>Xavier Oudin, Pascale Phélinas, Jean-Christophe Simon and Jean-Yves Weigel</i>	1
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I. INTRODUCTION

Conditions for a Successful Transition to an Industrialized Country: Thailand as a Case. A Preliminary Theoretical Framework, by <i>Luuk Knippenberg</i>	13
The Environment for Entrepreneurs, by <i>Kenneth D. Ramsing, Timothy M. Bergquist and Gerald W. Fry</i>	27

II. RURAL ENTERPRISES

Presentation.....	45
Rural Township Enterprises: Choice of Industrialization Course for Developing Agricultural Countries, by <i>Kong Xiaosha</i>	49
Entrepreneurship Development Promotion under the Impact of Agricultural Policy Reform in Vietnam, by <i>Nguyen Xuan Nguyen</i>	55
Rice Entrepreneurs Facing Land Constraints : Some Empirical Evidence, by <i>Pascale Phélinas</i>	63
Entrepreneurship and Dynamics of Rural Systems : A Comparative Study on Southern India and North-Eastern Thailand, by <i>Doryane Kermel-Torres and Philippe Schar</i>	77
Entrepreneurial Rationale in Rural Areas : the Case of Shrimp Farming, by <i>Jean-Yves Weigel</i>	91
Small-Scale Aquaculture Entrepreneurship with Particular Reference to Shrimp Farming in the Philippines, by <i>Medina N. Delmendo and Jose A. Llobrera</i>	103

III. SELF-EMPLOYMENT

Presentation.....	113
Education and Career Patterns among Small Scale Entrepreneurs in Thailand, by <i>Xavier Oudin</i>	115
Informal Sector : the Economy of the Poor ? by <i>Voravidh Charoenloet</i>	131
The Economy of Survival in the Slums of Bangkok, by <i>Barbara Igel</i>	137
Micro and Small Enterprises and Institutional Framework: a Comparative Study of Thailand, Ecuador and Tunisia, by <i>Henri-Bernard Solignac Lecomte and Naruemol Bunjongjit</i>	159

Promoting Informal Sector Entrepreneurs : A Comparative Analysis of Asian and African Countries, <i>by He Yong</i>	175
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IV. ENTREPRENEURS IN MODERN INDUSTRIES

Presentation.....	191
Entrepreneurs, State and Networks, <i>by Jean-Raphaël Chaponnière</i>	195
The Role of Industrial Policy in the Formation of the Firms Strategies in the Process of Korean Industrialization, <i>by Do Hoon Kim</i>	207
The Growth of the Automobile Industry in Asia : the State's Role in Promoting Domestic Entrepreneurs, <i>by Marc Lautier</i>	215
Entrepreneurship, Markets and Industrializing Effects : the Case of Textile Industry, <i>by Jean-Christophe Simon</i>	229
High Technology Entrepreneurship: Strategies for "Catch-Up" for Newly Industrializing Countries, <i>by N. Danaraj</i>	239

V. CULTURAL CONTEXT FOR ENTREPRENEURS

Presentation.....	261
Some Theoretical Consideration on Chinese Entrepreneurs and Their Dominant Role in Responding to the Thai Development Ideology, <i>by Amara Pongsapich</i>	265
From Rags to Riches: Discussing Achievements of Some Chinese Families in Thailand, <i>by Jean Baffie</i>	281
From Gonsi to Business Corporatism : Socio-cultural and Political Conditions of Ethnic Chinese Big Business Families' Success, <i>by Supang Chantavanich</i>	297
Thap Thieng and the Wider World: Six Decades of Entrepreneurship and Economic Change in Trang Town, <i>by Michael J. Montesano</i>	307
The Buddhist Entrepreneur, <i>by Gerald W. Fry</i>	323

Introduction

**Xavier Oudin, Pascale Phélinas,
Jean-Christophe Simon, Jean-Yves Weigel**

The economic success of Southeast Asia, and more particularly of Thailand, has been the center of interest of observers of economic and social change. However the analytical framework provided by existing economic theories on development and the role of entrepreneurship may prove to be inadequate to account for the specificities of certain situations. The pattern of Thailand's economic growth in particular, has been unusual. This seminar aims at describing some of these unusual patterns characterized by the prevalence of extensive agricultural production systems, the role of micro-businesses in promoting growth and absorbing manpower, the existence of a labour-intensive industry etc.. Although these features characterize "extensive development", the extensive model has been sharply questioned by entrepreneurs as a result of regional changes brought about by the emergence of competitive countries, by the limitations of pioneer agricultural fronts and by the rise in labour costs, causing entrepreneurs to look for ways of improving their companies productivity.

The arguments put forward to explain the strong economic expansion of South East Asia and particularly Thailand, have often been limited in the sense of identifying only partial dynamics or even being of a contradictory nature. Some examples are arguments suggesting the comparative culture or philosophical advantages (Buddhism versus Confucianism in these countries?), arguments proposing a narrow view of South East Asian economics simply as relay points for advanced industrialized economics, or arguments focussing on social stability (but understanding the role of migration in emerging entrepreneurship). Finally the role of the State itself can be seen as both a rigid administrator (e.g. "red tape" and protectionism) or a consensual facilitator of economic activities.

We have preferred to adopt a more systematic approach, by exploring the role and attitudes of an essential socio-economic category, the entrepreneurs, and the part they play in development and in promoting economic and social change. The term "entrepreneurs" is used in its widest sense to include farmers, fishbreeders and urban micro-businesses. The role of entrepreneurs of Chinese descent is examined, as is the impact of socio-cultural and philosophical factors on the spirit of enterprise. The analyses also take into account the emergence of new attitudes and behaviour of entrepreneurs in the manufacturing sector.

The Prevalence of Extensive Systems

Up to the end of the 80's, clearing new farmland and opening up new fisheries accounted for the strong growth of the agricultural sector (5.5% per year between 1960 and 1970, and 4.1% between 1980 and 1990). One of the most significant features of agricultural performance was the extension of areas cultivated at a sustained rate until 1975 (3.4% per year) followed by a more moderate scale (1.7%

per year). Consequently, the average size of agricultural holdings increased from 4 hectares in 1950 to 4.5 hectares in 1990, despite a high population growth rate. Land distribution did not change much over the same period either, large tracts of owned land remaining rare in Thailand. Finally, indirect use of the land (tenant farming, metayage) developed little over time, accounting for only 11.6% of the land cultivated in 1980 and 12.5% in 1988.

Thailand has a long history of settling farmland. The opening of the Kingdom to external trade accelerated in 1855 with the signing of the Bowring Treaty with Britain, the main purpose of which was to liberalize trade between the two countries. In the years thereafter, Thailand specialized in exporting rice. This deliberately outward-looking economy was the point of departure for a long movement of expanding rice cultivation areas to meet growing foreign demand. By 1950, all the land that could be used for rice cultivation had been taken up in the Central Plains, as well as in the little wooded, fertile northern and north-eastern plains. Even so, Thailand's opening up towards the outside world did not lead to major innovations in rice producing techniques until 1950, in spite of the increase in the amount of rice marketed and the economy's rapid monetarisation. Easy access to new farmland and its low cost, explain the farmers' preference for extensive agriculture and the very low spread of intensive farming.

After the second world war, innovation among Thai peasants consisted mainly of selecting crops that were more promising than rice. From 1945-1950, hillside crops (maize, cassava, sugar-cane, fruit and vegetables) and subsequently aquaculture, developed rapidly. Whereas rice farming had taken over the plains and valleys, the new crops invaded the wooded hills and mangroves in more worrying amounts. The fishfarming pioneer front was extended by clearing mangroves, first in the northern part of the Gulf of Thailand, and then on the eastern seaboard, followed by the southern part of the Gulf and the Andaman Sea coast¹. Thus, the forest retreated thrice as fast between 1950 and 1991 (19.2 million hectares) as it did between 1913 and 1950 (6.4 million hectares). The total forest cover has dropped from 75% of the country's entire surface area at the beginning of the century to less than 30% today. In addition to the ecological problems posed by this fast, massive loss of forest cover, the encroachment of forest land raised and still raises the issue of the recognition of the land ownership rights of those who have taken over this land.

A similar phenomenon occurred in fisheries. Fishery production first took place in the entire Thai Exclusive Economic Zone (EEZ) (the Gulf and then the Andaman Sea) before edging out to encroach on the EEZs of the riparian countries, leading to the giddy development of border ports.

Historically, all land in Thailand belongs to the King, but it was customary to allow any subject to seek the right to occupy public land in order to cultivate it, a right which, in practice, was always recognized. Between the end of the 19th and the middle of the 20th centuries, the occupants' right of enjoyment was converted into ownership and legalized as available land became rarer and disputes over legal ownership intensified. Several agrarian laws, enacted in 1901, 1936 and 1954 respectively, defined the conditions for the transfer of public land to private land. Three phases were

1- A similar phenomenon occurred in fisheries. Fishery production first took place in the entire Thai Exclusive Economic Zone (EEZ) (the Gulf and then the Andaman Sea) before edging out to encroach on the EEZs of the riparian countries, leading to the giddy development of border ports.

recognized for the legal acquisition of land, i.e. occupation, use, and legal appropriation, for which three types of documents were issued. However, the issuing of title deeds lagged far behind the rapid expansion of settled land. The lack of funds and administrative structures, the absence of cadastral surveys and a central register for transactions led to few of the eligible peasants being able to obtain the rights they had claimed.

Various agrarian laws also specified the types of land, principally forest area, for which no title deeds could be conferred. But it was only after the enactment of the Law on Forest Protection in 1937 that attempts to classify forest areas into protected areas and areas for commercial purposes began. The singular absence of enforcement of the forest conservation law encouraged "illegal" deforestation, especially since the occupants of the land thus cleared were very rarely evicted. On the contrary, the state recognized and legalized their rights by issuing special title deeds often giving holders rights which boiled down to a simple authorization to occupy the land. On the whole, in 1985, there were still nearly 9.6 million hectares of untitled, cultivated land and 1.3 million hectares over which a simple temporary right of occupation had been granted, i.e. more than 30% of all the cropped land.

Thus, the relative abundance of land and the force of common law which, for more than 150 years, had legitimized the de facto use of untouched land, greatly contributed to stabilizing the average size of farms, preventing the formation of large landed properties and the exodus of the rural "proletarianised" population towards the cities. Agricultural growth was initiated by a myriad of small companies, whose objectives ranged from simple reproduction to intensive accumulation, even though, further along the chain of production, the number of operators decreased and the farmers became more formally structured into declared companies. In the area of fisheries, in 1985, 60% of the fishing companies possessed only one boat. 70% of the boats had a gross tonnage of less than 5 tonnes and a horsepower of less than 30 hp. The relations between the fishermen or artisan processors, skilled fishfarmers of the extensive or semi-intensive system on the one hand, and industrial fisheries, aquaculturists or marine product processors on the other hand, may, in some cases, have strengthened small market production characterized by the maintenance of precapitalist forms of payment for labour (piecemeal payment on the trawlers and purse-seineurs), by the control that producers themselves have over output and by the existence of lineal relations or quasi-wage relations.

In the secondary and tertiary sectors, the extensive nature of economic development was based on the systematic use of local resources, labour and the adaptation of cottage industry forms of production to the market. The country's industrialization did not take place to the detriment of small production units, which, on the contrary, managed to adapt themselves to new forms of labour organization. On the other hand, the penetration of new external markets, a prerequisite for industrial development, resulted in the reclaiming of new land in the agricultural sector.

Thai industry developed as a result of the combination of import substitution and export promotion. The rapid diversification of the manufacturing sector was stimulated by export prospects. An international manufactures hub was created, facilitated by the open economic context and may be seen in the wide range of manufactured goods among the country's main exports and in the diversity of international investment sources. Industry took advantage of an extended local market, which guaranteed most of the consumer products a good rate of return and offset export sales' crises.

Industry was organised in two ways : on the one hand, by reinstating the cottage industry model with its system of cooperation, supervision and on-the-job training in industrial workshops (manufacturing furniture, jewelry, mechanical parts, etc.) and on the other hand, by introducing a Taylorized system where repetitive tasks were fragmented, requiring little training and multipurpose manpower (processing of agro-foods, textile production, electronics, etc.)

Entrepreneurs took advantage of three elements on which to base the beginnings of the manufacturing industry. First, a tightknit network of stable business relations between the entrepreneurs guaranteed easy supplies of capital goods and raw materials. From the start, industrial activity was linked to domestic trade : both the origin of the entrepreneurs as well as the vitality of the markets helped to start up simple, profitable activities in most of the sectors producing for individual consumption. Activities requiring more developed techniques, (spinning, assembling household appliances, automobiles) or a sizable capital input often benefitted from the collaboration of foreign entrepreneurs (granting of licenses, technical support through the sale of second-hand machines, etc.).

Secondly, they drew from substantial capital resources accumulated either in conjunction with foreign flows or through solidarity systems within the Thai-Chinese community. Only in exceptional circumstances did this form of capital accumulation lead to the constitution of large industrial groups or support well planned industrial diversification strategies, since the entrepreneurs of the manufacturing sector were often more concerned with the prospects of commercial activity, real estate speculation or even investing abroad than in defining long-term industrial goals.

Finally, the relatively easy-going manufacturing sector, not demanding a highly skilled or stable manpower, was supplied by a labour force of rural origin, which was unskilled and undemanding, and which was temporarily integrated in industry, reproducing a peasant type of life and consumer style. The modalities of labour mobilisation helped the transition of peasants from the rice paddy to businesses and led to the development of wages for pre-industrial labour: on the one hand, piece work or daily work remained standard practice in many branches, and on the other hand, given the age of the employees, the industrial wage barely covered their personal consumption needs (but not those of a nuclear family) leaving aside a small amount of savings to show solidarity with their family. The small incomes were made possible by the low cost of food and the workers' acceptance of slum-type housing conditions and promiscuity usually found in the rural context.

This low cost of labour, together with other characteristics of the labour market, such as lax labour legislation with regard to worker protection, was long considered an advantage in Thailand. The minimum wage generally paid in the modern sector is decreed by the Ministry of the Interior on the advice of an expert commission which studies the economy's capacity to bear a wage increase before any proposal is made. This pragmatism leads to wages increasing only as growth progresses, and in fact, even more slowly, which means that the share of wages in the national income remains relatively insignificant (30%). Low wages have helped to avoid a clear segmentation of the labour market by keeping the income differential between the urban and rural environments sufficiently low so as to limit the rural exodus, and by preventing the development of an "informal sector" which would have only provided ridiculously low incomes.

Finally, seasonal fluctuations in employment, an essential characteristic of the labour market, are pronounced. The labour market is strongly subject to seasonal variations and the resulting mobility of the labour force. In the dry season, nearly five million farmers look for jobs in small firms or in the modern sector, particularly construction. However, the supplementary incomes they earn through these activities are no incentive for them to leave for good. On the whole, this system has not yet created a large, urban, industrial proletariat.

The entire active population has a low level of general education : less than half have finished primary school, which is one of the lowest levels in Asia. Despite the efforts of successive governments to improve the level of schooling and vocational training, skilled manpower is still inadequate. Moreover, the great worker mobility is of little encouragement to companies to provide in-house training.

The maintenance or even the development of small firms has certainly been one of the factors contributing to the balanced development of the labour market over the high growth period. Small companies use labour-intensive production systems: they benefit from the abundance of low cost labour and are able to absorb a large share of the available manpower. On average, wages paid by small firms or for work done at home are lower than in modern companies, but they generally correspond to less skilled jobs or position taken up by young workers at the beginning of their careers.

In 1990, almost half the active urban population was employed in non-wage jobs, or in companies with less than twenty people. Although the major industries and service companies had created more job opportunities, the absolute number of new jobs offered each year by the modern sector would have been totally inadequate to absorb the demand for new job. Agriculture absorbed the largest share of job-demands (almost half between 1975 and 1985, with this ratio dropping subsequently), the rest being divided into equal parts between the modern sector (large industries, modern services and the public sector) and small companies or self-employment².

Rigorous accounting is hardly possible, firstly, because these business categories are ill-defined, and secondly, because of the seasonal nature of some of the jobs

Two main factors explain the development of micro-companies: These are sub-contracting and growth of the domestic market. The sub-contracting system developed at the beginning of the seventies, and spread to other sectors, like textiles. Its success can be accounted for its flexibility, particularly as it allows seasonal workers to go back to their villages during the farming season. But from the subcontractor's point of view, there are also other reasons. The system is adapted to a labour force which has a low level of education and skills, and little knowledge of modern economic circuits. More particularly, work done at home or in small workshops is more suited to workers who are less inclined to accept the constraints of industrial jobs. Industrial relations in small companies place importance on a family or community spirit, and offer greater flexibility in the pace of work. These companies open doors for young, unskilled rural labourers to enter into the urban labour market.

2- Rigorous accounting is hardly possible, firstly, because these business categories are ill-defined, and secondly, because of the seasonal nature of some of the jobs.

The subcontracting system has enabled small entrepreneurs to launch their businesses despite the lack of capital, and more particularly, without having to outlay substantial working capital. In fact, the main financial concern for small entrepreneurs is not so much the starting capital, which, in any case is small and rarely advanced by the client placing the order, but the lack of working capital. They therefore depend on their customers (traders or industrialists) for their supply of raw materials, and only pay their employees when they themselves have been paid (in effect making the workers put out an advance on their working capital). Banks remain conspicuously absent from the system, as no special credit scheme is available to micro-companies, unlike agriculture or fisheries. Moreover, subcontracting has helped to spread international production standards, with its external market's demands for quality, deadlines and labour organization to meet them implying a full range of skills.

Nevertheless, the subcontracting system does have its limitations. Only techniques of a low level of sophistication are spread. The transfer of know-how is also carefully rationed by the contractor, who often deliberately fragments tasks to avoid a proliferation of competition. These practices, with their many inhevent abuses related to working conditions and remuneration remain obstacles to the development of small firms.

The growth of the domestic market is often overlooked analyses of economic development in Thailand. Yet, it is a considerable driving force, allowing the country to absorb external crises (like the recent Gulf War) without too much damage. The expansion of the domestic market has been very favourable to the development of small firms. In entire sectors like business or household services (such as catering), small companies can find outlets and quickly adapt to market changes. Even in the most export- oriented sectors, like textiles, the domestic market is of growing importance. The building sector is another example of the spread of growth : unbridled construction in the country certainly favours the large civil engineering companies above all, but these often employ farmers during the dry season, who move to the construction sites with their families. Many contracts are also given to small companies, and the expansion of this sector has had an impact on the construction materials sector, with its many small companies.

Thailand at a Time of Transition

The emergence of new competitors in Southeast Asia who are putting the same products on the market is one of the factors which has led to recent changes in the Thai agricultural and industrial production systems. The cost of labour is now higher in Thailand than in neighbouring countries. Rural or urban entrepreneurs are obliged to increase labour productivity on their farms or in their companies to remain competitive. This is becoming a major concern for decision-makers. With competition growing stiffer between countries of Southeast Asia, Thailand must face the problem of growing labour costs without seeing any significant improvement in its manpower's skills. Thus, one of Thailand's comparative advantages is dwindling, without any apparent alternative solution.

Similarly, the absence of pioneer areas to attract new households has deprived Thai agriculture of its main advantage. At present, out of a total surface area of 514,000 sq. km., 320,000 are used for agriculture, a figure considered to be the maximum limit for land cultivation. The transfer of land ownership has changed, with peasants now preferring to bequeath all their land to a single child to

avoid the transfer of unviable farms. Therefore, joint heirs are obliged to turn to wage-earning jobs, which may not necessarily be agricultural. Moreover, the acquisition of land is tending to replace traditional modes of access to land (through use or by legacy), and the unequal distribution of land transactions, depending on size, seems to imply that land will be accumulated by the most wealthy operators. Tensions surrounding the land market in areas near Bangkok have increased because of competition between alternative land uses (agricultural/real estate) and the complementary development of land speculation.

The questioning of traditional modes of access to land has exacerbated the problem of land inheritance rights and the security these rights confer on the land. The assurance that a plot of land can be worked over an extended period of time, guaranteed by inalienable rights is an encouragement for investment and a prerequisite for the granting of bank loans. Of the eleven title deeds in existence in Thailand, only three provide the guarantee, in practice, real rights over the occupied land. In theory, those who are unable to produce these documents do not have access to bank loans and thus to investment opportunities. Thus, most farmers who have obtained a bank or cooperative loan own title deeds. Similarly, access to informal credit is always more frequent for titled farms. These farms will be granted much higher amounts than untitled farms, whoever the lender. The same rule applies to the duration of the loan, the funds being granted for a longer period if the borrower provides the desired land collateral. Farmers without the collateral stipulated by lenders are doubly penalized because they can borrow less often than others, and under less favourable conditions. In other words, investing in new production techniques will probably mean having to overcome additional difficulties such as access to credit by a large number of farmers because of the inadequacy of the land title deeds they possess or because they have none. However, the state can intervene to stimulate the emergence of intensive production systems through a more flexible credit policy, as it did for fisheries.

The recent increase in the cost of access to land calls into question the contribution of agriculture to growth and employment. Firstly, expanding the pioneer front was one of the traditional ways of increasing farm production as there was little increase in output. But in the future, productivity gains will depend on the adoption of more intensive farming practices. Secondly, the constant enlargement of cultivated areas enabled the farming sector to absorb a major share of available manpower. The active farming population grew by more than 3% per year during the last decade and the farming sector still employs 57% of the active population. Consequently, the rural exodus has been limited.

The factor which most favours the process of intensification seems to be lower demographic pressure as a result of the family planning policy initiated more than twenty years ago. The demographic picture has undergone fast change. Fertility decreased at the beginning of the 70's both in towns as well as in the countryside, dropping from 6.3 children per year per woman in 1965 to 2.5 in 1989. Total population growth fell from 3% per year on average between 1969 and 1970 to 1.9% between 1980 and 1990. It is currently estimated at 1.5% per year. The resulting change in age groups i.e. a drop in the younger age group whilst there are still few over 65, has led to the majority of the population falling into the working category since 1975. Over the last 20 years, the active population has increased significantly (4% per year) and it is only very recently that youngsters born after the period representing a drop in fertility, have started to enter the job market, slowing down the growth in

manpower. This has greatly contributed to the development of a labour-intensive economy and helped to limit wage increases despite the very strong demand for labour. Moreover, the drop in dependency rates³ has ensured that the community's resources are not swallowed up by education and health, but can be used to improve infrastructure and economic services.

The new demographic picture, which, in some sectors, may lead to a manpower shortage and illegal immigration, is favourable to intensification, and is exerting pressure to increase wages. Clearly, multi-occupations, whether urban or rural, seasonal or permanent, may offset the negative effects of transition by providing workers with supplementary incomes while continuing to supply small and large firms with a contingent of low-cost seasonal workers. Generally, mobility and the capacity of entrepreneurs and wage-earners to adapt is an advantage at a time when new systems of production are taking hold.

Thai entrepreneurs are between the devil and the deep blue sea: no longer competitive for low value-added products compared with southern China, Vietnam or Indonesia, they have to distinguish themselves by promoting production systems using an intermediate technology, or by relocating in countries with labour-intensive production systems. For example, in the fisheries and marine product processing sectors, the difficulty in opening up new pioneer fronts as a result of greater control of their EEZs by riparian countries (Vietnam, Burma, Malaysia and Indonesia), the emergence on the international market of marine products of new competitors like China and Vietnam, and the over-exploitation of resources, have all resulted in the intensification of the production systems observed over the past ten years. Before, small catches by unit of effort were sufficiently profitable thanks to low labour costs and strong external demand for the products.

In some fields, Thai entrepreneurs are participating in opening up pioneer fronts beyond their borders (legal or illegal logging in Burma and Laos, fishing in Cambodian, Vietnamese and Burmese waters) or relocating their industries to these countries (agro-foods in southern China, textiles in Laos, etc.).

But for those who have not opted for this solution, the main difficulty to surmount is undoubtedly how to improve their technological know-how. To do this, they have received some support from the government, which, over the last few years, has promoted the development of new production systems by allocating credit lines to adventurous entrepreneurs or by granting tax incentives to attract foreign companies which could provide the missing links in new chains of production. Thus, numerous sectoral studies show a mastery of joint ventures of strategic points of technical processes. This is partly explained by entrepreneurs' and employees' low level of skills. Taking up the challenge will mean providing considerable, urgent training as competitive economies rise up and workers claim higher wages.

3- The ratio between the number of inactive and active members of the population. The rate of dependency was 104 inactive persons to 100 active persons in 1970, compared with 79 to 100 in 1990.

This volume is structured in five main parts. The first section gives a general picture of the economic and cultural context in which the entrepreneurs of Southeast Asia operate. The second develops the specificities of growth in agriculture and fisheries in countries of the sub-region, dealing particularly with issues like the links between land structure and agricultural performance, the importance of farmers' extra-farm activities, the emergence of new competitors following the economic liberalization of communist countries (China, Vietnam), and the recent intensification of fishery production systems. The third part is devoted to small firms; it describes their characteristics, and discusses how far the existence of the "informal sector" contributes to resolving the problem of under-employment and poverty. The dynamism of modern industrial entrepreneurs and their capacity to adapt to a constantly changing economic environment are analyzed in the fourth part, as is the rôle of personal and family networks in capital accumulation. The fifth and last part highlights the importance of the ethnic (Chinese immigrants) and religious (predominance of Buddhism) characteristics of Southeast Asian entrepreneurs in the emergence of which is commonly known as the "spirit of enterprise".

I. INTRODUCTION

Conditions for a Successful Transition to an Industrialized Country: Thailand as a Case: A Preliminary Theoretical Framework

Luuk Knippenberg

Development in the so called developing countries only seems possible through total economic integration in the world market combined with industrialization. There are perhaps alternatives, but all alternatives tried out thus far have failed. Industrialization is the 'big datum' of our times, with which each country and society have to come to terms, because of the success and expansion-thrift of it, not only economic, but also political, military and cultural.

The opinions about the best way to stimulate this development differ: a complete opening up to the world market or a combination of opening up and protection.

The developments in the so called NIC's seem to support the advocates of the second option. Recent studies about the causes of the high economic growth of the Asiatic 'late industrializing countries' stress the importance of political factors and the role played by the elite (Mackie, 1988; Gereffi, 1990; Amsden, 1990). To say it in the words of Amsden: "The state is the principal initiator of industrial growth" (Mackie, 1990, p. 12). Almost all authors agree that the successes of the Asiatic NIC's would have been unthinkable without strong intervention by the state, as precursor, direct participant and as guiding factor in the background.

Also Haggard (1990) has shown how in the four Asiatic NIC's (South Korea, Taiwan, Hong Kong and Singapore) growth coalitions were formed which outplayed other groups hostile to this process. A similar development took place in Thailand, Indonesia and Malaysia. (Hughes, Mackie, 1988).

Therefore, it seems that, for the construction of a theoretical model to explain the spectacular economic development of the countries in Southeast Asia, the role of the state and especially the roles of the actors within the state and their support need to be more stressed than is normally done.

Changes in the world economy form part of the explanation why certain countries experience successful industrialization. But they do not explain why exactly those countries have succeeded and others have failed.

Therefore, I want to consider the economic factors which lure a country into the so called global shift, the factors which give a country a comparative economic advantage (factor conditions, demand conditions, related and supporting industries and firm strategies; structure and rivalry) (Porters, 1990,

p. 71), and the economic factors which push firms to become multinationals (ownership-specific advantages, internalization and location-specific factors¹) (Dickens, 1986, p. 133). Thereby, the fact will be taken into account that the economic successes of the East-Asiatic countries partly can be attributed to the vicinity of Japan and the particular motivational manners of Japanese firms to start operations overseas.

However, for the crucial causes and reasons why countries seem to have been able to conquer an enduring spot in the world market as an industrial producer, I want to look at the national and intra-national levels. I will look in the first place at the composition and strategies of, and relations between, groups who are the bearers of the political and economic power. Thereby, the national policy with respect to the above mentioned economic determinants will be given special attention.

The development of Thailand will be used as a case for two main reasons. The first reason is the fact that the process of industrialization has old roots in Thailand. The different stages of the process -- the main bottlenecks and turning-points -- are clearly distinguishable. The second reason is the fact that the transformation process in Thailand, although imposed from outside, was realized by indigenous forces: Thailand was never colonized. This makes the development process of Thailand an ideal research-case, out of which lessons can be drawn of use for other developing countries. Many of these countries are facing problems which are reminiscent of problems Thailand has faced earlier: they have only recently become independent and have to find - a better word is to invent - their own solutions to come to terms with the industrialization process.

As the point of departure for my investigation of the relations between the 'power-bearing groups' I will make use of the model developed by Evers (1988) of strategic groups, completed with Gellners' model of the transformation of and interrelations between production, coercion and power as preconditions for the emergence of an industrial society (Gellner, 1982, 1988).

Evers defines strategic groups as persons connected by a shared interest in the maintenance and enlargement of their shared possibilities of appropriation (Evers, 1988, p. 10). These possibilities of appropriation are not confined to material goods, but can also relate to power, prestige or religious goods. The presence of a shared interest makes strategic action possible, which means: the following of a 'programme,' during a longer stretch of time, to maintain or enlarge the possibilities of appropriation.

Strategic groups come into being where new possibilities for appropriation develop. In Southeast Asia this process started with the implementation of colonial rule and the colonial economy (integration in the world-market). Evers stresses that integration in the world market -- in his own words: 'Kapitalakkumulation im Weltmasstab auf den Prinzipien kapitalistische Verwertung'- leads to the development of new strategic groups. These strategic groups compete for the appropriation of a part of the surplus that results out of the enlargement of production (Evers, 1988, p. 44).

Strategic groups are classified according to their economic type of appropriation (a typology of non-economic types of appropriation has thus far not been developed).

1- These factors only start to play a role in a later stage of economic development anyway.

Strategical groups follow two basic strategies:

1. Hybridization: Enlargement of the possibilities of appropriation into new fields by the opening up of new sources of income.
2. The forming of coalitions, even ending up in symbiosis, by cooperation with other strategic groups.

Both strategies lead, according to Evers, to a strengthening of class formation, which can be understood as: 'The monopolization of social positions by means of the control of strategic resources' (Evers, 1980, p. 10).

The emergence, growth and decay of strategic groups is seen as a long term process. The same is true for the changing configurations of cooperation and conflict between strategic groups culminating in class formation. Both processes form the core of the analysis of strategic groups.

A strategic group which changes the political, economic and social environment for its own use, through strategic action, demarcates the radius of action of other strategic groups in a later stage of development. The hegemony of a strategic group can determine the political and economic system for a long period of time (Evers, 1988, p. 12).

According to Evers, integration in the world market leads to the formation of strategic groups. These strategic groups are characterized by the appropriation of surplus. Evers' theory about strategic groups tells something about the way in which certain groups compete with each other for a share of the social surplus, and about the way they do this: by moulding the political system in such a way that it fits their interests. However, the theory does not offer the instruments to detect the conditions to be met by strategic groups, and the political system imperative for successful integration in the world market. Evers only states that the conflicts between strategic groups have to result in class formation and class struggle to make possible the necessary, totally new arrangement of economy, society and rule (Evers, 1988, p. 59). With this remark he reintroduces the concept of class divisions and class struggle, whereas the aim of the concept of strategic groups precisely was to avoid this. In this way Evers seems to reduce the role of strategic groups to a pre-phase of unavoidable class formation. This takes him back to his starting point -- class theories and all the accompanying drawbacks: rigidity, determinism, economism, etc. -- and it weakens the model precisely where its main strength should lie: in the fact that it offers instruments to analyze societies which are not divided into two or more parts immersed in class struggles. Exactly where an explanation is mostly needed, namely an explication why some countries succeed in combining integration in the world market with successful economic development and other countries do not, he excuses himself.

Nonetheless, with the help of a theory developed by Ernest Gellner (1989), it is quite possible to offer that kind of explanation.

Gellners starting-point is that there exists a fundamental gap -- in the political, social, cognitive and cultural sphere -- between agrarian and industrial societies. According to him there is no continuity, let alone some kind of a necessary historical development culminating in industrial society. On the contrary, the industrial revolution was a coincidental and atypical process, caused by a miraculous political and ideological balance of power between groups within the non-economic

segments of only one society (the British), exactly at a time where the technological potential was available and exactly at a time where at least some of the producers were willing to exploit this unique coincidence of beneficial cognitive, ideological and political circumstances. The agrarian society is no pre-phase of industrial society. It is a society which can exist for ever and which has no internal drive to change into another kind of society. In fact, everything in an agrarian society militates against the sheer possibility of a fundamental change.

Industrialization not only leads to a complete transformation of the society (see further on for more details about the nature of this transformation), it also offers countries which have gone through this process unmistakable economic, military and political advantages against countries in which this process has not occurred. This was visible immediately after the industrial revolution in England.

According to Gellner, industrialization has less to do with economic needs and the desire to raise the standard of living of the population -- with the exception of the countries in Western Europe and the United States -- than with political and military considerations: it is an effort to reach equivalence. This is certainly the case in the so called developing countries.

Thailand is in this respect a good example. The first initiatives in Thailand towards modernization and industrialization were taken in the second half of the nineteenth century, at the same time as in Japan. The transformation was clearly imposed from above, in the process of which clearly distinguishable groups out of the elite played a decisive role. The underlying reasons were clearly political and military: the fear of being overrun by the colonial powers and the wish to control the whole of the nominally subjected country.

The ideas of Gellner link up with those of Barrington Moore jr., who investigated and compared causes of and roads to industrialization in the United Kingdom, France, Germany, Russia, China and Japan (Barrington Moore, 1966/1974). Barrington Moore also concludes that the industrial revolution in England was an unparalleled historical event and a clear historical breakpoint, the result of a kind of balance of power between various groups which had the political and economic power. He also concludes that industrialization was everywhere of a form above ordained process, except perhaps in the United States. In the first industrializing countries, the United Kingdom and France, the industrialization went on so smoothly (notwithstanding the fact that it was accompanied by revolutions and harsh suppression of large segments of the population) that it seemed to be some kind of natural process. In Germany this was less the case; and in other countries investigated by Barrington Moore, even more -- with the exception, as already mentioned, of the United States. Barrington Moore couples the 'naturalness' of the process of industrialization and the political structure. He makes a distinction between the democratic road to industrialization (Western Europe -- with the exception of Germany -- and the United States) and the dictatorial road (everywhere else). In the countries of the last group, it is a relatively small group which enforces industrialization or tries to enforce it.

Gellner even goes one step further. According to him, the eccentric situation in England during the period of the industrial revolution -- the result of special and unique circumstances -- created a dual illusion: the illusion that the economic sphere can be autonomous and independent of the political sphere and the illusion that this situation is natural and that all other situations are a distortion of the natural order.

This illusion forms the core of classical capitalism. This vision created four other illusions, also based on a reality not only historically conditioned and limited, but also ideologically branded as natural branded presuppositions:

- the idea that there exists an invisible 'hand of the market' which regulates everything;
- the idea that economic development and democracy are a kind of Siamese twin;
- the idea that the destruction of a political order which is supposed to stand in the way of economic development automatically leads to economic development (the catharsis of the revolution);
- the idea that models of economic development simply can be copied.

Industrialization is, however, not automatically emerging and developing process. It is set in motion as a result of choices made by and imposed from above by a small minority which holds power. Its success is conditioned by historical and local circumstances and by the way these can be orchestrated by the dominant groups. These circumstances and the strategies of the dominant groups -- out of which, in the course of this process, emerge strategic groups in the sense mentioned by Evers -- also condition the political, economic, social and cultural configuration in which that industrialization takes shape. The 'magical hand' of the market and democracy are in no way necessary ingredients and they are certainly not necessary prerequisites. If they are present, then they are not the causes (as stipulated by, for instance, by the modernists), but the effects of those circumstances. The free market mechanism and democracy only work in situations and places where there is only need for small changes and where there already exists a great amount of consensus about the necessary steps to be taken.

Thus, according to Gellner, whether or not, how and in which context and constellation industrialization and certainly successful economic development take place is strongly historically and locally conditioned, and hangs on the strategy of a small dominant minority.

The developing countries, labeled by Gellner as transitional states -- in my opinion a far more fitting name -- are thereby in a particularly tricky situation. On the one hand, industrialization is at the moment 'the big datum', the imperative imposed on all contemporary governments. On the other hand, the industrialization process fundamentally demolishes the old social formations in developing countries. This forces these societies to create a totally new social order, precisely in a time where, for the first time in history, it becomes clear that social creation is impossible (a society is no creation of the will). These countries face, therefore, an impossible task. Who are the ones who create and enforce this new social order, or to use the words of Gellner: who are the 'ersatz-pre-social designers and ratifiers of the Social Contract'? What are their models and tools? And who checks them?

Transformation towards an industrialized society seems the only possibility. But this does not mean that industrialization is a necessary development: it is not the only possible development, not even the most plausible or best realizable. To accomplish this transformation, specific prerequisites have to be met and specific barriers have to be pushed aside. The chance that this does not happen or only half happens is very great because the choices to be made on behalf of this transformation are not the most logical ones (logical in the sense of rational and in the sense of being in an even line with

the course of events or the status quo). Industrialization, and certainly successful industrialization, is therefore rather the exception, not the rule.

The strength of Gellners' theory is not only that Gellner begins his analysis where others end, but also that he explicitly describes the political, social, economic, cognitive and cultural transformations through which agrarian societies have to go to change into industrial societies. These are historically traceable and verifiable transformations.

According to Gellner, there is no place in an agrarian society for purely rational economic behaviour only aiming at maximizing profit. Such behaviour would deny, in a disastrous manner, all other mutual considerations and relations which also form part of every agreement. Agrarian societies are characterized by scarcity. There is only a relatively small, storable and easy to appropriate surplus. The relatively small surplus can only support a small non-productive group. The majority of the population lives in submission, totally dedicated to production. A threefold division into producers, soldiers and clerks is characteristic for most agrarian societies. The dependence on a relatively small surplus makes conflicts about the division of that surplus endemic and these conflicts have an in built tendency to escalate. As a result, these societies are characterized on the one hand by an in built tendency towards instability and on the other hand by the need for political and ideological stability. Not change but exactly the opposite is the adage. The outcome of this paradox is that in most agrarian societies there is a small group or upper-stratum, which tries to completely monopolize power and lives by creaming off the produced surplus. But this group is continuously threatened by internal fragmentation because it has only limited means to organize its power effectively. The paradoxical situation that stability is absolutely required, but is at the same time very labile and continuously undermined by centrifugal forces, makes the role of legitimacy as the cement of society very large, and with this also the role of those who credit legitimacy. It leads to a legitimacy which not only stresses stability and the status quo, but even sanctifies them: in a world in which conflicts are immanent and endemic, the norms and values to check them have to be stable and transcendent.

In such a world, the stimuli for economic accumulation are very scanty. Not only because the power-holders are inclined to appropriate all surplus and leave the producers only just enough to keep on functioning, but also because in a society where political power dominates production, producers and traders are inclined to convert their resources as quickly as possible into political power. The producers and traders are forced to spend their gains as quickly as possible and the only 'productive' ways to do this is to buy themselves into the ruling circles or convert their wealth into religious goods in order to gain the support of those who credit legitimization. This explains, by the way, why rulers in agrarian societies tend to prefer traders who are religious or politically stigmatized, for instance the Jews in medieval Europe or the Chinese in pre-modern Southeast Asia, or the Indians and Lebanese in colonial Africa.

In these circumstances the clerical-military elite always profits, one way or another. It does not matter whether or not new members enter or old members disappear, it even does not matter whether or not the whole composition of the elite changes periodically. The whole political and ideological organization of an agrarian society blocks the use of the surplus for the enlargement of production. Everything in an agrarian society blocks the pursuit of economic growth.

An industrial society, on the contrary, is totally based and directed at continuous economic and cognitive growth.

In an agrarian society, a productive strategy dominated by a purely economic principle is an impossibility and even an absurdity, except for some politically and morally stigmatized and isolated groups who, because of that, are easily manipulated and therefore useful and who have no other opportunities. Economic motifs are indissolubly tied up with and subjected to other considerations.

In an industrial society, the maximization of economic profit is the overruling principle. And that principle can be pursued without being restrained by other considerations. Characteristic of an industrial society is the dominance of instrumental economic rationality (the pursuing of one or more separable goals). An instrumental rational economic mentality requires an instrumental rational attitude against nature. The two go together and reinforce each other. The maximization of economic surplus requires the presence of a big and growing surplus. How and where this was realized for the first time has been briefly mentioned above. The point to be made here is that a continuous growth of the surplus, in other words a total and endless expansion of the market to the extent that whole societies and even the international social system are dominated by it, requires a continuous cognitive and technological expansion. Such a cognitive expansion not only requires a vision that nature is understandable and transformable, but also a society in which the old political and ideological forces do not block such a cognitive expansion. In other words, it requires that the old ideological and political powers who formed the cement of the agrarian society and are opposed to change out of self-interest or conviction have lost their preponderance.

The industrial world is characterized by a totally -- not gradually -- different division of labour. In the agrarian world, the essential division was that between specialists in power, specialists in ideology, and producers. Within the last group there could be made several subdivisions, but this was less important. The first division was the crucial one. It was stressed, formalized and ideologically underlined. In the industrial world, such divisions are, on the contrary, denied or concealed. There is no formalized division between the rulers and the ruled. Those who rule the state have to claim to be representatives of the people, in one way or another. They have to do that because they can derive their mandate to rule from nothing else. The difference between them and the population is gradual not fundamental. An industrial society is democratic in the sense that the notion of a separate political-military class is considered to be improper. Producers are no longer politically castrated. What is true for power, for politics, is also true for cognition. In an industrial society, power is and can no longer be the enclosed and privileged domain of a minority. In a society based on continuous economic and cognitive growth, nothing other than cognitive frontiers can be imposed on that which is knowable and that knowledge ought to be shared by everyone. Complete communication and complete mobility are a *sine qua non*: knowledge has to be moulded in a code comprehensible for everyone and unequivocally transferable, and the occupational structure will continuously have to change and be changeable. This requires an egalitarian society in which status is closely linked to one's profession and in which functions and status are not frozen but in a flux; in other words: it requires a society in which there is no room for unchangeable casts, estates and classes. In this respect Gellners' ideas clash with those of Evers.

The binding element in an industrial society is culture. This culture has to allow everyone to communicate with everyone else, and this requires cultural homogeneity. There is no room for fundamental cultural heterogeneity and layering, so typifying and useful in an agrarian society.

Cultural homogeneity needs a culture which can be universalized, standardized and homogenized. For this purpose, most suited cultures are the so called high cultures; cultures based on centralized, literate religions. Cultural homogeneity also requires the presence of a universal, homogeneous education-system, based on writing, obligatory for all the members of the society. This culture has to be protected and the transfer of this culture has to be effected by a centre, devoted to this culture.

As a consequence, the presence of a state in an industrial society is more than just a condition, it is a necessary condition. This state usually has the form of a nation-state.

A nation is a group of people convinced of sharing the same identity (culture), and who live within or strive at a political entity which contains all -- and only those -- who share the same identity. Culture is the only, 'natural' condition for political legitimacy. Fusion of will, culture and politics is the norm. Gellner calls this nationalism. According to him, nationalism is a product of industrialization, the result of the need for mobility, communication, equality, or in other words, the result of the need for a fusion of will, culture and politics.

Evers and Gellner both point out that integration in the world market of agrarian societies has great consequences for those societies. Both stress the role of groups of the elite by the implementation of the changes which accompanies this integration in the world-market.

However, Gellner points at a complication which Evers ignores: the fact that it is not enough to state that the transformation of an agrarian society into an industrial society leads to the emergence of new strategic groups, what is necessary, is to explain how, where and why these groups come into being. After all, everything in an agrarian society blocks the coming into being of strategic groups which contribute positively to the economic development of an industrial society. It is exactly in the differences between the political, economic, social and ideological conditions of an agrarian and an industrial society that the core of an explanation why some countries realize successful economic development and others do not has to be sought.

Integration of an agrarian society in the world market has consequences for the structure of power, in other words, for the nature and composition of strategic groups within that society and for their strategy. Evers sees changes in the way the surplus is appropriated. Gellner also sees changes in the whole mechanism of the appropriation.

According to Gellner, successful integration in the world economy requires that the appropriation of surplus becomes subordinated to the enlargement of that surplus and that politics becomes subordinated to economics. This reversal requires a strategy which is in blatant contradiction with the strategy needed in an agrarian society. Furthermore this reversal leads to a strengthening of precisely those groups which have a subordinated position in an agrarian society: the producers and traders, whereby the latter have the benefit of already possessing a productive strategy, dominated by a purely economic principle. This especially applies to those groups which before had no other means to

survive because they were politically and otherwise excluded and stigmatized, like the Chinese in Thailand.

Yet, contact with the world market also hands over to the existing dominant groups the instruments to stabilize, strengthen and even enlarge their power-position. The industrial world not only offers unprecedented possibilities for economic growth, but also unprecedented possibilities for the employment of effective political power and control. As a consequence, groups which are dominant in an agrarian society -- and for that reason the first to be confronted with the demands of the 'new' times and the ones which have to introduce changes undermining their own positions -- are inclined to develop strategies aimed at taking over the useful elements but preventing fundamental changes, which is what happens in many developing countries. The army, the police-force and the bureaucracy, the means to enforce coercion and control and to appropriate surplus on a larger scale and far more effectively than ever before, are (re)organized and strengthened. Such a strategy is devastating for a real process of industrialization and modernization.

However, at the same time even this pragmatic and selective strategy results in the emergence of groups with new own interests and new strategies, namely groups within the army, police-force and bureaucracy. So, this process in the end undermines the position of the original dominant groups. But it does not lead to a strategy aimed at the enlargement of the economic surplus. The strategy of these new groups is still characterized by the primacy of coercion and appropriation of surplus. The role of production stays that of milk-cow for the ruling political elite. It offers no leads for enduring successful economic development. These new groups with their 'new' strategies can live on, as long as they succeed in creaming off the domestic surplus in an increasingly efficient way, in order to pay the ever rising costs of their apparatus, by expanding their resources of income (hybridization) or because they are supported by foreign knowledge and capital. At the same time, their existence is threatened by internal fragmentation and above all by the fact that they are confronted with an insurmountable problem of legitimacy. They stand with one leg in the 'old' world and with the other in the 'new' world. This deprives them of the possibility to change their power into authority. The 'new' character of these groups makes it impossible to refer in a credible way to the old 'sacral' legitimacy, while what they strive at and do is also not reconcilable -- at least during a longer stretch of time -- with what is considered to be legitimate in the modern world: the claim to further the prosperity and well-being of the people, the nation or the country.

In such societies, economic growth and restricted industrialization can occur, but the drive to pick the fruits of that growth and to let political priorities (power and status) prevail above economical priorities result at a certain moment in the transformation of the economic surplus in political capital and status. As a consequence, the economy is structurally deprived of the economic capital necessary to generate economic growth.

Continuous economic growth is only possible if the pursuit of economic growth for the sake of economic growth has become the basic principle of a society, at which all political acts and strategies of the dominant groups are primarily aimed. If there is to be successful industrialization, then, as Barrington Moore has accurately expressed: 'The commercial and industrial leaders must be on their way to become the dominant element in society' (Barrington Moore, 1974, p. 424).

It is a road with many traps. If this modernization process has not been halted at an early stage, there emerges in most cases' coalitions between influential political dominant groups and/or persons and important commercial groups and/or persons if and when traders and industrialists have gained a certain power. This a decisive phase. When the emerging industrialists and traders are too weak and too dependent to obtain real decisive political power, and instead throw themselves politically in the arms of dominant political groups or the bureaucracy, it is likely that the process of industrialization will be hampered or smothered.

(In Thailand, the 'local' business and industry are controlled by Chinese. In their ranks the indigenous economic strategic groups have to be sought. The position of the indigenous Chinese and their relation with the political power-holders has changed over time from dependency towards more autonomy and interdependency).

In any event, such power configurations are the beginning of periods in which authoritarian regimes are in power and inclined to cream off the economic surplus instead of stimulating the employment of this surplus to increase the surplus.

This seems to be the common situation in most developing countries.

Such a development still can lead to successful industrialization, at least if the commercial interests succeed in getting the upperhand. This kind of authoritarian regime can even be helpful in the short run to economic development, as far as they eliminate barriers and suppress opposition.

However, to come to successful and lasting industrialization certain conditions have to be met:

- rationalization of the political order. A strong central state has to be established, with a strictly defined territory, a uniform administrative system, and a sufficiently strong army and police force. (A characteristic trait of most agrarian states is the lack of a central authority which can really enforce its power in the whole of the nominally subjected territory: the real power of the central ruler, bureaucracy and army are limited; power has to be based on personal bonds);

- the creation of new bonds of loyalty, which involve the whole population: loyalty in the first place with an abstraction, the state, not with a person. Gellner calls this the creation of cultural homogeneity. According to him, this cultural homogeneity is essential: societies which do not succeed in creating the necessary cultural homogeneity will fall apart and form new societies and countries in which this cultural homogeneity can be created or appears to be possibly created. The instrument to realize this is a national education system and nowadays also the mass-media.

- the leadership has to be able to resist pressures and opposition from the top, from groups within the elite and the bureaucracy, by paralyzing or coopting these groups. It has to be able to resist pressure from below, from the population (they are always forced into industrialization and have to bear the load and pay the price). The government has to be autonomous to a great degree. (In Thailand for instance, at least until recently, decisive parts of the bureaucracy operated almost autonomously: the so called technocrats, responsible for macro-economic planning. Their independence and financial conservatism prevented all kinds of open-ended economic adventures, but also blocked the possibility for a real industrial policy, and thereby also limited the operating power of the government).

The key problem of each transitional society lies in the fact that the social structure has to be fundamentally changed, without being clear how this has to be done. (In most cases, western educated people take the lead, but their models are derived from a totally different society and do not cope with the demands of their own society).

The key problem of each authoritarian government is that while it might control the counterforces from above and below, it is at the same time, strongly inclined to preserve the old social structures because its power is built on them. The only way out is militarism.

How this process exactly takes shape has to be investigated for each country by means of a historical study. Such a study continuously has to examine which groups rise to the surface, which coalitions they form, how they deal with the above mentioned specific conditions and how bottlenecks are treated.

These emergent dominant strategic groups have to undergo some essential changes for successful economic development to be possible:

- their structure and strategy can no longer, in the first place, be directed at the appropriation, consumption and reversion of economic surplus in political capital, but has to be aimed at the increasing of that surplus;

- economic thought and action have to dominate political thought and action: politics as the servant of economics;

- the role and space to manoeuvre for purely economic strategic groups have to become continuously greater;

- not segregation but integration has to be the main aim of strategic groups: the creation of consensus between strategic groups and, at a later stage, more and more with new emergent and even non-strategic groups. The mechanism of the market (divisibility, calculability and negotiability) also has to replace the mechanism of coercion in the social and political interaction; a more often than not occurring problem in this respect is the fact that strategic groups frequently owe their 'comparative advantage' and lead for a large part to their exclusion and seclusion.

- the power relations between and within strategic groups have to become more institutionalized and less personalized. The difference between the strategy of persons (and groups of persons) and the strategy of institutions and firms has to become more fluid -- for instance: firms as an extension of a person or family (Chinese variant: Yoshihara, 1988; Redding, 1990; Wu, 1980); firms as independent entities with all their own facets of life, enclosing culture and identity (Japanese variant: van Wolferen, 1989); and persons who purely function as an extension of purely economic functions of a firm (American-European variant).

In other words, in an industrial society, based on economic growth, all power has to be aimed at or culminate in economic power. The essential junctions of power have to be found in the economic sector and power has to be wrapped up in (state) institutions and (business) firms.

An essential task of a historical study is to investigate in what way and to what extent there is a shift from the primacy of politics to the primacy of economics, or perhaps more appropriately, in what way and to what extent does the discourse of power become an economic discourse.

Specific for the economic development of Thailand (and the other 'little tigers' in Southeast Asia) was -- as already mentioned -- the role played by the 'local' Chinese. They formed and form the economic strategic groups. Thailand is unique in so far as the Chinese are no longer formally politically and culturally excluded. This gives Thailand an advantage compared with, for instance, Malaysia and Indonesia concerning the successful industrialization necessary -- as mentioned -- for cultural homogeneity and space to manoeuvre economically and politically.

However the economic preponderance of the Chinese in Southeast Asia perhaps also explains why the process of transformation towards a thoroughly industrialized society has been slowed down, at least until recently. This has, in my opinion, rightly been stressed by Yoshihara Kunio (1988).

According to Kunio, the business elite in Southeast Asia consists of 'ersatz-capitalists'.

They are 'ersatz-capitalists' because:

- they are dependent of foreign technological and commercial expertise and make no efforts to acquire this knowledge;
- they consist for the most part of Chinese which often form a separate and politically and culturally stigmatized group within the society in which they are active;
- they are 'rent-seekers'.

Apart from that, they are, according to Kunio, also capitalists in an outdated sense of the word: they do not know a separation between property and management.

The thesis of Kunio has met a lot of criticism. However, he raises, in my opinion, a fundamental point, as far as the Chinese 'entrepreneurs' are concerned. This point is that 'the Chinese spirit of capitalism', to paraphrase the title of a very interesting book about the mentality of the Chinese entrepreneurs in Southeast Asia (Redding, 1990), was and is very strongly conditioned by the long exclusion and seclusion of the Chinese traders and businessmen, even in Thailand where they are no longer officially excluded. The Chinese had to be economically successful to survive; other means were not open for them. For that, they had to work together with and for foreign entrepreneurship, thereby keeping a low profile, because these foreigners were technologically, economically, and in many countries even politically, superior. Also they had to work together with and for indigenous political strongmen, keeping a low profile, in order to avoid being stripped of their economic wealth. Thus, they could only really trust their own family and kinship, the only circle or network within which they could operate on not strictly economic terms. Finally, they had to be rent-seekers because they never could know when the political and cultural exclusion and seclusion would be accompanied by economic exclusion, or the approbation of their accumulated wealth by others.

These Chinese 'entrepreneurs' were not so much driven by purely economic motives: the pursuit of surplus in order to generate surplus, as by the desire to survive: generate money in order to survive, money which could be very quickly made mobile and moved away.

The point Kunio makes very clear is that this mentality can be a drawback in an environment where the generating of surplus is the dominant principle and has to be accomplished by long term investments, technological innovation, professionalization of the management, aggressive marketing,

active political lobbying, and selective cooperation on equal terms with competitors from all over the world.

Conclusion

All authors stress the importance of -- in the words of Evers -- strategic groups for the economic development of Southeast Asia. Some of them go even further and stress the importance of strategic groups for the economic development of each transitional society -- which I support. Some of them even hand over a model to describe and analyze the transformation of an agrarian society to an industrial society in these kinds of terms.

On the basis of the existing literature, the process of transformation of Thailand can be understood in this sense: according to all relevant studies, the political and economic process in Thailand is supported and even beared by strategically operating and mutual rival or linked groups. Perhaps a description and analysis of this process offers a starting point to understand the process of the transformation in other transitional states.

Conspicuously absent in this scheme are the common men and women, the people, the population. This has its reasons. In transitional societies (transitional in the above mentioned sense and direction), the people or population becomes, for the first time in history, a real factor of power, even the fundamental of the legitimacy of each regime (with the exception perhaps of certain Islamic states). But the process of transformation and the direction of it are not initiated and determined by the people. The changes are imposed on them. The difference between an agrarian and a transitional society rests not so much in the fact that these changes affect all members of the society, as in the fact that all segments of the society are forced to change radically, without really knowing in what way. This makes the people a fundamental factor of power, but not so much an active one as more a passive one. In a transitional society, the population has initially no political voice and is unable to indicate in which direction the changes should go (it is a total social transformation, imposed from outside and from above). At the same time, the success of the transformation depends on the extent to which the whole of the people of a country can be involved culturally, socially, economically and even politically (which is not synonymous with democratically). A major -- in my opinion in most cases insurmountable -- problem is that this kind of from above imposed development contains all kinds of seeds for a great division within a society between the haves and the have-nots, whereas in fact, this kind of development, based on economic growth, requires homogeneity, consensus, unity and equally shared possibilities in order to continue. In other words, it requires exactly the opposite of this sort of great divide. The worst thing to happen is the emergence of a structural cleavage within society, which cannot be denied or bought off. It fundamentally undermines the legitimacy and the possibility of the above described form of economic development in the long run.

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The Environment for Entrepreneurs

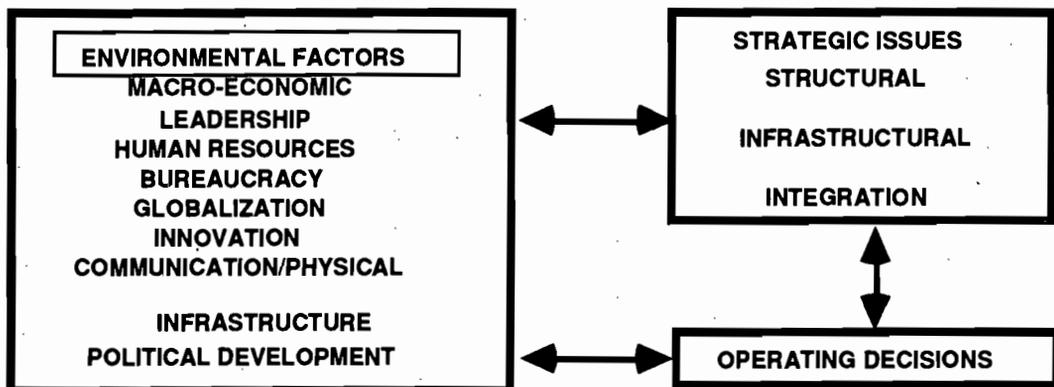
Kenneth D. Ramsing, Timothy M. Bergquist, Gerald W. Fry

Entrepreneurs represent the largest group of companies--small businesses--in the world. They usually start with an idea, an invention, or a perceived need. Entrepreneurs are mainly concerned with the day-to-day operations of the business. Simply trying to survive keeps them busy each and every day which generally precludes taking the time to stop and think about business environmental factors or strategic issues. At the extreme, many would consider it a waste of their valuable time.

Yet it is these very environmental factors and strategic issues that will most often result in the difference between success and failure for a small business. Entrepreneurs can understand operating decisions because they are involved with them daily. But without an understanding of the environment of the country in which they operate or of the strategic issues involved in long range planning, they place themselves in jeopardy. It is only if a small business person perceives there is ample time that they will examine these factors and issues, but then only after they consider the operating decisions.

This "operations view" is the one most often taken by entrepreneurs, simply because they are worrying about daily activities. Regretfully, this is a backward approach to doing business. Before any entrepreneurs consider beginning their business, they must first consider the environmental factors of doing business and the strategic issues that must be planned. Failure to do so has closed many potentially successful businesses before they had an opportunity to prove their value.

Figure 1 : Entrepreneurial Decision Context



In this paper we present a three-stage approach to conducting small business activities. These are applicable anywhere, but we will examine them for particular application in Thailand. Stage 1 involves an eight-factor environmental model, stage 2 presents a three-issue strategic model, and stage 3 concerns the operating decisions that entrepreneurs make. All three are linked together and interrelated. Figure 1 is a graphical representation of our approach, the Entrepreneurial Decision Context, and provides the framework for this paper.

1. Environmental factors¹

A number of models have been developed in an attempt to evaluate and assess the reliability and accuracy of business and economic conditions in developing countries. These include both quantitative models and qualitative models². Unfortunately, although these models abound, their use by entrepreneurs has been limited, probably due to their abstractness, difficulty of use, and general unavailability. The multidimensional interdisciplinary analysis which is described herein is relatively easy to use and is more intuitively "comfortable" for entrepreneurs to use. Furthermore, many of the models which have been proposed are Western models which are often inadequate to understand the rapidly changing contexts in Asia developing country (Koppel, 1992).

While all of the approaches described above have their value, we do not find them adequate to assess rigorously the investment and political environment in any particular developing condition. Such basically Western models are inadequate to assess the complex conditions in a country such as Thailand. As an alternative we would like to propose and then apply an eight-factor qualitative framework for assessing a nation's investment environment and related political climate. These eight factors are described as follows and illustrated in Figure 2.

The E-Factor: This factor is closest to the conventional models referred to above. It is a set of key aggregate economic indicators such as rate of inflation, movement of exchange rate, rate of real economic growth, level of inequality, demographic size, level of debt burden, and rate of savings and investment. The goal is not to aggregate artificially and mechanically these indicators, but to present them in a friendly way to provide a clear visual profile of a country's economic performance currently and over time.

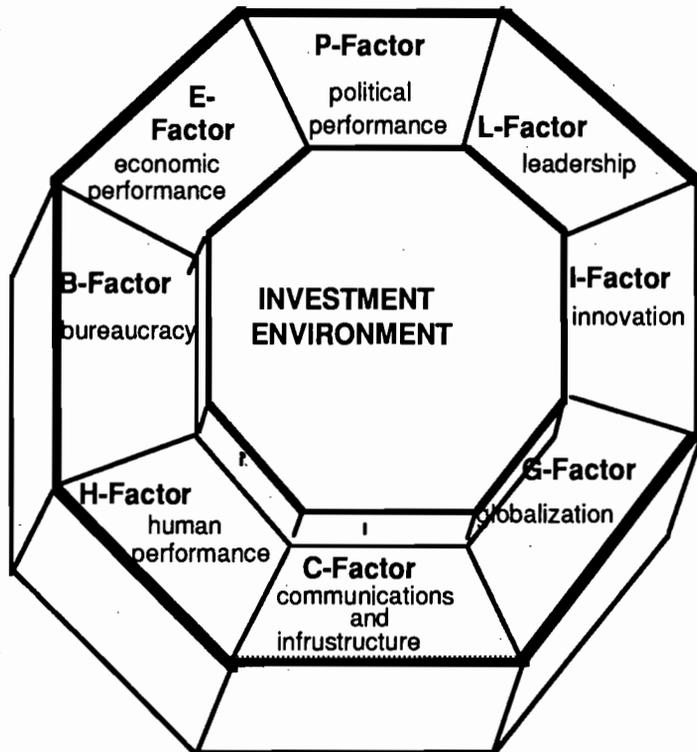
The strength of a nation's economy is the most crucial indicator for assessing its investment environment. In the latter part of the 1980s and early 1990s Thailand had one of the fastest growing economies in the world. Its economic development policies were based on a competitive export-oriented, free enterprise philosophy, and a strong private sector which provides the major push for growth. Over the past thirty years, Thailand has undergone a dramatic industrial transformation from

1 - Much of the material of this section has been taken from a working paper subsequently from which an article is to be published (Fry G.W, Ramsing K.D. Setboomsarng S., forthcoming).

2 - For quantitative models, see Davies (1962), Gurr (1970), Davies (1971), Scott (1976), Taylor (1980), Scott (1985), Coleman (1990); as an example of the publications of the Association of Political Risk Analysis, see Woodrow Wilson School of Public and International Affairs (1983); for qualitative models, see Haner (1985), Porter (1990), De La Torre and Neckar (1988), Choudhry and Tankersley (1989).

an agriculture-based economy to a mixed agriculture-, industry-, and service-based economy. In the 1960s, Thailand believed import substitution would spur development, but since the 1970s, the emphasis has shifted to encouraging the growth of industries that manufacture goods for the export market. The average real growth in GDP during the 1960s and 1970s was almost 7% per year.

Figure 2 : An Eight-Factor Octagon Model for Assessing Investment Environment



The economy slowed down to an average of 5% in the first half of the 1980s due to the oil shock that triggered a worldwide recession. The Thai economy, however, bounced back and reached take-off stage in 1987 with a 9.5% growth rate, and peaked in 1988 and 1989 at 13.2% and 12.3% respectively. The growth declined slightly to 10% in 1990 and 8% in 1991. Despite the overall sluggishness of the world's economy as well as the adverse impact of the May unrest in Thailand, economic growth is still expected to reach a respectable 8% in 1992. There was, however, a decline of earnings from tourism, one of Thailand's main foreign currency earners which contributes roughly 5% of GDP, and the sector most adversely affected by the May, 1992, military crackdown.

Underlying this remarkable Thai economic performance was the growth of exported manufactures, foreign investment, and service. The growth in exported manufactures far outstripped the export of traditional agricultural commodities. The share of the manufacturing sector in GDP increased from 12,5% in 1960 to 25,2% in 1990. Meanwhile the agricultural sector declined in share from 39,8% in 1960 to 14,2% in 1990. During the first eight months of 1992, imports were up only 2,6% from the previous year, while exports increased 15,2% (Handley, 1992).

Despite the rapid growth of exports; the even greater growth in imports of capital goods for industry resulted in a negative balance of merchandise trade. Earning from tourism and remittance from oversea Thai workers, however, have been sufficient to maintain a positive overall balance of payments. The country enjoyed one of the lowest external debt service ratios among developing countries, standing at 10% in 1991 down from 22,7% in 1985. Inflation was kept under control averaging only 3,7% between 1982-1991. The baht, tied to a basket of currencies dominated by the US. dollars since 1984, was remarkably stable for the past several years.

The above data actually reflect a low risk investment environment. The economic data over time (shown in Table 1) for economic growth and trends in the Thai baht currency are analyzed with respect to extent of variance, as an empirical measure of risk. The MIT economist, Lester Thurow, places a strong emphasis on exchange rate stability (Thurow, 1992). Both for the period 1970-1991 and for the more recent period, 1985-1991, the coefficient of variation for fluctuation in exchange rate is a remarkably low .108 and .025 respectively. The coefficient of variation for economic growth is somewhat higher, .49 (for 1985-1991) and .43 (for 1970-1991), but still these figures suggest some stability in economic growth patterns.

Historically, most international investment in Thailand has been concentrated in the primary production sector for local consumption. But from the 1970s onward, Thailand began aggressively attracting export-oriented manufacturing investments, emphasizing industries that employ domestic labor and utilize local resources. In the early 1970s, the major sources of international capital were the United States, Japan, the United Kingdom and Germany. However, in the 1980s, the pattern changed significantly. Besides Japan, more advanced Asian NICs, such as Taiwan, Hong Kong and even Singapore, are fast becoming important investors. Between 1970-1989, Japan accounted for 39.6% of net foreign investment in Thailand, while the United States accounted for 20%. In 1990, however, Japan represented 44.5% of the total while the United States' share dropped to 9.3%. Meanwhile Hong Kong accounted for 12%, Taiwan for 11.4%, and Singapore for 9.5%. The top investments are industry (46.5%), trade and services (38.3%), electrical appliances (17.3%), financial institutions (6.1%), and chemicals (6.9%) (BOI, 1991).

The major factors in Thailand's attractiveness for foreign investment are its low wages and an abundant labor force. Wage rates are among the lowest in Asia. In Bangkok and six neighbouring provinces, the minimum wage is \$4.52 per day. Unionization is quite limited; only about 2.8% of the industrial labor force, which accounts for less than 12% of Thai workers in 1990, was unionized (Bureau of International Labor Affairs, 1991). Strikes and labor unrest are extremely rare. The country's labor force reached 32.7 million in 1992, according to the latest statistics from the National Economic and Social Development Board³. The low wages of the basic work force per se do not mean competitiveness nor a positive force in attracting industry. The Thai work force is young, trainable, and productive relative to wages. The special Thai skill in the manufacture and assembly of micro products may derive from their centuries of experience in producing highly aesthetic silk and

3- Direct communication with the National Economic and Social Development Board.

handicrafts (Ketudat, 1984). Thailand is now one of the world's major producers of electronic bearings, computer hard disks, and telephones (BOI, 1992).

Table 1 : Key Economic Indicators

	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991
Population	36.4	41.9	46.7	51.7	52.7	53.6	54.5	55.4	56.7	57
Pop Growth Rate (%)	3.2	2.8	2.1	2.4	2.3	1.7	2	1.7	1.5	1.5
GDP Per Capita (Million US\$)	401	526	771	1,014	1,063	1,165	1,319	1,478	1,626	1,650
GDP Growth (%)	6.9	7.7	4.8	3.5	4.9	9.5	13.2	12.3	10	8
Labor Force (Million)	NA	NA	NA	27.1	27.3	28.6	29.5	30.3	31	31.8
Exports FOB (Million US\$)	686	2,177	6,449	7,059	8,803	11,595	15,781	19,824	22,790	NA
Export Growth (%)	16	31.1	NA	-3.8	24.7	31.7	36.1	25.6	15	NA
Imports FOB (Million US\$)	1,148	2,850	8,352	8,391	8,415	12,019	17,856	22,772	32,520	NA
Import Growth (%)	0.75	10.3	NA	-9.1	0.28	42.8	48.6	27.5	42.8	NA
Trade Balance (Million US \$)	-462	-673	-1,902	-1,332	388	-424	-2,074	-2,948	-9,730	NA
Over Balance of Payments	-82	-51	-206	105	714	945	2,596	5,029	NA	NA
Manufacturing as % GDP	14.7	17	18.1	22.7	20.6	24.1	24.9	25.1	25.2	26.1
Debt Service Ratio (%)	NA	17.10	17.50	22.70	20.60	17.10	12.90	10.50	10.10	10.00
Exchange Rate (Baht: US\$)	20.8	20.38	20.48	27.16	26.3	25.74	25.29	25.7	25.59	25.22
SET Index	NA	84.08	124.67	134.95	207	284.94	386.73	879.4	612.86	765.21
Consumer Price Index (%)	5	6.52	19.70	2.40	1.90	2.50	3.80	5.40	6	5.70
Saving Rate (%)	22.07	22.69	20.01	19.40	20.10	24.50	28.60	30.20	30.40	NA
Net Foreign Investment (Million US\$)	43	86	189	294	263	351	1,106	1,778	2,443	NA

Sources: National Economic and Social Development Board, Bank of Thailand, Board of Investment, Securities Exchange of Thailand, International Financial Statistics Yearbook

The P-Factor: This factor refers to a country's level of political development. Usually this term is defined in Western, ethnocentric terms, with an emphasis on regular free and fair elections as a mechanism for the transfer of political power and the selection of political leaders. Certainly, this is usually the perspective of U. S. and European entrepreneurs. We believe that the entrepreneur must consider the political development more broadly than is often the case. Actually we define this term much more broadly to include such important dimensions as the way a system treats dissidents, its approach to handling grievances and insurgencies, the openness of its opportunity complex and access to elite positions, its restraint in the use of arbitrary force, its treatment of minorities, its sense of national unity and pride, and finally the liberty it provides its citizens to pursue their economic interests and activities with minimal constraints.

There are several alternative perspectives for interpreting and explaining Thai political development. The prolific Thai political scientist Likhit Dhiravegin uses a circular model to explain Thai political change (Dhiravegin, 1986). He sees the events of coup, constitutional promulgation, election, conflict, and crisis as a vicious circle which repeats itself over time. The surprising political events in Thailand in February 1991 and May 1992 certainly support Likhit's perspective. Also consistent with Likhit's view is that of the former regent, politician, prime minister, and intellectual, Pridi

Banomyong, who used the Buddhist concept of annijang (impermanence) in describing Thai politics (Banomyong, 1972). Pridi himself was the political victim of such impermanence (Stowe, 1991).

A competing Western perspective is that of the linear model of political modernization and development. As Thailand develops economically and educationally, its politics will develop concomitantly and there will be a maturing of Thai politics as it grows beyond coups and crises and the military learns not to intervene in civilian politics. Recent Thai political events, particularly the February coup of 1991 and the military violence of May 1992, must lead to a serious questioning of overly simplistic linear western models. A possible middle ground between these two perspectives is that of the model of a spiral, incorporating elements of both the linear and circular perspectives. Though events such as coups, new constitutions, and crises do repeat themselves, over time there is movement to higher planes of political consciousness and awareness. The remarkable people power display in May 1992 reflected a level of political consciousness, particularly among the middle classes and business sector, that was unprecedented in modern Thai political history. The bold decision of the Thai speaker of the parliament (Dr. Arthit Urairat, a political scientist) in June to appoint the civilian Mr. Anand Panyarachun as prime minister instead of the military's candidate is a dramatic case in point. In turn Anand's decisive move in August, 1992, to remove from power the key military leaders responsible for the May crackdown also demonstrated this new level of political development (Tasker, 1992).

If political development is defined narrowly in terms of the criterion of elections as the exclusive means for the transfer of political power, then Thailand's level of political development remains low and its system unstable. Such a view is, however, ethnocentric and highly superficial. In reality, the Thai polity has many important elements of stability which persist despite the "Buddhist impermanence." These central elements of stability are a revered monarch; a professional and talented civil service; a sense of nationhood and strong national identity; a tendency to move toward the middle path in response to extreme movements to the left or right (Ketudat and Textor, 1990); a military, which despite its occasional abuses, contains progressive and professional elements; a far-sighted approach to the treatment of dissidents and insurgencies; and a flexible pragmatic bamboo foreign policy and diplomacy.

The L-Factor: While highly subjective, this factor of the quality of leadership is extremely important for the entrepreneur because it often impacts on the way that business will be conducted, the progressiveness of the management team, and the way that the country will view development. This is a broad factor including the quality of the president or prime minister, of key business and government leaders, and of a broad range of technocrats responsible for a wide variety of development projects.

This factor must include the assessment of (1) the King and royal family, (2) partisan politicians, (3) military and police leaders, (4) technocrats, (5) the business leadership, (6) government officials, and (7) intellectuals and academics. To a large extent, it is the leadership of the country that will determine the political and economic environment in which the entrepreneur will have to operate. An assessment of this factor is often overlooked by the entrepreneur because there is a sense that nothing can be done about the macro climate. In many countries, the entrepreneur has actually joined the "leadership circles" to impose considerable influence.

The B-Factor: The entrepreneur must seriously consider this factor which refers to the bureaucracy of a country. It requires an analysis of the bureaucracy's efficiency and effectiveness and whether or not it is plagued by pathology. Further, it is important to know if the bureaucracy can respond in timely ways to requests and needs, particularly of outsiders attempting to do business in the country which is often the case with the entrepreneur. Central to this analysis is an assessment of the extent of pervasive and blatant corruption which adversely affects doing business in any given country. Also of critical importance is the promptness and fairness of the decisions which are made.

The H-Factor: This factor refers to the quality of human resources. Paramount to any entrepreneur's success is the quality of the people. Ultimately, a business person will have to factor in the quality of the human resource, either because of their direct involvement in the organization or indirectly as a function of the nation in which they live. A nation of unhealthy, illiterate people can not be productive and competitive. Central to this analysis is the assessment of a country's basic commitment to the development of quality human resources in terms of education, training, and health. It is essential to determine the country's commitment to improving the quality of its human capital stock.

The recent Nobel laureate Gary Becker and others have emphasized the critical importance of human capital in the development process (Becker, 1975). Jonathan Rauch, author of a new volume on Japan, similarly stresses the critical importance of human resources when he states:

My prejudice consists of the feeling that the most valuable and beautiful of all human products is not material but intellectual: the stock of tested statements that constitute our knowledge... My prejudice is that making knowledge is humanity's most important endeavor, and that to divert resources needlessly from this endeavor or misuse them is a shameful waste. Similarly my greed lies in my single-minded insistence that we never know enough or learn quickly enough....(Rauch, 1992).

Michael Porter in his major new book on competitive advantage also stresses skilled human resources and the critically important role of universities in producing basic and applied knowledge (Porter, 1990).

Like many of its Pacific Basin neighbors, Thailand has shown a strong commitment to human resource development. Thailand has a long tradition of respect for education and teachers and a literate culture dating back to the 14th century. Prior to modern reforms initiated by King Chulalongkorn at the turn of the last century, Buddhist monks served as teachers in a temple environment (Wyatt, 1969). Teachers are highly respected throughout Thai society and there has been a strong and growing social demand for education at all levels, including study abroad.

The G-Factor: Most entrepreneurs undoubtedly take the factor referring to a nation's commitment to "globalization and internationalization" for granted. Why else would they be in business unless they were interested in a broad enough market place so that their services and goods can be sold? Of course, this may take them merely to regional or subregional market places. However, the trend is distinctly towards globalization. This is truly the case for Thailand. The effective development of a country's linkages with its regional and global partners and the nature of these linkages with other economies becomes important in this analysis. Questions of whether or not the

country is trapped in narrow dependent relations or if it has a broad array of international connections plays an important role in assessing the nature of a nation's globalization. A nation's dependency on the exports of only one or two products, or in contrast its success in diversifying its export products and markets and its openness to international investment and the incentives it employs to attract such capital inflows, are important elements in any analysis by business leaders.

Thailand has a unique position in that early on the country developed a commitment to send students abroad for study, a strategy emphasized by King Chulalongkorn of Thailand in the late 1800s. Currently Thailand ranks 14th among the nations of the world in terms of the absolute number of students (6,630) it is sending to the United States for further study (Institute of International Education, 1990). During the period between 1950 and 1989, 1033 scholars from Thailand were sent to the United States as Fulbright recipients alone. Thailand also has been a major source of guest workers for the Middle East, whose economic remittances have had positive economic effects, particularly in certain rural areas (United Nations University, 1996). These people who have been educated abroad now hold responsible positions in all levels of industry, government, university affairs and the military. These are the people who are the country's facilitators of economic and social development and whose decisions have an impact on climate for entrepreneurial enterprise.

Table 2 : The Diversity of Thailand's Export Markets

Country	Value of Thai Exports (1000s of Baht)
United States	111,756,000
Japan	87,860,000
Singapore	36,417,000
Netherlands	25,021,000
Germany	20,999,000
Hong Kong	20,189,000
United Kingdom	19,099,000
Malaysia	14,934,000
China	13,880,000
Saudi Arabia	9,267,000
United Arab Emirates	8,510,000
<u>Leading export markets in Latin America and Africa</u>	
Panama	3,095,000
Mozambique	1,938,000
Nigeria	1,553,000

Note: 25 Baht = \$1.

Source: Statistical Yearbook Thailand 1990 (Bangkok: National Statistical Office), pp. 259-269.

Trade now represents 60 percent of Thailand's GDP and tourism is the country's major source of foreign exchange. Reflecting the positive impact of such patterns, Thailand's real growth in per capita income of 36 percent during the past four years ranks first in the world. In recent years, foreign investment in Thailand has grown dramatically, contributing to such success. In May 1990, the Chatichai government significantly liberalized Thailand's foreign exchange laws, contributing to such economic internationalization (Corben, 1990). Also Thailand has aggressively opened new export

markets in areas such as West Africa, Myanmar, Laos, and Cambodia (Tasker, 1990). Table 2 illustrates the diversity of Thailand's major export markets.

The I-Factor: This factor refers to a country's climate for innovation, perhaps the heart of the entrepreneurial spirit and success. The country's propensity to resist or block change, or the openness to new ideas and approaches are critical dimensions in both the encouragement and the establishment of entrepreneurs. Questions such as, "are there incentives to encourage innovation?" and "is the nation supporting the building of capacity for research and development which will enhance long-term productivity and competitiveness?" are important benchmarks. For example, Singapore has been investing heavily in a research center for artificial intelligence, indicating its commitment to long-term research and development. Singapore also computerized its port activities with a highly innovative tradenet system (King and Konsynski, 1990). Thailand has had a relatively successful climate for innovations, often fostered by their excellent educational system. Currently, a number of businesses and scientists are working with organization in the United States in a cooperative effort to develop innovative activities in the genetic engineering, plant cloning, agricultural products hybridization, food byproduct development, wood product development, and agriculture.

The C-Factor: This factor assesses a country's communications and physical infrastructure including such dimensions as port facilities, telecommunications, and roads. In today's global environment, communications for the entrepreneur is of critical importance. The Southeast Asian country of Laos, for example, would score extremely low on this factor, while Hong Kong or Singapore, in contrast, would score high.

Regretfully, Thailand's economic expansion has far outpaced the infrastructure development of the country. Today, the number of automobiles in Bangkok exceeds the population of the city in the late 1960s with relatively little development of new roads to accommodate the increased traffic. With the growth of the city's approximately 6.3 million population estimated at 4.5 percent annually (about half of which is worker-migration from Thailand's Northeast) there is speculation that even with the advanced development of the transportation system in Bangkok that the road congestion at best will return to the already high levels of 1988.

Thailand has approved the construction of a new international airport southeast of Bangkok to relieve the pressure on the current Don Muang airport. However, it is not expected that construction will begin within the next ten years. Further, the country has developed an expensive deep water port facility called the Eastern Seaboard Project. However, there are currently inadequate railroad connections and highways to connect the Eastern Seaboard deep water port with Bangkok, the enter of commerce for the nation.

2. Strategic Issues

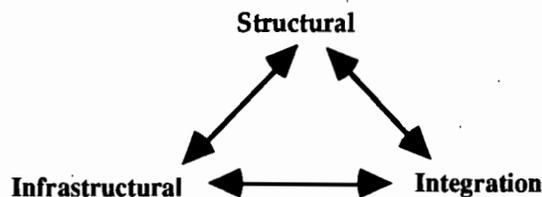
Many entrepreneurs are so embroiled in keeping their organizations viable that strategy is not even considered. However, without a strategic view of their business, they are not going to know where their business should go to accommodate the change of the future. Stepping back and taking a larger perspective is vital for success in any business, but even more so in small businesses.

An excellent definition of strategy, given by Wickam Skinner, defines it "as a set of plans and policies by which a company aims to gain advantages over its competitors." (Skinner, 1969). Operating decisions are tactical ways to implement strategy. This definition keys on the idea of "competitiveness". After all, any entrepreneur started business because he/she thought they could do something or serve a need better than anyone else--the competition. If unsuccessful, it is the competition that will put them out of business. Companies compete on the basis of four key priorities: quality, price, time, and flexibility. Entrepreneurs must balance all four to remain competitive.

A strategic approach involves coordination and linkage between the production, marketing, and finance functions. In small businesses these are often accomplished by one person--the owner or entrepreneur. Most often he/she concentrates on one function at a time, without thinking of the interactions with the other two functions. The strategies for accomplishing the production function, the marketing function, and the finance function must support the corporate strategy and coordinate with each other. A carefully written document or plan listing the company's goals and strategies is vital to provide direction to a firm, that is, a holistic approach to strategy development.

There are three general strategic issues that must be considered: structural, infrastructure, and integration. Each covers a part of the strategic arena, but together they provide a comprehensive picture of a company's strategy (Giffi, 1990). Figure 3 graphically portrays these strategic interrelationships.

Figure 3 : Strategic Issues



Structure : Structural Issues have been called the "hard," or "brick-and-mortar," issues regarding facilities, capacity, technology, control, and materials. Each needs to be considered as a part of the whole approach and not individually.

All entrepreneurs consider the structural facilities that they will need for their business. But the way it is considered will determine if this is an operating or a strategic decision. The choice of location and size selected must be based on long-term potential, not just short-term operations. For example, locating in Bangkok or its suburbs instead of in an outlying area will impact many other factors within the firm. Whether it will be a large facility producing many services and products or one focused on specific products and services will affect activities for many years. Locking oneself into specific operations with no flexibility can seriously hamper any chances of success in the future.

The long-range capacity of a facility must also be carefully examined. Simply acquiring a site that has only enough capacity for current operations is very short-sighted. Most entrepreneurs are

starting out small, but strategic thoughts of expansion must be considered early. In addition, the right mix of temporary and permanent capacity must also be brought into the strategic equation.

Further, a critical consideration is the type of technology and equipment to be used. Most entrepreneurs can't afford large capital expenditures, but they must, at the very least, be planning ahead to when they will employ the latest technology to produce the goods or services they will offer to customers. As Thailand increases its prominence as an industrial force in Southeast Asia, employing modern technology becomes ever more important. (This strategy is closely aligned to the I-factor discussed earlier in this paper.) Technology has been a key ingredient in economic expansion in the Pacific Basin, especially for the four Tigers of East Asia: South Korea, Hong Kong, Singapore, and Taiwan (Business Week, 1992).

Integration : As an entrepreneur begins offering services either domestically or globally the issue of integration is too often an abstract concept. At this point, the degree of control and vertical integration that entrepreneurs can exercise is somewhat limited. The option is generally that they must rely either on suppliers, mostly within the country, for input materials or make their own. Emphasis on Total Quality Management (TQM) and Just-in-Time (JIT) techniques will limit the number of suppliers a company will use. Small businesses especially are dependent on their suppliers, so close cooperation with them is essential for survival.

The type of materials systems entrepreneurs use will directly affect their operations. Transporting, storing, controlling, and securing materials are all issues that must be considered from a strategic perspective. Too often these aren't even dealt with, except in an after-the-fact manner. Transportation in Thailand, especially in Bangkok, is a major concern due to the poor road system.

Infrastructure : Infrastructural Issues are usually the "soft" elements of corporate management policies such as human resources, quality, planning and control, performance measurement, and organizational structure. Each must be carefully considered in regards to how the company will operate and function. Most often these issues are only thought of after the small company grows and begins to employ many people.

Regrettably, human resource policies in entrepreneurial companies are mostly ignored. All activities are generally handled on a personal basis, between just a few people. But even here, the implications of expanding and contracting the workforce must be considered. The skills, on-going training, and education of employees must be considered and evaluated early in a company's life. Usually the entrepreneur will handle this personally, but rapid growth can quickly make this impossible. Thailand is fortunate to have a 91% literacy rate and a well educated and skilled workforce. Nonetheless, engineers and technical staff are in short supply. Although there have been recent attempts to organize, unionization is limited and strikes are rare.

Quality is one of the four key competitive priorities in today's global marketplace. It should be uppermost in any entrepreneur's mind as he/she starts and grows a business. Literature and knowledge of Total Quality Management (TQM) principles and techniques are widely available today. Careful consideration must be given to their effective implementation in order to be successful. Most entrepreneurs think they can control quality themselves, but they must recognize that other employees

may not have the same standards. A continuous quality improvement process is critical for small businesses.

Planning and controlling the production of goods and services is most often regarded as a operating issue. However, even here strategic thinking is needed. The type of production or service process will directly affect customer's perceptions of a company's products. The type of process must be carefully considered before implementation. Newer concepts of JIT techniques, constraint theory, and flexible manufacturing require study to be properly implemented. What works for one or two people most likely will not work when many people are employed in producing the company's products. Haphazard implementation and lack of proper strategic planning will generally result in the demise of a small company.

Performance measurement is usually again a minor concern for entrepreneurs. With only a few employees a policy can be easily set, usually after the company has been in business for a while. But being able to measure performance and rewarding it appropriately is important to retaining highly qualified people. People need to be rewarded for doing a good job. They also like to be paid adequately for work performed. Thailand currently is taking advantage of a relatively low wage scale which provides it an attractive competitive advantage. But like most other nations moving to an NIC status, this could change rapidly. The reward system becomes more critical in a global marketplace as wages and salaries rise.

Organizational structure is probably the last issue considered by most entrepreneurs in the infancy of a company. With a few employees, there is usually little worry about lack of communication or span of control problems. In the small company, management resides in the entrepreneur, *per se*. But in the longer-term the organizational structure often becomes a real problem. How the company is organized will ultimately affect it as it grows. Entrepreneurs usually do not make great managers, thus necessitating a more formal structure. However, Thailand now has an extensive program of management education and training and is developing schools where entrepreneurs can learn to be good managers.

Integration : Integration issues involve linkages with elements outside the company to the general business/government environment and inside the company among the various departments. In addition it relates to the mechanism for adapting to changing circumstances. Careful consideration of these elements making it possible to adapt and change which is vital for entrepreneurs.

External integration concerns relationships with customers, suppliers, and other companies. Customers are obviously the driving force for any small enterprise. It is incumbent on the entrepreneur to develop loyal customers to stay in business. Suppliers are becoming more important as an integrated part of a business and thus close working relations with them is also critical. Most entrepreneurs deal directly with customers and suppliers themselves, but as their company grows others will often assume this responsibility. Thus, an established policy for dealing with them is needed. Strategic alliances, both with companies within Thailand and in the global community, must be carefully considered. Many companies in the United States, Japan, Europe, and Asia are looking for businesses within Thailand with which they can cooperate to enhance their own businesses. Unfortunately, communication, especially the phone system, is poor in Thailand and this can hamper cooperation

efforts. Thailand's recent decision, however, to join the Motorola-led Iridium project may help the country to leap frog into the next generation of telecommunications technology.

Internal integration in small businesses is usually not even considered. With everything done by one or a few individuals, there may be little need to explicitly consider this. However, clear corporate goals and appropriate strategies are required for success. Long range planning must consider integration within the company so that as the firm grows it won't flounder due to lack of communication and understanding between people. Integration of product and service design and production processes is usually done simultaneously in small businesses. However, as they grow, these often become fragmented.

Adaptive mechanisms in entrepreneurial firms are based on the people themselves. Most entrepreneurs are readily able to adapt to changing circumstances. A great many things are changing in Thailand today, and the pace will only increase. Careful consideration must be given to ensuring that as a business grows it will continue to adapt to new situations. Using a systems approach will help as will a continual emphasis on learning new technology.

By considering strategic issues as a whole, an entrepreneur is taking a long-term view towards his/her business. Entrepreneurs are close to the customer, so they will do whatever it takes to satisfy the customer. In this regard, they are in the same group as world class companies who have a customer driven strategy (Deming, 1982).

But just having a strategy or considering all the environmental factors is not enough by itself. Linking these with day-to-day operating decisions is necessary to make the difference between success and failure.

3. Operating Decisions

Successful entrepreneurs will have to spend a great deal of their time, energy, and resources on making sure the business works each and every day. But what about tomorrow? Will they still be here? Of course some will not. In general, those who do survive also link the previously mentioned environmental factors and strategic issues with their operating decisions. Figure 1 at the start of this paper illustrates this relationship. The environmental factors will influence operations in terms of people, leadership, culture, and communication. The strategic issues will determine facilities, quality, organization, and relationships outside the company that affect operations. In turn, the operations of many entrepreneurs will affect the environment, strategy, and the country.

Conclusion

The world today is very much different for entrepreneurs than it was even as recently as the last decade, especially in new technology growth areas such as Thailand and Southeast Asia. Simply concentrating on day-to-day operations is insufficient for the successful growth of a small company. A careful corporate strategy is required combined with a consideration of environmental factors. We have presented an approach for entrepreneurs to employ to enhance their chance for success. An eight factor environmental model provides the framework for examining the factors involved in a macro

country evaluation while a three issue strategic model considers long-rang planning concerns. Linkages between all three areas are vital for success today in small businesses.

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II. RURAL ENTERPRISES

Presentation

Most South East Asian countries have experienced the last two decades a high rate of growth coupled with a rapid expansion of their external sector. All ASEAN countries except Singapore and Brunei engaged in a process of diversifying their agricultural production and exports. Theoretically and empirically, the growth of exports has been widely recognized as the key factor engineering successful economic development and striking agricultural performance in these countries. The recent emergence of some South East Asian economies as highly dynamic exporters stimulated questions about the underlying sources of export growth. Whether economic dynamism is externally driven or internally generated has been widely discussed among economists.

It seems to be that, as far as primary and food-processed exports are concerned, both foreign demand and the relative price of exports compared to other major competing countries significantly determined South East Asian agro-food exports. Nevertheless the evolution of the international product cycle explain a substantial part of manufactured exports of these fast growing economies. With the rise in incomes and wages in Western countries and Japan, some industries were relocated in Asian Newly Industrialized Countries of first generation. But rising wages and loss of competitiveness in labor-intensive commodities have forced these countries to move toward the production and exports of increasingly sophisticated manufactured products, creating opportunities for second generation NIC's like Thailand and the People's Republic of China to greet those more labor intensive industries.

Moreover, a favorable investment code for the foreign investments allowed many countries, in particular Thailand, to derive profit from the internationalization process of big Japanese, American or European companies. The recent changes in the structures of the South East Asian agro-industrial complexes, denoted both a process of vertical integration, of horizontal diversification and of internationalization. Their conquest of external markets, overcoming the weaknesses of small markets has spread in a context of oligopolistic competition. The increasing openness of the economies has created opportunities for these industries to benefit from the use of modern technology and modern management approaches. But a specificity of these big agro-industrial companies, for instance in Thailand the Charoen Pokphand (C.P.) or Saha Pathanapibul Companies, is the fact that they are not only the consequences of a delocalization of foreign companies but also of the dynamism of the domestic capitalism. Sometimes decisive incentives from the State Departments have contributed to technological acquiring. It was the case for the development of Thai fisheries or of the Filipino shrimp culture (M.N. Delmendo and J.A. Llobrera) until 1989.

The export-growth orientation has recently spread to some centrally-planned economies of the South Asian's area. The changes now taking place in these economies are in the line of economic liberalization and opening to the outside world. It is difficult and maybe premature to come up with precise estimates of these changes. Two papers, from Xiaosha and Nguyen try to draw some lessons

from countries that have embarked on the process of economic liberalization, namely China and Vietnam. It is now widely recognized that central planning is singularly ill-adapted for agricultural production. There is therefore an enormous potential gain in agriculture from economic liberalization in these countries. In Asia where the efficiency of small scale farming is obvious, there is an immediate jump in output when central planning is dismantled. This has been the experience of China since the late 70's. The more recent experience of Vietnam seems to confirm this view, with a spurt in output and exports (rice particularly) as a result of current round of reforms. Among all the reforms taken on, the land allocation policy had a great influence on the agricultural performance. However the initial spurt maybe difficult to sustain and whether the present economic reforms in Vietnam will lead to a long-lasting growth remains to be seen.

The growth of Thailand's external sector, especially the natural resource-based industries, is the most recent visible change in the Thai economy. The high level of exposure on the international market had important implications for the agricultural sector's overall performance and structural change. In terms of product diversification, there has been a continuous trend to increase the importance of processed food exports over primary exports, grouping numerous export items including canned fruit, canned seafood, frozen fruits or vegetables and others. The agricultural sector played thus a crucial role in the development process, not only acting as a reserve of labor force to meet the increasing demand of the manufacturing sector, but acting too as an engine through the expansion of the food processing industry.

In Thailand land under cultivation has been expanding faster than labor until the late 1970s. This has been the fundamental source of comparative advantage of Thai agriculture. As land has become scarcer from 1980 onwards, its comparative advantage in crop production has declined as shown by the drop in the share of agriculture in exports and the correlative increase in the share of manufactured exports. The crucial issue of land abundance versus land scarcity is widely discussed in the paper of P. Phelinas. Increases in the area under cultivation due to population pressure, shifting cultivation in remote areas, expansion of upland crops in response to new export opportunities have been the primary factor responsible for the growth of agricultural output and export. The dramatic increase in land use has been possible only at the expense of forest land. Deforestation thus largely explain why the nation's average farm size has not decrease over time and that prominent concentration of land ownership and correspondingly high level of tenancy is not observed. This fact has many important ramifications since farmer's relation to the land, its control and use are essential factors in their entrepreneurial behavior. The main effect of lack of secured access to land is to cause uncertainty regarding the benefits farmer can obtain from investment he may undertake, and is expected to be positively related to farm productivity. Output and agro-food export's growth, thus, occurred largely through the clearance of forest land by an increasing number of relatively small farms, lacking often full and unrestricted land rights.

The strong growth of agricultural output in South East Asian countries has usually not enabled the agricultural sector to absorb the increasing labor force, nor to provide year-round employment for the farmers and their families. The growth in the agricultural labor force, in the face of limited capacity of agriculture for labor absorption has created a strong demand for off-farm employment, a "push" factor in the rural labor markets. In Southeast Asia available evidence suggest that farm households are

highly dependent upon off-farm activities for employment and income. The income sources are highly diversified, and non-agricultural sources of income are sometimes sizable. This issue is addressed in several papers: D Kermel-Torres and P Shar in India and Northeast Thailand, J.Y. Weigel in a context of land speculation in the case of the shrimp farming in Thailand.

The availability of relatively attractive off-farm jobs opportunities acted as a "pull" factor. This availability extended to a wide range of employment types, ranging from rural or agricultural-related employment to include urban-manufacture jobs. The demand for "hired" labor within the agricultural sector has increased for two main reasons: first, as the rural economy became more monetized, the transaction costs has been reduced by using money instead of inter-household labor debt; secondly, the rhythm of agricultural work has become more synchronized and the labor requirement higher with the use of new varieties (higher yielding or pest resistant) and the extension of irrigated land leading to substantial increases in cropping intensities. The widening of off-farm jobs opportunities to non-agricultural sector has been partly possible through fast growth of manufactured exports accompanied sometimes by decentralization of these export-oriented manufacturing enterprises (in textile particularly). But the importance of domestic demand mainly generated by growth in per capita incomes in the rural sector itself should not be minimized.

The development of non-farm enterprises in rural areas is viewed by Kong Xiaosha as one of the more promising approaches for stimulating rural employment in China. Expansion of the rural non-farm enterprise sector has offered the potential of an economically viable method of providing employment for rural households, supplying consumption needs to the local community, raising agricultural productivity through provision of inputs, and thus reducing the pressure to migrate to crowded urban areas.

The sectorial analysis of Thai fisheries shows the existence of very differentiated production and marketing systems. The dual structure of Thai marine fishery is an illustration of the coexistence of various types of production system, this of coastal shrimp production in Mekong Delta introduced by Nguyen Anh Tuan and Nguyen Than Phuong is an other one. This dualism reflect the various entrepreneurship rationales, which allows the maintenance of extensive systems as shown by J.Y. Weigel in the case of the shrimp culture in Thailand. The restructuring of the fishery sector is accompanied with more autonomy of each type of production unit (big companies or small scale operators), and with more important linkages between them, including the subordination of family households to large enterprises for instance.

The linkages between rural small scale operators and large companies in the fisheries sector are ambivalent. In the one hand, they could indicate the control of some parts of the chain of production by an indirect process (for instance by the subcontracting) which might be analyzed as a substitute for vertical integration. Subcontracting allows a quicker adjustment to the movements of the demand and avoids for the big companies too high internal transaction costs. But in other hand, the subordination of the small operators to the large enterprises is sometimes accompanied by a strengthening of the first ones, showing the interest for the big companies in the use of an important part of the rural farming population. The use of this working population is less costly because of the preservation of lineage or quasi-wage earning relationships.

Self-governed or linked to some large enterprises, the rural small scale operators took part in the recent growth, as their number and their part in the value added creation testify to it. These operators are often organized on a family basis, releasing low profits and self-subsistence yields. But they sometimes manage more important enterprises of which the main goal is to maximize their profits and which implement a working out technology thanks to an important investment and employ a sizeable staff of wage-earners. The recent changes of the structures are linked to a significant capital accumulation which allows the small enterprises to do new investments, leading to an increase of the enterprise size and a real conversion in the working out technology and labor relationships.

The changes concerning the small scale operators affect the modes of employment and of labor remuneration: the evolution could lead to the wage-earning generalization, or at the opposite to the maintenance of untypical modes of employment and labor remuneration. This upholding is often connected with the necessity of a higher working force flexibility.

Rural Township Entreprises: Choice of Industrialization Course for Developing Agricultural Countries

Kong Xiaosha

Introduction

As an element of the rural non-agricultural economy, rural enterprises have fully manifested their vitality in the course of industrialization in developing agricultural countries. They have contributed dramatically to the industrialization of these countries. The road of agricultural development to achieve income through high commercialization that has been taken by nearly all countries of ASEAN has been one of diversification and a foreign oriented economy. The exceptions are Singapore and Brunei, whose natural resources and geological conditions are particular.

With statistical figures, this paper describes the growth of rural enterprises in the countries of ASEAN and China, as well as its effect on the state economy. The economic and social factors that affect the growth of rural enterprises are analyzed and the experiences are summed up. The author suggests that rural enterprises managing non-agricultural production are undoubtedly feasible in the course of industrialization for developing agricultural countries with a dense population.

1. The Experience of ASEAN Countries

1.1 The Agro-Export Model

All ASEAN countries are engaged in a process of diversifying their agricultural production and exports. In Malaysia, the monoculture of rubber has been turned into crops such as palm oil, coconut, cocoa, rubber and timber. In Thailand, the former monoculture of rice has been changed. Crops, such as corn, rubber, sugar-cane, bean, and new activities (poultry, animal husbandry and fishery) have been developed. In Indonesia, coffee, oil palm and timber are exported. Fishery, animal husbandry and poultry has also been developed. In the Philippines, coffee, oil palm, banana, pineapple and cotton have been developed since the 1970's. A large quantity of coconut, banana and pineapple have been exported. Fishery, animal husbandry and poultry are also developing rapidly.

Nevertheless, for these four developing countries, the share of agricultural output in the national output and the proportion of agricultural exports in the total exports value have shown a tendency to decrease. This, however, does not mean the decline of agriculture; the relative growth of agriculture is

still of essential superiority in the economic development in these countries. In 1961-1987, the average increase of agriculture in Thailand was over 4.2%.

1.2 The Importance of Non-Agricultural Activities

In many Asian countries, non-agricultural activities through rural enterprises have developed rapidly. A large number of enterprises connected with the primary processing of agricultural products, building materials, foodstuffs, farm tools and materials, furniture, household handicrafts, and transportation of agricultural products and commodities have grown rapidly in rural areas.

In India, one fifth of the labor force (16.5 million people) were employed in rural industry, with an annual output value which took about one fourth of the total national income (77.8 billion rupees) in 1989. In the Republic of Korea, there were 1,734 rural enterprises in 147 rural industrialization promotion zones (RIPZ) employing 257,000 people in 1989. The proportion of non-agricultural income for peasants is actually 40%. In China, 92.6 million people were employed in rural township enterprises in 1990, which took 22.1% of the total rural labor force and 16.4% of the total labor force. The annual output value of these enterprises (958 billion yuan) took 59.1% of the total output value of rural communities and 24.6% of that of the whole nation. In the Philippines, a 1% growth in agricultural output is related to an increase of 1% in the employment rate of rural non-agricultural activities (FAO, 1990).

1.3 The Impact of Rural Enterprises on Labor Absorption and Incomes

The development of the non-agricultural economy has paid a very important role in absorbing rural surplus labor, in widening the income sources of peasants and in changing uneven urban and rural development. Small enterprises and household handicrafts have been able to absorb more labor than large scale enterprises, and their output of unit fixed assets has been much more than that of large enterprises (Zhao Wenlieu, 1992).

Thus, the pressure of excessive urban population density has been lightened. This has produced a cushioning effect on the strained urban phenomenon. The social trauma caused by rapid urbanization has been avoided. In 1987, the urban population took 21% of the total population in Thailand. This is much smaller than that in some countries of Latin America, such as Chile, Brazil and Mexico, where their urban population took 70-80% of the total population (WORLD BANK, 1989).

Because of the development of rural township enterprises, the life of peasants has been improved. The process of agricultural growth and exports diversification has resulted in an increase in peasants' income. More and more workers are being employed for the processing of agricultural products, transportation, and buying and selling of commodities in the countryside. As the income of peasants has increased, the expenses for agricultural equipment, intermediate inputs, maintenance of farm tools, as well as current consumption articles has also increased.

2. The Chinese Experience

2.1 The Contribution of Rural Enterprises to National Industrialization

After the reform and the opening to the outside world of China in the late 70's, the government established a series of encouraging policies so that rural enterprises grew rapidly in the 80's. From 1980 to 1988, the total output value of rural enterprises registered an annual average increase of 33.2%. Its proportion of the overall social output value rose from 7.7% up to 26.0%. The amount of tax paid by rural enterprises to the state registered an annual average increase of 31.4%. Its proportion of the state revenue rose from 2% up to 12.8%. In 1990, the account of foreign exchange created by rural enterprises was \$ 13 billion, taking 23.7% of that of the whole nation (Chinese Agriculture Almanac, 1991).

From 1980 to 1988, the rural enterprises share of the increase in national output was 31.3%; the proportion of the increase in industry was 35.9%; and the proportion of marketing or light industrial products was 45-50%. Between 1978 and 1988, the percentage of the total national output increase contributed by rural township enterprises in various industries was as follows: 67% of raw coal; 13.6% of electric power generated by small hydraulic power stations; 38.7% of cement; and 58.7% of paper making. In 1985-1988, the percentage of the increase in the national revenue contributed by rural township enterprises was 50.9%.

Rural enterprises in the developed zones of East China grew more rapidly than those in backward zones of West China. In 1990, the total output value of rural enterprises in provinces of West China was 46.8 billion yuan, taking only one third of that in Jiangsu province which is in East China (Chinese Agriculture Almanac, 1991).

It should be pointed out that rural enterprises substitute for the state to cover some expenditures, such as for investment in agriculture, the remuneration for employed rural labor, and welfare services. In addition, rural enterprises generally grew without investment from the state and only have a share in their own achievements. Therefore, the contribution made by them to the state revenue is "pure".

The increase of agricultural productivity marked a great decrease of rural surplus labor and an increase of peasants' income. In 1986-1988, the contribution of rural enterprises to the increment of peasants' net income per capita was 43.5%. In 1988, the savings deposits of peasants' families in the whole country was 20.5 times of that in 1978 (Ministry of Agriculture). Rural enterprises can provide more jobs for the rural unemployed. This became an important force for upholding the stability of society. If there were no rural enterprises growing rapidly, which have absorbed nearly 90 million people from the rural surplus labor pool, the situation facing us today would have been more serious and more difficult.

2.2 The Characteristics of Rural Township Enterprises

Both private ownership systems, in the forms of collectives, households and individuals, and combined ownership of state-run enterprises with collectives coexist. Rural enterprises cover a wide range of businesses, such as food processing, pharmacies, paper making, textiles and clothing,

building materials, mining and smelting, farm machinery and vehicle repairing, machinery parts and electronic elements production and assembly, etc., as well as trade, transportation, and building construction.

Many rural enterprises are in cooperation with large or middle scale state enterprises and act as workshops for some parts or assembly. Trade, industry and agriculture are combined. Manufacture, supply of raw materials and sale of products are closely linked. In the east region, many rural township enterprises have contact with some foreign trade departments and develop production for export. In recent years, this foreign oriented tendency has been quite evident. Some scattered small enterprises has been changed gradually into a link, or even the backbone, of export systems or bases in cooperation with middle scale enterprises.

In China, there were 4.63 million workers in rural enterprises in 1989 engaged in production for export. It was estimated that more than one million peasants took up the primary processing of exports by means of household handicrafts. It was calculated that the income of the peasants from the production of exports in the whole country was up to 6 billion yuan.

Most rural enterprises in the coastal area of China are foreign oriented. In the early 90's, the domestic market weakened and had to be compensated by the foreign market. In Zhejiang province, half of more than 600 products which received awards for excellence from either the State, the Ministries or the province entered into international markets. In 1990, there were 15,000 foreign oriented rural enterprises with a total output of more than 10 billion yuan. Rural enterprises in inland and remote border provinces (or regions) are now striving to develop exports. The quality of both enterprises and their products is enhanced. According to estimated data, 60% of the nationwide patent applicable technology has been adopted by rural township enterprises.

2.3 The Constraints on Chinese Economic Development and the Role of Rural Enterprises

The restriction of insufficient funds on economic development has been mitigated. China, as a large and low income country in the course of industrialization, has two basic characteristics of economic development. One is the exceeding lack of funds. Another is the exceeding amplexness of the labor force. It is a key factor in Chinese economic development that the labor force should compensate for the lack of funds to a certain extent. The Chinese rural enterprises are restricted by the low level of rural incomes and the capacity of peasants' to accumulate funds. Only the mode of production giving priority to the abundance of labor can be adopted. The employment capacity and the utilization ratio of fixed assets in rural enterprises are larger than those of state enterprises. Therefore, a way of compensating lack of funds with labor force has been taken by rural enterprises. This accords with the demands of national development.

Before the 70's, the policies for the growth of rural enterprises had not been implemented in China. The rural population was restricted and could not work on the move. The countryside was isolated from cities. Consequently, as industrialization was carried forward the dual economic system was enhanced. More and more rural surplus labor was detained in rural areas. The productivity of agriculture almost stagnated, even decreases appeared. There were two extremes. One was agriculture

with continuous growth of surplus labor and continuous decline of productivity, the other was continuously expanding industry supported by a high accumulation ratio. The consequence was that high industrialization based on undeveloped agriculture and a low income per capita was brought about too early. The national income was low. The most difficult problems of economic development in China were where to get money and how to deal with surplus labor. Under the old economic system, these two problems had been puzzling us for several decades.

There are still many problems in the growth of rural enterprises in China. In some rural enterprises, the level of technology is low, the consumption of materials is too high, the quality of some products is poor and serious pollution has resulted from the production of some rural enterprises. The state has taken many measures to solve these problems, e.g., the scientific and technological level in some rural enterprises has been raised through the implementation of the Star Programme and the Torch Programme of the State. The government has also encourages rural enterprises in combination with large or middle scale state enterprises to develop new products with new techniques in cooperation with research organizations or universities.

3. The Conditions for Rapid Growth of Rural Enterprises

Based on the experiences, one of the main reasons for the rapid growth of rural enterprises is the ability of production to join the international division of labor, or ability to sell products on the international market. The development of exports and the exploration of international markets can not only enlarge the market of commodities, but also promote technical innovation by rural enterprises.

In the late 70's, in China, the reform of the economic system was implemented by the State. The conditions of agricultural production were improved between 1981 and 1988, the increasing speed of mechanical power consumed in the places where rural enterprises were developed was greater than the nationwide average increase. The electricity consumed in rural areas increased by 42%. The consumption of chemical fertilizer, the area of effective irrigation and productivity all increased. From 1980 to 1987, the agricultural output per rural laborer increased by 65%. The grain output increased by 166%. Rural enterprises have grown rapidly. This has supported agriculture. In recent years, national investment tended towards industry and investment granted by the State for agriculture has been decreasing. Under these circumstances, the funds derived from rural enterprises are a fundamental support for agricultural development.

Attention paid by the State and state policies are other important conditions for the rapid growth of rural enterprises. In the late 70's, the "Decision on the Problems of Speeding up Agricultural Development" and the "Regulation on the Problems of Developing Rural Enterprises in Communes and Production Teams" were published by the CPC and the State Government. It was proposed in these documents that rural enterprises should have considerable growth. Planting and animal husbandry should be actively developed. Agrotechnology and subsidiary products should be strenuously developed. Agricultural and raw material industries should be set up. Teams of building construction, transportation, loading and unloading, repairing, catering and other service trades should be organized.

Many preferential tax policies were established. The Financial Ministry published an announcement on "Mitigating and Exempting Rural Enterprises from the Income Tax of Industry and Commerce". These policies and regulations have supported and promoted the growth of rural enterprises, and have played an important role in providing the guarantee of legitimate rights and guidance to the healthy development of rural enterprises.

Most of today's developing countries are agricultural nations with dense populations. In China, the population is 1.3 billion. In Thailand, Indonesia, Malaysia and the Philippines are burdened with the pressure of a large population. In order to realize industrialization under such circumstances, some developing countries adopted in this century a policy of tending towards industry and ignoring agricultural production and the demand of rural surplus labor for jobs. This resulted in a disequilibrium between urban and rural development. Agricultural production stagnated, and many peasants poured into cities. This resulted in many social problems which were very difficult to deal with. Some countries, on the other hand, drew lessons from this and turned down a road of self-development of agriculture. The agro economy flourished and a stable and solid foundation was provided for urban industry so that the course of industrialization was promoted.

Conclusion

The diversified economy has brought a growth of industry, and commercial and financial markets in rural areas in the countries of ASEAN, where the agro economy became vital. Incomes and standards of living of agricultural populations have increased, and the condition of education has been improved. At the same time, the pressure due to an excessive density of urban population has been lightened so that social trauma resulting from too rapid urbanization has been avoided.

Being affected by state policies, rural enterprises in China developed rapidly in the 1980's. The development of rural enterprises in China was due to the disequilibrium between urban and rural economic development and the low incomes of peasants, to a large surplus of labor in rural areas and the limitation of funds, and the lack of land and limited absorption capacity for rural labor in cities.

Since China is a vast territory, the speeds of economic growth and rural enterprise development were considerably different in many regions. The contribution of rural enterprises to the industrialization of China has not only promoted the economic growth of the whole country, but also changed the integrative structure and operating process of the state economy. It has been possible to narrow the gap between rural and urban economic structures in the course of the growth in order to become extricated from the predicament of a dual economy.

Rural enterprises are an inevitable choice in the course of industrialization for developing agricultural countries. This may be an enlightenment for us: In a large social system, the best overall benefit can be obtained from the harmonious development of all industries and trades.

Entrepreneurship Development Promotion under the Impact of Agricultural Policy Reform in Vietnam

Nguyen Xuan Nguyen

Introduction

Since 1981, Vietnam has been in deep socio-economic transformation. A lot of renovation policies have been issued with the aim of promoting market oriented economic development. Within the agricultural sector, rural households have been stimulated to take part in the production of cooperatives: a system of piece-work has been used, replacing a system of working by norm. Moreover, farmers have been allowed to own their production means which were formerly under the cooperative's ownership. It is the first important step to break the egalitarian system of income distribution that has existed since 1960.

Since 1988, farm households have been considered as independent production units replacing former production cooperatives. Every rural family has been able to buy all the equipment it needs and has the right to use their product as they wish and to run any activities according to their abilities. The services offered by cooperatives or other servicing organizations to farmers could be accepted on negotiation between them.

For developing country like Vietnam where nearly 80% of the population lives in rural areas and gets its livelihood mainly from agricultural activities, the impact of economic reforms has been tremendous. Rural society has been shifting from a self-sufficiency economy into a market economy, and since 1988 Vietnam has changed from a food-importing country into a food-exporting one: 1.4 million tons of rice was exported in 1989, 1.6 million tons in 1990, and 1.1 million tons in 1991.

The main purpose of this paper is to show the impact of the main policy reforms on the agricultural sector.

1. The Policy Reforms

1.1 Land Allocation Policy

Before year 1981, all cultivated land was under the management of cooperatives. Only 5% of land was given to rural households for family consumption, but these areas had contributed 60% of household income.

From 1981 to 1988, cultivated land had progressively been given (for one crop season) to working-teams or cooperative members but the production decisions were still taken by the cooperative's managers. Since 1988, all agricultural land, as well as forestry land, has been allocated to rural households according to the land resources in each cooperative, village or community and depending on family size and production capacities. Agricultural land has been given to households for 5 or 10 year and forest land for 20 to 50 year periods. In the fishing sector, fishermen have been given an area of water surface to run shrimp and crab cultures. Up to now 500,000 hectares of water surface area have been allocated to fish farmers.

The number of farm households in Vietnam has been continuously growing at an annual average rate of 2.8% from 1978 to 1991 and there are actually 9.6 million farm households. There are 6.9 million hectares of agricultural land in Vietnam and 19 million hectares of forestry land, of which only 9.1 million hectares have been covered by trees. With the high growth rate of population, the average area of land per household decreased from 1.86 hectares to 0.74 hectares between 1978-1990.

Table 1 : Agricultural Land per Farm Households by Region in 1990.

	Number of households	Agricultural land area (ha.)	Land holding size (ha.)
North Mountain and midland	1,540,700	1,209,000	0.78
Red River Delta	2,486,400	811,400	0.32
North Coast	1,414,400	756,500	0.53
South Coast	924,900	546,300	0.59
Central High Land	290,000	375,900	1.23
North East of the south	560,000	8,000,000	1.42
Mekong River	138,000	2,441,900	1.14
Whole Country	9,359,100	6,942,200	0.74

Source: General Statistical Office, Statistical Data of Agricultural Development, 1991.

This policy of "giving land using rights to farming households" has guaranteed no landless within the rural population, but the number of small proprietors has increased. Moreover, a differentiation of land holding size has appeared from region to region. Thus, farm households located in the regions with limited land resources would get less area of land than those in the region with more land resources.

In the Red River Delta and along the North Coast, farmers owning small plots are not able to produce enough to meet the needs of their four or five person families. Attention should thus be paid to entrepreneurial creation in those regions where land area per household is less than the country wide average, in order to improve family incomes.

Land allocation policy has had a great influence on productivity. Average rice yield increased from 2.08 tons per hectare in 1980 up to 3.09 in 1990; maize yield reached 1.51 tons per hectare in 1990 from 1.1 in 1980. Production of food crops (in paddy equivalent) per agricultural worker and per capita improved despite annual population growth of 2% during this period.

Table 2 : Production of Food Crops per Agricultural Worker and per Capita.

Year	Kg.per worker	Kg.per capita
1980	1018.3	288.4
1988	1028.2	307.2
1991	1187.8	320.8

Source: General Statistical Office, Annual Statistical Data.

1.2 Credit and Price Policy

The price policy was changed only towards the end of 1988. The system of differentiated consumer prices and low procurement food prices has been abolished. All production inputs and outputs can now be bought and sold at market prices throughout the country; except electricity, cement, steel and petroleum oil. Rural households can now sell their surplus in the market without any constraint.

Before 1990, banks were not allowed to lend credit to independent households, but only to cooperatives and state enterprises. Household demand for credit has relied on the informal credit market with very high interest rate (10% per for monthly). Hence, many rural households are indebted and some have to sell their crop before harvesting. The credit policy for farmers was promulgated in 1991. One year later, 18% of rural households had borrowed from 0.5 to 1 million dong. All of these loans were short-term loans but they have helped farmers to buy seed and fertilizer, pigs or cattle, etc. Most of them have repaid in time. Unfortunately, poor households owning small area of allocated land could not have access to this credit due to the lack of assets to mortgage.

Besides this, initiative of establishing self-supporting credit groups in villages has attracted the attention of many organizations. In January 1992, 20 self-supporting credit groups were established. In Dong Song district, they have collected 230 million dong, 17 tons of paddy and 82 tons of fertilizer from 181 members and lent it to 300 other households for a six month period with monthly interest of 7%. The results have shown that repayments were on time and many households have improved their income or at least prevented a decline in income.

2. The Rural Labor Force Structure and Farm Households Incomes

2.1 The Structure of the Rural Labor Force

It is notable that during the past 15 years, the structure of the labor force in Vietnam has not changed as expected. In spite of government efforts to promote investment into industrial development¹, mainly into state owned enterprises, job creation has not met the requirements of the increasing labor force.

1- Nearly 45% of annual government fixed investment has been given to industry and only about 20% to agriculture of which 70% was for irrigation projects.

Table 3 : Labor Force by Economic Branches as a Percentage of Total Labor Force.

Year	Agriculture	Industry		Other	Total
		Total	State industry		
1976	68.6	11.2	2.8	20.2	100
1980	64.2	11.2	3.0	24.6	100
1985	60.6	10.8	2.9	28.6	100
1990	58.8	11.2	2.5	30.0	100
1991	58.5	10.9		30.6	100

Source: General Statistical Office, Annual Statistical Data.

The industrial workers share of the total labor force has decreased, especially in the state industrial sector: in 1990, employees in state enterprises represented 2.5% of the total labor force but 3.4% in 1979; the industrial labor force has slightly decreased from 11.2% of total labor force in 1976 to 10.9% in 1990. Nearly 85% of the rural labor force are engaged in agricultural production; 7.9% is working in rural industrial sector and 7.2% is involved in service sector. The agricultural labor force has decreased too but still has the highest share of the total labor force: from 68.6% in 1976 down to 58.5% in 1990. This does not mean that part of the agricultural labor force has moved to industrial sector. Most of them have stayed in rural areas and run other activities like technical services, small traders, handicrafts, etc.

The rural population has increased by more than 13 million person from 33 million in 1976 up to 46.7 million in 1991. Thus, the growth of the agricultural labor force has been quite high: from 12.6 million people in 1976 up to 18.3 million in 1991. Urbanization has taken place very slowly and the urban population accounted for 21.6% of the total Vietnamese population in 1990.

Table 4 : Rural and Urban Population as a Percentage of Total Population (1976-1990).

Year	Rural population	Urban population
1976	79.4	20.6
1980	80.9	19.1
1985	80.8	19.2
1990	78.4	21.6

Source: General Statistical Office, Statistical Data of Agricultural Development, 1976-1990.

2.2 Pluriactivity of Farmers and Farm Household Income

In 1989, average monthly income per capita of rural households was 21,428 dong, of which 55.8% came from agricultural production, 6.3% from forestry and 24.7% from others' activities. Income from agricultural production of farm households in the Red River Delta and along the Central Coast of the South, where land area per capita is smaller than in other regions, has been lower in comparison with others.

The distribution of rural households by main occupation shows that rice farmers have the highest share among rural households (75%); 11.4% of rural households are non-agricultural households and 13% have secondary off-farm activities.

Rice farmers have lower income (19,567 dong per month) than rural households with non-agricultural activities (25,133 dong), and non-agricultural households have the highest incomes (35,885 dong). The distribution of rural households by occupation and income (table 7) shows that only 5.8% of rice farmers get high income, 60.1% of them fall in the sub-middle and low income categories. On the other hand, 29.2% of non-agricultural households belong to high income families and only 4.2% of them are low incomes' ones. Non-agricultural households have thus higher incomes than agricultural households. This is due to the fact that income from non-agricultural activities is usually higher than that from simple rice growing.

The appearance of villages specialized in new occupations is one of the notable features of rural entrepreneurship development in Vietnam. Some villages are focusing on one production activity and their products are sold throughout country and sometimes exported. There are now about 200 villages like this producing porcelain, pottery and earthenware; weaving silk; making iron construction; producing malt, rice noodles, cassava or flour; making timber furniture; sewing garments; producing alcohol; and pig breeding. Every village like that has created thousands of new jobs for themselves and for people in surrounding areas.

Table 5 : Monthly Income per Capita of Rural Households by Region.

	Hoang Lien Son	Ha Nam Ninh	Binh Dinh	Dac Lac	Hau Giang	Whole sample	% households
Rice Farmers	17,499	17,190	17,570	18,387	24,641	19,567	75.3
Farmers with non-agric occupation	24,422	21,564	19,652	33,411	34,862	25,133	13.3
Non-agric households	42,982	30,583	22,634	43,815	35,046	35,885	11.4
High income	53,368	48,085	52,818	58,224	58,318	56,414	8.1
Sub-high income	33,635	33,857	34,160	34,116	35,263	34,526	10.3
Middle income	23,905	23,753	23,867	24,144	24,987	24,251	26.5
Sub-middle income	14,319	14,908	14,779	14,828	15,770	14,923	45.6
Low-income	7,882	8,377	8,045	7,059	8,557	7,724	9.4
Whole sample	18,789	19,203	18,659	21,104	27,285	21,428	

Source: General Statistical Office (interview of 6,457 households in 5 provinces) 1989.

Table 6 : Distribution of Income by Source and by Region.

	Hoang Lien Son	Ha Nam Ninh	Binh Dinh	Dac Lac	Hau Giang	Whole sample
From Agriculture	60.8	54.9	49.5	65.1	53.5	59.7
From Forestry	15.5	0.4	10.5	11.2	11.2	6.3
From non-agric sources	8.5	30.5	29.1	16.6	31.5	24.7
From other sources	15.3	14.1	11.0	7.0	15.0	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: General Statistical Office (interviews of 6,457 households in 5 provinces) 1989.

Table 7 : Distribution of Rural Households by Level of Income and by Occupation.

	High income	Sub-high income	Middle income	Sub-middle income	Low income	Total
Rice farmers	5.8	8.7	25.4	48.1	12.0	100.0
Farmer with non-agric occup	13.8	13.8	29.5	41.5	3.3	100.0
Non-agric households	29.2	19.1	25.6	22.0	4.2	100.0

Source: General Statistical Office (interviews of 6,457 households in 5 provinces) 1989.

During the transition period and in spite of many difficulties that new independent rural households are facing, most of them express their support for recent economic reforms: 93.5% consider that recent economic reforms are good and 49.7% expressed that their life has been improved since renovation in 1989. My study on rural entrepreneurial development² has shown that 74.7% households have engaged in new farm and non-farm activities, 4.3% are non-agricultural households and 21% are rice farmers. 58.5% of rural households consider that their life has been improved, 30.3% have explained that their life has not changed and 11.3% think their life is worse.

3. Constraints to Rural Entrepreneurship Development

New activities like bee-keeping, shrimp and crab culture, gardening, mushroom growing, handicrafts, etc. have been stimulated and they have brought a lot of additional income to rural households. A large amount of money has been invested in rural business. But due to unstable market consumption, many households have not been able to sell their products at profitable prices and many of them have returned to cultivate some profitable cash crop such as tea, coffee, etc.

With low in quality and small quantity, the production of independent households is hardly sold at high prices and some have to sell their products (especially winter crops like tomatoes, vegetables, cabbage, potatoes) at under production cost. So instead of increasing production of these products, rural laborers are trying to create other jobs: women specialize in trade and feeding livestock and poultry; men are making bread or becoming technicians maintaining services.

The creation of new activities has attracted new and young rural households, but due to the lack of capital and skills most of them are still self-employed and many are trying to leave the countryside and to become wage-earners. The diversification of rural entrepreneurship could be improved if more attention was given to the problem of the rural credit market. 40 to 70% of rural households consider the lack of capital as the main reason for undeveloped off-farm activities.

Conclusion

In Vietnam, after four years of a market economy, independent rural households have demonstrated their abilities to develop a lot of entrepreneurial activities despite many difficulties. It

2- Survey of 300 rural households realized in December 1992 on 5 villages of Van Mon district, Ha Bac province; (60 km. north of Hanoi).

could be hoped that in coming years, with assistance in training and extension from social organizations, rural entrepreneurs will contribute much more to economic growth.

Agricultural production has maintained the largest share of the gross social product and national income during the period of economic transformation. Almost all rural households are small farmers, the area of land that they have been allocated is too small to improve their income. With annual population growth rate of 2% the number of farmer households will increase from 9.6 million to 11 million by the year 2000 and land area per capita will decrease rapidly. Therefore, despite wider urbanization, the promotion of entrepreneurship within the rural population is an essential problem that has to be considered now.

Experience has shown that stimulating entrepreneurship development within the rural population is the most appropriate approach to improve rural household living standards and promoting everyone's initiatives and efforts would bring a remarkable contribution to national economic growth. It is difficult to predict how long the transformation from centrally planned economy into market economy will take to complete, but economic reform in Vietnam during the last ten years has been bringing better opportunities for development, especially in agricultural production as well as in entrepreneurial activities in rural areas.

Rice Entrepreneurs Facing Land Constraints : Some Empirical Evidence

Pascale Phélinas

Introduction

Thailand is still an agricultural country with the agricultural sector employing 57% of the labor force. The growth in agricultural production has been mainly due to a rapid expansion of the cultivated land area (2,2% per year over the last decade). This dramatic increase has been possible only at the expense of forest land, which decreased at a rate of 2,1% per year during the eighties. Of a total area of 320 million rai, 200 million rai¹ are at least now being used for agriculture. It is now widely recognized that the nation's land frontier has been approached and that land resources have become increasingly scarce.

This fact has many important ramifications since farmers' relations to the land, its control and use are believed to be essential factors in their entrepreneurial behavior. The agrarian structure and especially land tenure can affect many "farmer-entrepreneur" decisions on farm investment, production techniques, and thus farm productivity and income distribution. Some authors have pointed out that the main effect of lack of ownership and secured land is to cause uncertainty regarding the benefits the farmer can obtain from investment he may undertake. Thus, investment is expected to be negatively related to the level of uncertainty regarding tenure (Feder, 1988; Onchan, 1985). Lastly, disparities in land holdings usually coincide with disparities in incomes and access to other factors of production.

This paper will explore the patterns of land ownership and landholdings among rice farmers, from a survey conducted in 1991 on a sample of 300 rice farms². Moreover, it will discuss many beliefs about these patterns by examining the equality of land ownership, the occurrence of land transfers (rents, sales, purchases) and the nature of landlord-tenant relationships. As far as possible we will provide some insight into the trends of these patterns over time, based on historical series available.

1- One rai is equal to 1600 square meters or 0,16 hectare.

2- The sampling method is given in annex.

1. Population Pressure, Forest Depletion and Land Holding Size

The combination of a rising rural population and a land base naturally limited should lead to a reduction in the average size of holdings. Although the labor force in agriculture grew at a rate of 2,9% per year since 1970, the average size of land holdings has not shown any decrease over time. According to the statistics of the Office of Agricultural Economics, this size varied from 25,6 rai in 1950 to 28,2 in 1990 and the amount of cultivated land per agricultural worker increased until about 1980.

There are two possible explanations for this trend. First, farmers may be able to compensate for the lack of land due to population pressure by partitioning land unequally among their heirs. It seems that common practice in Thailand has been to give equal rights to the land to children, although there are some regional variations and sometimes preference for the child who takes care of the parents (Sanit and Prisana, 1988). But with the gradual end of the land frontier, there is a tendency to give all the land to one child mainly because "farmers are reluctant to divide their holdings below what they consider economically viable sizes" (Mehl, 1986).

This would mean that the "excess" population is forced to migrate to places where there is still some land available or to find wage earning work inside or outside the agricultural sector. There is no clear empirical evidence showing a strong rural exodus nor a dramatic increase in landless farmers (Stifel, 1976; Onchan, 1990). But in many cases the time devoted to non-farm and off-farm activities has been adjusted according to the land available : as farm size decreased, off-farm work (and sources of income) increased.

Migration has occurred on a large scale throughout the country and especially in the Central Plain. It is thus obvious that the main factor that has offset the effect of population pressure on land in the past twenty years is the depletion of forest land. From an area of 190 million rai in 1960, the forest has actually been reduced to an area of 90 million rai, despite repeated measures taken to protect forest. This result is often explained by the lack of coherent land policies and the large number of agencies operating under different laws and regulations (TDRI, 1990). According to the Royal Forestry Department, the annual rate of forest encroachment has slowed down since 1980 to 2,9 million rai compared to 4,5 millions before. This fact arises mainly from the lack of fertile forest land to clear, but also from the strengthening of protective measures.

The massive expansion in the land area under cultivation does not mean that the problem of farm size is not serious in certain areas or for a substantial fraction of farmers. Although the mean size of rice holdings (28,5 rai) is close to the national average, 37% of rice farmers are operating small holdings of 15 rai or less. Marginal holdings (5 rai or less) considered as "near landless" holdings represent 9% of total holdings. Region wise, the Northern region has proportionately larger holdings than the Central Plain and the Northeast. The distribution of land operated is quite unequal : 66% of farms operate only 36% of the land area, while the top 2,3% of farms operate 13,6%.

Table 1 : Distribution of Land Holding by Size, 1991.

Size class (Rai)	Farms			Area		
	Frequency	Percent	Cum Percent	Rai	Percent	Cum Percent
< 15	111	36.9	36.9	1053	12.3%	12.3%
16 - 30	89	29.6	66.4	2039	23.8%	36.1%
31 - 50	71	23.6	90.0	2781	32.5%	68.6%
51 - 100	23	7.6	97.7	1522	17.8%	86.4%
101 +	7	2.3	100.0	1168	13.6%	100.0%
Total	301	100.0		8563	100.0%	

Source : CUSRI-ORSTOM field survey : rice farmers.

Table 2 : Frequency Distribution of Land Holdings by Size and by Province, 1991.

Size class	Suphan Buri	Pitchit	Roi Et	Total
< 15	32	19	60	111
16 - 30	42	25	22	89
31 - 50	22	29	20	71
51 - 100	3	20		23
101 +	1	5	1	7
Total	100	98	103	301
Average rai	25.8	41.8	18.3	28.5

Source : CUSRI-ORSTOM field survey : rice farmers.

2. Concentration of Land Ownership : Land Sales and Land Purchases

If the average rate of population growth is the same among large and small landowners, families with initially larger land endowments would be better off than the others. Partitioning by the smallest holders tends to produce holdings too small to provide a living, pushing them into the circle of debt. Some authors have argued that in an economic system based on private property, the demand for credit leads to mortgages and the alienation of land from small cultivators to big landlords and money lenders (Singh, 1988). Thus, disparities in the ownership of land should increase over time, with the main cause of downward mobility being land sales by smaller to larger owners.

The first thing that must be said is that there are actually very few large landowners among rice farmers, and inequality in the distribution of land ownership, though it exists, is quite away from the picture described above. Almost 16% of families own no land at all. Those owning less than 15 rai (36%) account for only 13.3% of the area owned. At the other end of the scale, the 2.7% of households that own more than 100 rai account for nearly 19% of the area owned.

This pattern of land ownership prevails among the three provinces under analysis, though with some variations : 11% of landless households stand in Roi Et against 55% in Suphan Buri. This finding is consistent with the differences in growth of the rural labor population, the lack of free and cultivable land in the Central Plain (Ramsay, 1985) and, accordingly, the price of land. The percentage of large own holdings is the highest in Pitchit : 65% of those who own more than 50 rai.

Table 3 : Distribution of Land Ownership, 1991.

Size class (Rai)	Farms			Area		
	Frequency	Percent	Cum Percent	Rai	Percent	Cum Percent
No land	47	15.6%	15.6%		0.0%	0.0%
< 15	108	35.9%	51.5%	968	13.3%	13.3%
16 - 30	68	22.6%	74.1%	1499	20.7%	34.0%
31 - 50	49	16.3%	90.4%	1939	26.7%	60.7%
51 - 100	21	7.0%	97.3%	1493	20.6%	81.3%
101 +	8	2.7%	100.0%	1355	18.7%	100.0%
Total	301	100.0%		7254	100.0%	

Source : CUSRI-ORSTOM field survey : rice farmers.

Table 4 : Distribution of Land Ownership by Province, 1991.

Size class	Suphan Buri	Pitchit	Roi Et	Total
No land	26	16	5	47
< 15	38	15	55	108
16 - 30	17	26	25	68
31 - 50	12	22	15	49
51 - 100	6	13	2	21
101 +	1	6	1	8
Total	100	98	103	301
Average rai	26	42.5	18.8	28.6

Source : CUSRI-ORSTOM field survey : rice farmers.

The change in the overall degree of concentration is not easy to assess since empirical data are lacking. An interesting work on the Central Plain pointed out that there is no evidence that rural conditions had gravely deteriorated during the twentieth century (Stifel, 1976). The rate of "involuntary turnover" of land has not been high nor the trend worsening. The ownership pattern did not worsen and the rate of land loss caused by mortgages declined.

During the survey, farmers were asked to report about their last land sale and purchase. The distribution of land purchases among classes of land ownership does not highlight any predominance of big owners : 5% of those who own more than 101 rai purchased 16,4% of the total of purchased land, the remaining part being equally distributed between size groups. But in relative terms the largest owners (over 51 rai) reported land purchases more often than those owning small holdings. Not surprisingly, there is a positive relationship between the land actually owned and the average area purchased, those owning more land having purchased the largest areas. This tends to indicate that land purchase is a predominant means of personal farm land enlargement compared to inheritance. There would be thus, a tendency for land to accumulate in the hands of wealthier families more able than others to buy land.

Table 5 : Distribution of Land Purchases by Size of Holdings, 1991.

Area owned (rai)	Average area purchased	Percent area purchased	Frequency	Percent of purchases	Percent of size class
No land	20.0	2.7	4	4.2	8.5
< 15	7.1	4.6	19	19.8	17.6
16 - 30	13.4	13.2	29	30.2	42.6
31 - 50	50.3	37.5	22	22.9	44.9
51 - 100	44.6	25.7	17	17.7	80.9
101 +	96.6	16.4	5	5.2	62.5
Total	30.7	100.0	96	100.0	

Source : CUSRI-ORSTOM field survey : rice farmers.

Land sales were few. Almost 50% were by farmers owning actually no land or less than 15 rai. Thus, land sales are likely to exacerbate landholding inequality. Nevertheless, it is interesting to stress that in relative terms the frequency of land sales is slightly higher for big owners than for small ones. One interesting question that often arises is the reason for the sale of land. Theoretically, sellers of land would only be better off if they could earn a higher return from the proceeds of the land sale than from self-cultivation or land rental. The supply of land for sale will thus be small where non-agricultural investment opportunities for rural residents are limited. In that case, land sales must be limited mainly to distress sales. The Agricultural Land Reform Office (ALRO) reported problems with buying land in the land reform areas due to the reluctance of landowners to sell land (TDRI, 1990). Nearly 65% of land sales in our sample can be considered as distress sales of which 80% were from farmers owning small holdings. The most frequent reason for land sales were loan repayment, and secondly family needs.

Table 6 : Distribution of Land Sales by Size of Holdings, 1991.

Area owned (rai)	Average area sold	Percent area sold	Frequency	Percent of sales	Percent of size class
No land	14.3	13.8	6	16.2	12.8
< 15	11.9	22.9	12	32.4	11.1
16 - 30	19.6	28.3	9	24.3	13.2
31 - 50	23.0	11.1	3	8.1	6.1
51 - 100	12.4	9.9	5	13.5	23.8
101 +	44.0	14.1	2	5.4	25.1
Total	16.9	100.0	37	100.0	

Source : CUSRI-ORSTOM field survey : rice farmers.

It is worth to underline the fact that 27% of those who sold land were transferring it to other family members (close or distant). Conversely nearly 40% of the purchases occurred between relatives and another third between neighbours. This result is consistent both with the pattern of land inheritance and the closing land frontier. When the plot inherited is too small to be efficient, "it is not uncommon for one of the children to buy from the other siblings their fragments of the farm" (Mehl, 1986).

3. Land Tenure : the Role of Land Rental Market

It is often believed that population pressure and concentration of land in a few hands tend to increase the proportion of tenant farmers compared to owner farmers. However, among Thai rice farmers, owners and tenants cannot be identified as mutually exclusive social classes. Landlord-owner farmers refers to those farmers who rent out part of their holding and cultivate the rest themselves, sometimes with rented-in land. Owners are farmers owning all the land they cultivate. Owner-tenants own at least a share of the farm land base while tenants rent in the total amount. Other farmers are those who rent in freely some land from parents or those who rent out freely some land to their children; this was observed in 12 cases and is usually equivalent to inheritance of land.

The level of tenancy is low : only 14% of households operate as full tenants, more than a half own all the land they farm, about 21% have expanded their farm land base by renting additional land. A few farmers (7.3%) are able to rent out part of the land they own. The average area cultivated is the largest among owner-tenant farmers (39 rai) while the smallest is among tenant farmers (21 rai), but the dispersion is not very high.

Table 7 : Land Tenure, 1991.

	Suphan	Pitchit	Roi Et	Percent	% of area cultivated	Average area	Area rented/ area cultivated
Landlord-owners	12	2	8	7.3	6.5	25.3	53.2
Owners	35	53	74	53.8	49.5	26.2	0.0
Owner-tenants	25	22	15	20.6	28.3	39.0	53.4
Tenants	25	14	4	14.3	10.5	20.9	100.0
Other	3	7	2	4	5.2	37.3	0
Total	33.2	32.6	34.2	100.0	100.0		

Source : CUSRI-ORSTOM field survey : rice farmers.

There is a danger to identify tenancy as an indicator of rural poverty. As noted by Stifel, "the family's demand for land expands as children grow old enough to assist in the farm work (...) and contract in the latter phase of the family cycle as both obligations and stamina decline". Renting land appears as a method of farm enlargement or land access among those who cannot afford to buy land. Conversely the farmer who has "excess" land compared with family labor will find it more profitable to rent out land than to manage a large operation because of the scale of diseconomies arising from the use of hired workers (in the sense that a daily paid worker has no incentive to work hard). Thus, total area cultivated will depend significantly upon the size of the family more than upon the ownership of the land. The rental market of land will tend to transform the pattern of ownership holding into a distribution of operational holdings which more closely correspond to an efficient distribution.

Thus, owners who rent out their land do not necessarily join the ranks of the "unscrupulous absentee landlord" as is often believed. The breakdown of tenancy contracts according to owner's occupation shows that in 38,2% of cases, the class of non-operating owners have non-agricultural occupations. They are usually merchants or civil servants. However, most of these cases concern

Suphan Buri and are of minor importance in the two other provinces. Owners with agricultural occupations represent by far the most important case : 61,8% of the contracts and 63,5% of the land rented in. The largest share of the contracts has occurred between farmers (33%), and represents 26,8% of the land rented. Pure landlords are renting 35% of the land, and the area rented by contract is high. This last class appears to have a limited role for farmers who need to rent some land.

Table 8 : Distribution of Tenancy Contracts by Owner's Occupation, 1991.

	Suphan Buri	Pitchit	Roi Et	Frequency	Percent	Average rai	% of rented land
Merchants	11	7	2	20	18.3	19.3	17.0
Civil servants	11	1		12	11.0	22.3	11.8
Others	2	4	1	7	6.4	17.9	5.5
Non agricultural	24	12	3	39		20.2	34.2
	23.5	11.8	2.9		35.8		
Farmers	11	13	12	36	33.0	16.9	26.8
Landlords	16	10	1	27	24.8	27.4	34.9
Agricultural	27	23	13	63		21.4	61.7
	24.8	21.1	11.9		57.8		
Total	54	36	19	109			
	50.0	34.3	15.7		100.0		100.0

Source : CUSRI-ORSTOM field survey : rice farmers.

As far as landowner-tenant kinship relations are concerned, data in table 9 distinguish between rice farmers who rent in land and rice farmers who rent out land. The results are very similar for these two sub-groups. More than half of the contracts (56%) have been established between family members : 14% between close relatives and 40% between distant relatives. Very few farmers are renting land from acquaintances (13%) or people they do not know. As for land transactions, this pattern of tenancy contracts is explained by the fragmentation of the farm in smaller and smaller plots over time and correlated with the sharp increase of land prices. When purchasing land is too expensive, the siblings who want to work the land rent in the other's holdings.

Finally, data on the location of the owners of land compared to the location of the land (thus of the tenant) provide evidence that absentee landlords has been limited in extent. More than half of the owners live within the same district as the tenant they are involved with. Only two owners live in Bangkok. This seems to support the conclusion that Thailand does not have an urban rentier class, and consistent with the view that land has been of minor concern among the traditional elite because of the very favorable land-to-people ratio (Kemp, 1981).

Table 9 : Distribution of Tenancy Contracts by Owner-Tenant Relation, 1991.

	Farmers renting in				Farmers renting out			
	Frequency	Percent	Average rai	% of rented land	Frequency	Percent	Average rai	% of rented land
Close relatives	17	15.6	22.7	17.4	2	9.1	40.0	16.1
Distant relatives	42	38.5	21.3	40.3	11	54.5	19.1	46.2
Neighbors	33	30.3	18.0	26.8	7	31.8	24.6	34.7
No relation	15	13.8	19.8	13.4	1	4.5	15.0	3.0
Other	2	1.8	23.5	2.1				
Total	109	100.0		100.0	21	100.0		100.0

Source : CUSRI-ORSTOM field survey : rice farmers.

Table 10 : Distribution of Tenancy Contracts by Geographical Distance between Landowner and Tenant, 1991.

Owner-tenants and tenants	Farmers renting in		Farmers renting out	
	Frequency	Percent	Frequency	Percent
Same sub-district	43	39.4	5	22.7
Same district	15	13.8	6	27.3
Same province	17	15.6	4	18.2
Same region	6	5.5	5	22.7
Different regions	26	23.9	2	9.1
Bangkok	2	1.8		
Total	109	100.0	22	100.0

Source : CUSRI-ORSTOM field survey : rice farmers.

4. Land Prices : an Absolute Constraint to Land Property

Theoretically, the price of land is related to its productive potential over a long horizon. From a practical point of view, the value of land is obviously related to a wide range of factors : productive quality, availability of water, distance from market, title status, etc. During the survey, farmers were asked to assess the market value of the land they own. It is implicitly assumed that land owners are accurate in assessing the value of the land they own. This is true when the land market is sufficiently active, as is confirmed in the case of rice land.

Tables 11 and 12 record the mean prices of land. The data are broken down by district and by registration status. Land prices are indeed prohibitively expensive : the estimated value given by farmers of their own land range from 61,000 baht per rai in Suphan Buri to 35,000 baht in Pitchit and 10,500 in Roi Et. Of particular interest is the effect of suitability of land for other crop cultivation on the price of land. Anthropologists argue that farmers give their paddy land higher values than land devoted to other crops because the central role of rice in Thai cultural and social life (Mehl, 1986). This seems to hold true only for the two tamboens in Suphan Buri where rice land is worth more than a mix of rice land and upland, but in Pitchit and Roi Et the opposite relation is true. These findings are consistent with the fact that land values reflect the economic benefits which are generated by land, since crops like sugarcane, cassava, maize, and fruit trees are highly profitable. In Suphan Buri, the higher value of paddy land derives from year-round irrigation allowing double-cropping and avoiding the risk of water shortage.

Table 11 : Distribution of Land Value by Secondary Activity (Bath per Rai), 1991.

Province	Suphan Buri		Pitchit		Roi Et	
	Yan Yao	Kraseaw	Tayeam	Taluang	Mava	Pajao
Rice only	62381	79286	22429	30048	9963	10233
Frequency	21	7	7	21	27	45
Rice and other crops	59409	55087	32865	52500	12389	11250
Frequency	22	23	26	21	9	10
Total average	60860	60733	30652	41274	10569	10418
Frequency	43	30	33	42	36	55

Source : CUSRI-ORSTOM field survey : rice farmers.

Table 12 : Distribution of Land Value by Type of Document (Bath per Rai), 1991.

Province	Suphan Buri		Pitchit		Roi Et	
	Yan Yao	Kraseaw	Tayeam	Taluang	Mava	Pajao
Secure title	62122	60733	31143	43346	10682	10643
Frequency	41	30	28	39	33	42
Unsecure title				18500		10000
Frequency				2		1
Untitle	35000		27900	6000	9333	9667
Frequency	2		5	1	3	12
Total average	60860	60733	30652	41274	10569	10418
Frequency	43	30	33	42	36	55

Source : CUSRI-ORSTOM field survey : rice farmers.

It is eminently clear that legal title is an important factor explaining differences in land values. In each tamboen, land with secure title (Chanot, Nor Sor 3, Nor Sor 3 Kor) is in some cases two to three times more expensive than land with insecure title (Baichong, Sor Kor 1) or without any document proving ownership of land. It is now widely recognized that ownership security enhances capital formation by providing better incentives to invest and improved access to credit both from

institutional and informal sources. The most important benefit of having a title is its use as collateral for loans, since the incidence of eviction of squatter farmers in forest areas has been quite infrequent. Conversely, title insecurity causes lower farm productivity due to lack of investment incentives and limited access to credit (Feder and Others, 1988). Thus, as farm productivity is related to land ownership security, titled land must have a higher price than untitled or unsecured titled land even if "land markets tend to over-estimate the social value of titled owned land while they under-estimate the social value of untitled land (Chalamwong and Feder, 1985).

As direct access to land comes about through individual ownership, the arrangements under which land is rented define the conditions (thus the price) of indirect access to land for those owning no land or too small pieces. Rental agreements vary according to individual circumstances and the major form of tenancy contract is fixed-rent in kind. Fixed-rent in cash is more common in Pitchit than in any other province. Actual rents are determined by a large number of factors, including the quality and productivity of the land, the availability of irrigation facilities, etc. Not surprisingly, land rentals are higher in the Central Plain than in the Northeast. The average rental in cash is around 400 baht per rai and per season with a relatively high degree of variation between provinces from 560 baht in Suphan Buri to 250 bath in Roi Et. The average rental in kind amounts to 165 kg per rai, ranking from 182 kg in Suphan Buri to 111 kg in Roi Et.

Table 13 : Land Rentals by Province, 1991.

Province	Kind				Cash			
	First crop		Second crop		First crop		Second crop	
	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent
Suphan Buri	44	182	33	181	13	559	11	565
Pitchit	3	125			27	344	5	158
Roi Et	12	111			5	254		
Total	59	165	33	181	45	396	16	437

Kind : kg per rai

Cash : bath per rai

Source : CUSRI-ORSTOM field survey : rice farmers.

Dry season rental rates are, on average, not very different from rainy season rates even though the rainy season crop may have higher profit potential than the dry season crop. As far as the owner's occupation is concerned, there is no evidence that landlords exploit their tenants (who in many cases are relatives and friends) by charging rents above competitive norms compared to other owners. Rentals in cash are more expensive when the land is rented in from farmers, but rentals in kind are the lowest. As expected, agreed rentals are lowest under contracts established between close relatives and the highest in case of no relationship especially when the rent is paid in cash.

Table 14 : Land Rentals by Activity of the Owner, 1991.

	Kind				Cash			
	First crop		Second crop		First crop		Second crop	
	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent
Non agricultural	22	167	14	190	18	424	7	494
Farmers	19	149	7	184	12	426	3	392
Landlords	14	190	10	175	12	351	6	394
Unknown	4	139	2	141	3	294		
Total	59	165	33	181	45	396	16	437

Kind : kg per rai

Cash : bath per rai

Source : CUSRI-ORSTOM field survey : rice farmers.

Table 15 : Land Rentals by Relationship between the Farmer and the Owner, 1991.

	Kind				Cash			
	First crop		Second crop		First crop		Second crop	
	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent	Frequency	Average rent
Close relative	7	143	5	150	8	309	1	500
Distant relative	24	173	16	172	14	318	4	251
Neighbor	17	171	9	214	14	445	8	430
No relation	11	162	3	200	9	509	3	730
Total	59	165	33	181	45	396	16	437

Kind : kg per rai

Cash : bath per rai

Source : CUSRI-ORSTOM field survey : rice farmers.

Conclusion

Land is the central factor of production in agrarian economies like Thailand : the entire rural population (81% of total population) makes its livelihood from it. Hence, the income of this population depends not only on the efficiency with which the land is used, but also on the distribution of the land. There is thus a question of how the limited land is distributed among different groups of the population. The objective of this paper was to examine the nature and the distribution of land ownership among a sample of rice farmers and how they have changed over time.

It has been shown that inequality in the distribution of land ownership, though significant, does not support the hypothesis that land is concentrated in the hands of a few wealthy landlords. Rather, a continuous spectrum of peasant subclasses was found, ranging from full tenants to landlord-owners.

Although big farmers may have been acquiring more land for cultivation, there is still no proof that land markets have strongly worked against small and marginal farmers rather than in favor of them. There was no empirical evidence showing that a large number of farmers "had been pushed into the ranks of the rural proletariat because of seizure of their land by unscrupulous landlords or speculators" (Singh, 1988). Clearly, conversion of forest areas into agricultural areas have helped to overcome the strong population pressure on land.

Where tenancy is concerned, it is argued that this is a socially useful market response which provides opportunities for a more efficient employment of family resources. Those owning "excess" land compared to family labor will rent out land to those lacking land or enough land to earn an adequate livelihood. There is thus a potential market for the rental of land, which would tend to make operational holdings more equal and closer to optimal operational size than ownership holdings. This does not mean that, on an individual basis, tenancy is a panacea and has nothing to do with poverty. Land which is not owned tends to produce less income mainly because the access to credit, especially from institutional lenders is impossible. Yet in the absence of land rental markets, the members of households who cannot afford to buy land would be driven into the classes of landless laborers.

Whichever way the country is developing, land will continue to be a fundamental factor. Both population pressure and the closing land frontier will continue to alter the agrarian structure, probably toward a more inequalitarian pattern. When new land was continuously being brought into cultivation this helped both to reduce the incidence of poverty and to sustain agricultural growth. Since vacant land will no longer be available, the comparative advantage of agriculture will decline unless new technology is brought in. If Thailand resists moving from an agricultural to an industrial base, the supply of land will be exhausted and the economy will come up against grave difficulties to follow a sustainable path of growth.

ANNEX

Selection of the sample.

The sampling design of the survey proceeded from three guidelines.

First, the probability of learning anything about rice farmers' behavior is higher in those regions with the highest percentage of domestic production. An examination of regional rice production shows that over the ten year period of 1980 to 1990 the region of North-East and Upper Central accounted each for 33% of total rice production, the region of North for 28%.

Second, what works in one location may not work in another, even in the same country, because the ecological setting is different or because farm households face different constraints on their decision-making. We tried to find representative agroclimatic zones that are reasonably consistent internally and have significantly different cropping patterns from zone to zone to capture all the diversity the analyst can hope to cope with. Each of the three provinces selected are in different agro-economic zones defined by the Ministry of Agriculture: Suphan Buri in Central Plain (rice, sugarcane), Pitchit in the North (rice, soybean, groundnut, corn, mung bean) and Roi Et in the Northeast (rice, cattle, buffalo, kenaf, silk, cassava).

Third, sample size didn't have to be too large because of limited resources available. As a result, the spatial focus of the study has been restricted to one province in each region. Therefore, a pragmatic trade-off was made by which the most northern and northeastern sectors of the three regions were discarded, as well as some provinces with specific characteristics.

Districts and villages were selected with the help of the provincial Department of Agriculture to ensure that the zones of survey had not been affected by bad climatological conditions for the year considered. A random sample of 300 farm household was then constituted according to the lists of farmers available at the Department of Agriculture. The total sample divide into approximately equal sized sub-samples of 100 farm household in each of the selected provinces.

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Entrepreneurship and Dynamics of Rural Systems: A Comparative Study on Southern India and North-Eastern Thailand¹

Doryane Kermel-Torres and Philippe Schar

For many developing countries, the prospects for the next few decades are very closely linked with the evolution of their rural environment, both in its ability to meet the needs of the national community, especially in relation to food, and in its diversification of activities. In two countries which are apparently very diverse in many ways, rural areas and agriculture play a key role in development. More than 70% of the population is still rural and just over 65% of the working population are employed in agriculture. These two indicators, although they are fairly generalized and may therefore mask some processes of multi-activity already underway, nevertheless show how vital an issue diversification is, both for the evolution of the national economy and its relationship with the international scene and also in relation to the growth of non-agricultural rural activities and "urban" activities by workers who are maintaining a toe-hold in the country.

By **entrepreneur** we mean any rural actor engaged in a process of diversification for which he owns some of the means of production (agricultural land, tools or machinery, livestock, etc.). However, for those who can only contribute their labour, work on rural sites, or as salaried agricultural, artisanal or industrial workers represent the only available opportunities for diversifying their activity. For rural inhabitants facing insecurity and under-employment, these types of work either retain them in rural areas or draw them into urban areas. Thus the definition adopted cannot ignore the ambivalence of established dynamics which lead some actors to be both entrepreneurs in the sense used here and also to resort to activities in which their role appears to be simply of an executive nature. These aspects must be considered, in as much as they represent rural strategies and are the expression of all-encompassing dynamics, resulting from processes embarked on by others, either entrepreneurs in the private sector or government agencies, in rural systems or further afield in regional or metropolitan areas.

We have chosen to examine the entrepreneurial phenomenon in a comparative study, believing that entrepreneurship reveals national contexts and social dynamics at work in two different societies

1- This analysis is the result of research carried out in collaboration with the Universities of Coimbatore and Mysore in India and the University of Khon Kaen in Thailand.

and more especially in what have been defined as **rural systems**². When we compare these areas from different viewpoints, in an attempt to assess the processes that underlie the emergence of an entrepreneurial dynamic, we must consider not only the specific characteristics of physical environments, but also social and economic formations; all evolve and change under the influence of external forces, especially that of the State and the market. North-eastern Thailand and southern India are geographical regions; the districts of Coimbatore (Tamil Nadu state) and Mandya (Karnataka state), and the province of Khon Kaen are administrative areas.

1. Opportunities for Entrepreneurship

1.1 Types of Diversification

The different systems chosen for this analysis are to be found at different points along a diachronic scale of evolution, the elements of which relate to agricultural risk management, regional industrialization, diversification trends and openings onto national and international areas. All these variables influence not only the intensification and capitalization of agriculture which can in turn produce surpluses for reinvestment in rural systems, but also social and economic structures. By comparing these areas and the different forms of diversification undertaken, and structuring them around specific internal and external characteristics, we can specify the underlying dynamics. For these rural systems, however, we could by no means reconstruct the past or attempt to predict the future simply from observations made today.

The Coimbatore rural system bears the indisputable hallmark of industrial-style entrepreneurial dynamics. From the beginning of this century, major landowners have diversified their activities by investing surpluses in the building of factories. Initially based on the transformation of raw cotton, this industrial activity, know-how permitting, has undergone diversification and specialization in response to the requirements of industry and agriculture (Schar 1992). This exceptional trend must be seen in relation to the very early opening up of this region to international markets. One effect of this was the emergence, towards the end of the 19th century, of a speculative and, for that time, highly capitalistic form of agriculture. In this drought prone area (mean annual rainfall about 600mm), the cultivation of cotton has developed using irrigation from wells. This crop has provided large financial surpluses. During the 1950's, sugar cane gradually gained ground over cotton, as electric pumps became readily available. In this rural system, however, irrigation no longer produces crop intensification, owing to over exploitation of the groundwater, and the cultivation of cotton has re-emerged. As they were witnessing an increasingly uncertain future in agriculture and were once again encountering agro-ecological risks, landowners with sufficient surplus have created more and more industrial implantations within the rural system since the beginning of the 1980's, either producing goods directly for the market or subcontracting for Coimbatore factories.

2- See Collective CNRS Research Project "Dynamique des systèmes ruraux : les enjeux de la diversification. Une approche des Tiers Mondes".

The Pollachi rural system has an annual precipitation which is only slightly greater than that of Coimbatore (average 800mm/year). The majority of rural investment is still attracted by the possibility of agricultural intensification using a dual irrigation system with wells and canals, the latter being developed at the end of the 1960's from a series of dams. Pollachi is an average-sized town, where the industrialization process is partly associated with the deconcentration of activities from Coimbatore. It affects mainly the urban and peri-urban areas and is considerably less diffuse than was the earlier system in the heart of the rural areas. The groundnut, which was the main cash crop at the beginning of the century, has now given way to sugar cane and coconut; especially the latter which requires less water and is less labour-intensive than the former (Schar 1989). In Pollachi, more so than in the Coimbatore system, the wider range of agro-artisanal activities has given rise to medium and small-sized units where coconut and sugar cane fibres are transformed. A striking feature of both these rural systems is the shortage of labour, which is constant and not only during peak seasons of the agricultural calendar. The functioning of the two systems does not involve much migration beyond their boundaries. Work-related mobility, on the other hand, is very well-developed, with pendular movement for urban, industrial and construction-based work and circular movement for specialized agricultural workers.

The rural systems in the Mandya district, while diversified in their own specific way, do highlight banal entrepreneurial logics typical of the Indian context. Given the scale of rural industrialization in the Coimbatore region, however, these logics are quite likely to be overshadowed in the Coimbatore rural system. It was towards the end of the 1930's, with the introduction of canal irrigation, that climatic conditions ceased to be a restriction for part of this pluvial rural system hitherto suitable only for dry crops and with few possibilities for commercial agriculture. The widespread growth of sugar cane, along with the installation in Mandya of a sugar factory, built with public funds, introduced the land owners/growers to a capitalist-type mode of production. Nowadays, the units where *jaggery* (raw, unrefined sugar, sold throughout India) is produced and also sugar cane production are still buoyant areas of activity, even for those among the land-owning class who have for decades drawn substantial profit. This profit however has not been put to use in the rural system in entrepreneurial activities other than agriculture or in those linked with agriculture, but has been directed towards commercial activities in urban areas. For the well-to-do peasants, agriculture still seems quite profitable enough to give rise to a variety of diversification activities, depending on the availability of labour and surplus funds, from public aid and the private sector, ranging from market gardening to coconut groves, dairy cattle to silkworms breeding. In the 1970's, the combined effect of irrigation and widespread public incentives effectively opened up new prospects for this type of production. The production channels, however, remain very clearly delineated according to both social differentiation and segmentation of labour, thus restricting farmers to the role of producers of raw materials (cocoon) while transformation operations are reserved for specialized social groups in defined geographical areas.

As was the case in the Coimbatore rural systems, though on a much more modest scale, the increase at the beginning of the 1970's in the availability of electric pumps in the Mandya pluvial rural system (annual rainfall about 700 to 900mm) enabled some farmers to establish spatially selected cash

crops, combining coconuts, market gardening and silkworm breeding³ on a scale compatible within the same system, and opening up the area to regional, national and even international markets. In this system more so than in the preceding ones, the artisanal and service type of entrepreneurial dynamics highlight traditional activities: small businesses, activities by specialized castes (blacksmiths, launderers, etc.), mills for hulling cereals, brickyards, rope-making from agave fibres, etc. Little innovation was forthcoming, however, under the combined effect of the low level of local production, the industrial lethargy of the nearest urban centres and despite generous encouragement from the State for the creation of small industries in rural areas. It is true that even for the most well-off and the most innovative landowners, there has only recently been any available surplus. Productive investment strategies are directed first and foremost to areas where the agro-ecological risk is of manageable proportions, towards agricultural activities which are still considered promising. In both systems, the preeminence of the agricultural sector governs job opportunities for some farmers and for landless families. In the pluvial system, the different types of mobility, which indeed are governed by the specific networks of each village do highlight the recurrence here and there of under-employment (Landy 1992). The sugar-producing area of the irrigated rural system first fixes an immigrant population, then mobilizes "local" labour, and attracts "specialized" seasonal workers from neighbouring dry areas: but even here, agricultural diversification is not sufficient to maintain year-long stability in job opportunities.

Throughout the 1970's, parts of the low lands of the Khon Kaen area were put under canal irrigation. This led to intensification in rice-growing strategies and to agricultural diversification, but there, irrigation did not have as much impact on the introduction of commercial agriculture as in the Indian systems already described. In north-eastern Thailand, commercial agriculture dates back to a much earlier period, in the 1950's, with much encouragement from the private sector and in an area which was still isolated and marginal. Cash crops such as kenaf, cassava, sugar cane were factors which stimulated agriculture to turn towards more international markets, and as these crops were grown in accordance with the topographical features of the region, they are still appropriate there today, whatever type of system may be introduced now.

In the Nam Phong system, those producers who were able to, brought in a succession of different forms of agricultural diversification onto the irrigated land, abandoning one crop, maintaining another, in accordance with fluctuations in the market and relations with the commercial and industrial sector. Some of the diversification initiatives which stand out for their innovative techniques are cattle farms, and to a lesser extent, dairy farms, these with impetus from the Isaan Kiao programme, and the production of vegetable seeds. Despite their different dynamics, these forms of diversification represent a high level of integration into the vertical, commercial and transformation structures for rural entrepreneurs who provide the labour and, depending on the sector, some of the inputs, land included, which are necessary for the production of these goods. This is a vital feature in all systems, irrigated or not, and linked as it is with the specific features of social and economic formation and the limited level

3- In this system, silkworm breeding, as here defined, cannot be considered as a diversification strategy except when using "improved" varieties of mulberry and silkworms. Silkworm breeding with local varieties is a traditional activity in certain villages.

of rural wealth, it helps to explain the weakness of the industrial style entrepreneurial dynamics in the Khon Kaen rural systems, with the exception of those concerning traditional activities (village rice mills, small units for transforming kenaf and cassava). The fairly recent development of the Khon Kaen metropolitan area, and even of the Isaan region, through the setting up of agro-industrial units has served to strengthen or create markets for agricultural products. It has not, however, modified the nature of production relations nor the mode of transformation by generating new types of rural industrial entrepreneurs.

Given the restrictions inherent in the local conditions (6 dry months a year), strategies for agricultural diversification are limited to those which, in the context of the pluvial system, can use run-off from light irrigation from collective reservoirs in the dry season. In the range of products adopted there may be a few which are more widespread in the irrigated rural system (soya, vegetable seeds), but these dynamics only serve to highlight even more clearly the current accent on socio-economic differences. In a system such as this where seasonal fluctuations are so pronounced both inter- and intra-annually, investment strategies in fruit tree cultivation, for example, or the purchase of a motor-pump, or a small van, take on even greater importance. Or take the exploitation of silkworm breeding for the textile industry, which, under the combined influence of government agencies and private factories, seems, for the hybrid varieties of silkworm at any rate, to be moving towards a segmentation of activities, thus breaking with the traditional scheme of things. Here, migration dynamics are very seasonal, though not exclusively so, and are inextricably linked with rural strategies which cannot be fulfilled by the employment opportunities offered by the town of Khon Kaen and by the few industries that have recently been established in the rural areas, nor the opportunities provided by the second rice harvest in the irrigated rural system. Here, the effect of migration is also felt in relation to other variables concerning village or family matters. In this area where seasonal migration does not predominate, migrating into town, to work on a building site or for a manufacturing company in Bangkok may provide the opportunity to acquire know-how and contacts which can then be put to later use in the rural systems by subcontracting.

1.2 Incentives and Constraints of Intervention by the State and the Private Sector

The workings of the State and likewise that of the market, will have been felt, interacting closely together to provide encouragement or constraints for the initiatives of potential rural entrepreneurs. This interaction has had an important role in the development of these two countries and we shall pause to look at some aspects in relation to agricultural sectors and rural areas in order to better appreciate its nature and underlying philosophy. The influence of industrial sectors which have no bearing on the agricultural sector, or are only loosely associated with this sector, should nevertheless not be neglected, in as much as, apart from their impact on employment, they may be able to instigate entrepreneurial processes. In both countries, it is this double advantage which has stimulated incentives for setting up and delocalizing industrial units. The mode of enforcement of those policies respects specific features inherent in the mode of intervention adopted in each country.

The tool commonly used by the Indian State is to award credit and investment subsidies according to a complex scale of charges; this takes into account types of production, zones (whether they are backward or not), categories of industrial units (differentiating small industries from cottage

and village industries) and the social categories of the entrepreneurs, according to "scheduled" castes⁴. These incentives are a clear reflection of some of the ideologies that have stamped the economic and political development of India since Independence. One refers to the thought of Ghandi, who, in wanting to valorize local resources to the full, both men and produce, favoured the small-scale industrial and artisanal sector. Although there is often some disparity in their application or even misappropriation, these measures have not prevented the development of keen competition with the manufactured "urban" products, which have caused traditional artisanal activities in many Indian villages to be restricted. Moreover, the Integrated Rural Development Programme, which aims to encourage diversification in rural activities and give the poorest access to production means, has clearly highlighted the difficulties involved in encouraging any form of entrepreneurial dynamics in rural areas, other than those closely associated with the agricultural sector.

Thailand has also adopted incentives to industrial decentralization, in order to make investment in rural areas a more attractive proposition. Again, the provinces are zoned to give a sliding scale of tax relief and financial reductions and, at least in the area which includes Khon Kaen province, agro-industries benefit from higher exemptions (Bangkok Post, 1988). This is proof, if proof were needed, of the Thai government's intention to strengthen its policy of industrialization for export by including the diversification of basic agricultural products. As evidence of the importance accorded by the State to industrial activity in the context of rural development, under the Sixth Plan the Ministry for Industry has been integrated into the panel of ministries responsible for coordinating their actions (Judd, 1989). However, although in the Khon Kaen province the installation of agro-industrial units in particular has speeded up over the last few years as a result of public encouragement to delocalize, and for certain branches of activity this has been combined with restrictions on operating in their original areas, from observations limited to this same province, we might question the true impact of all these measures to "launch" new rural industries.

While it is keen to promote private dynamics and investment, the Thai State is also very supportive, providing some of the infrastructure needed for the market to function and for rural areas to develop. On top of the "heavy" infrastructure put in place in Isaan (road network, irrigated areas, etc.) the State is also seeking to find a synergy with the private sector, in the context of sector-based and integrated agricultural development programmes. Sericulture, for instance, is encouraged through the provision of means which are indispensable for breeding the type of hybrid silkworm whose silk is highly prized by the private capital textile industries getting supplies from the north-east of the country. Agreements struck by the private sector with producers are not always respected and although village communities may make innovative efforts in a traditional activity, this does not guarantee market stability. Generally speaking, the Thai government does not intervene very much in internal trade or the pricing structure⁴ for agricultural produce, except in a few instances of price support for paddy or monitoring the fixing of the purchase price of sugar cane from producers. Some "central markets" for paddy, like that in Khon Kaen, are attempting, with varying degrees of success, to obtain better terms for the producers in transactions, but the marketing of agricultural produce is generally organized by the Sino-Thai commercial network.

4- H.Guetat-Bernard, to be published

This contrasts strikingly with the high level of State intervention seen until now in India in marketing and pricing policies. The Indian government is suspicious of market forces and sees itself in the role of "organizer" and "protector", even though aspirations to be sole "director" have had to be abandoned. It is often in evidence in respect of price controls for some products (cereals, refined sugar cane, silkworm cocoons, etc.) and its virtual omnipresence can also be seen in the setting up of "regulated markets" (like the *jaggery* market in Mandya) in which committees have the role of supervising, to varying effect, the openness of transactions and protecting the interests of producers. As this example shows, the State does not set itself up in competition with the private sector, but it has erected a kind of protective barrier around its activities. The correction of social inequalities is clearly a stated aim of Indian politics and it is to this end that aid is awarded on a sliding scale according to social criteria. Without evaluating the effects of institutional credit, we can nevertheless underline what we feel to be an important feature of the official modalities for awards. Subsidies and interest rates vary in India according to the area of land held by an agricultural producer and whether he belongs to a scheduled caste⁵. The Indian system based on categorization according to a social group exactly matches the practice of "mutual guarantees" which is still widely used by institutions in Khon Kaen province to award a loan in the context of programmes in which the government has an interest. Although the government confirms its encouragement for producers to organize themselves into groups, this system too puts some constraints on potential entrepreneurs.

2. Entrepreneurial Activities, Social Organization and Labour Mobility

In order to appreciate the effects of entrepreneurial dynamics in rural systems, the researcher must take into account processes which encompass the entire functioning of the rural system. Entrepreneurs, as defined here, can be very revealing of social, political and economic situations. They participate in these movements in which they are, in fact, also "vectors", in both Indian and Thai rural systems. In both countries, these systems have been affected by the expansion of capitalism, monetarism and the diversification of the economy, which have not only given rise to these entrepreneurial dynamics, but have also transformed modes of production and social relations. Although these all-encompassing processes can be interpreted as forming part of a homogenization logic, they also reveal contradictory trends in terms of diversification, social diversification in particular, by playing on a combination of forms of intervention and modes of functioning in the rural systems. It is pertinent at this point to ask some questions in order to provide guidance for analysis of the intended and induced effects of entrepreneurial activities: how have they penetrated the social and economic formations of the rural systems considered, and what relationships have they helped put in place?

The elements selected to establish the diachronic evolution form a grid for analysis and in this way evolutions observed are not "confined" to the rural systems, but can be considered as resulting

5- There are 3 categories : "big farmers", "small farmers" and "marginal farmers". The listed castes concern the low castes ("scheduled castes" or SC) and members of tribes ("scheduled tribes" or ST). The latter criterion is found in all government programmes and it entitles to a higher subsidy and a lower lending rate. This preferential treatment is not usually granted for short term agricultural loans.

jointly from endogenous and exogenous dynamics. This is done not solely because the entrepreneurial processes within these systems are closely correlated to "external" demands and impulses, but also because they need to consider the impact of dynamics conducted elsewhere and by others.

The availability and monitoring of the workforce thus constitute elements of the utmost importance, for they both influence strategies for diversification activities and justify the nature of social relations and of the organization of agricultural labour. From the Coimbatore rural system, where the outstanding feature is urban and rural industrialization, to the Khon Kaen pluvial system, characterized by a degree of agricultural diversification and fluxes in migration, by way of the Mandya irrigated system, where diversification trends are still governed by sugar-based activities, the one factor which crosscuts all these systems is an increase in the wage-earning class among the rural populations. Its composition varies from one rural system to another, depending on the nature and strength of the forms of diversification undertaken, both inside and outside the systems themselves, and on the specific features of the social and economic formations.

A social polarization of wealth emerges much more clearly in the Indian rural systems than in those of north-east Thailand. This can be seen especially in the fact that a proportion of the population has no land, and this proportion varies from one village community to another. Here too these slight differences are acceptable as can be seen by comparing the Indian rural systems: the level can be as high as a third of the population in the Coimbatore and Pollachi systems, and in the Mandya irrigated system, but the proportion drops to about 10%, and even less in the Mandya pluvial rural system. The strength behind capitalism and agricultural intensification has generated processes which have resulted in the building up of reserves of manpower which, through large, are nowadays insufficient. Taken in the national context, a smaller proportion of the population of the rural systems of Isaan is totally without land; despite intra-regional variations, this situation is similar to that in the pluvial systems in southern India. Nevertheless, this feature does not indicate an absence of social differentiation, as can be seen from the scale of land and income distribution, whether or not the latter originates from the agricultural sector. Although, unsurprisingly, there is great demand in both countries from those without land to work, the size and the viability of farms also brings onto the employment market small Thai producers, who may be both land-owners and tenant farmers, and likewise small and marginal Indian producers.

The capacity to embark on agricultural diversification may in some cases create incongruities between unit size and family status on the employment market. Thus some large land-owning families in the Mandya pluvial system, since they cannot diversify their agricultural activities, have become dependent, in the same way as marginal producers in the irrigated rural system, on working on other farmers' land. Similarly, for the producers of Khon Kaen, socio-economic differentiation still depends, although only in part nowadays, on farm size and the distinction between land that is *na-lum*, favourable for paddy-fields, and that which is *na-don*, turned over to traditional cash crops. Thus pressure on the employment market may exceed the land-owning status of certain rural dwellers, and it also depends on the offers of employment that emerge as a result of entrepreneurial processes in rural systems and in the regions and metropolitan areas. These variables determine, in turn, the social relations of production.

Extreme examples of social exploitation such as bonded labour have now virtually disappeared in the Indian rural systems. Nevertheless, they have not been replaced in the different systems by similar types of production relations. There are still some permanent agricultural workers, but they are limited in numbers in some farms in the Coimbatore and Pollachi systems and in the Mandya irrigated system. Such workers, however, are simply a relic from days gone by, and they have disappeared completely from the Mandya pluvial system due both to the lack of irrigation and the reduction in the size of farms (Landy 1992). In the Coimbatore and Pollachi systems and in the Mandya irrigated system, a class of agricultural workers has emerged, giving rise to social relations of production which are in keeping with a diversification in entrepreneurial activities.

In the Coimbatore and Pollachi systems, the development of an industrial sector, recruiting the workers it needs from families who had traditionally worked in the fields, has been a major contributory factor to modifying preexisting production relations. It has encouraged the emergence of a class of workers who are free to choose their work in either the agricultural, artisanal or industrial sector. They are also an independent workforce, who rely, as much as possible, on the laws of supply and demand, and manage to receive substantial wage increases when the need for labour becomes more urgent. There are employment opportunities outside the agricultural sector for members of rural families who make themselves available on the labour market, and in this way they can increase and diversify their income, as well as guaranteeing regular income throughout the year and thus freeing themselves from the socio-economic grip of landowners. However, not all landless or micro-farmers families have benefited from these changes: the most socially deprived groups seldom have the relations necessary for finding a place in industry, even in a rural industry, no matter how small. Comparing the two systems, we can see a gradation of situations according to the spread of rural industry: less advanced in the Pollachi system, the industrial entrepreneurship has marginalized to a much lesser extent the production relations which are similar to those in the Mandya irrigated rural system. Thus in Pollachi, these relations are of a very ambivalent nature, and will probably only develop along with the penetration of industrialization. The industrial type of entrepreneurial dynamic in these rural systems has, remarkably, and in contrast with the Mandya rural irrigated system, led to a progressive disintegration of the feudal ties which bound together different economic groups engaged in agriculture.

In Mandya, where agricultural intensification has been possible by the use of irrigation on a vast scale and where agricultural diversification is still sufficiently lucrative, compared with the risks involved in attracting surpluses for reinvestment, entrepreneurial dynamics have maintained production relations which could be classed as post-feudal or pre-capitalist. Since employment opportunities outside the agricultural sector are extremely limited, those seeking work are very heavily dependent on the agricultural sector. This sector, however, is characterized by seasonal fluctuations, even though the advent of irrigation has enabled the workload to be spread over a greater period. This dependence enables landowners, the major employers in this sector, to maintain patron/client relationships despite a growing monetarization in salaries. This trend can be seen in the salary advances awarded (without interest) to seasonal migrant workers or villagers in exchange for an agreement to work for the lender. This system ensures landowners sufficient workers at peak times in the farming year, and, at the cost of constant debt over several years, gives the borrowers a financial safety margin during the off season.

This system may guarantee work for migrant workers specializing in operations connected with the production of *jaggery*; but it provides no guarantees for local workers who need to reduce their intra-annual insecurity owing to a reduced non-agricultural offer (Landy 1992). The existence of a salaried class which appears to be more free than the one mentioned above, as there is no dependence on salary advances, leads to a system which does not always function entirely according to market dynamics: despite seasonal fluctuations in offers of employment, salaries appear to be constant. They have increased, but although they are higher than salaries in the rural pluvial system, they have not increased in proportion to the increase in productivity of the land: potential immigration has certainly contributed to containing any rise in the wages.

The characteristic feature of the Mandya rural pluvial system is the concentration of agricultural work into only a few weeks of the year. Some forms of agricultural diversification that have been undertaken have in places broadened the scope for work: silkworm breeding and particularly market gardening have extended the working calendar beyond the few months devoted to dry food crops. The impact of entrepreneurial dynamics in the agricultural sector is also felt in the increase in the number of wells. These require maintenance and upkeep, which provide some work in the dry season. Workers are also taken on in the brickyards, in rural building sites or in the small towns. Elsewhere, however, in areas of coconut groves, there are fewer and fewer work opportunities for a day labourer. Within the rural system, the position can vary considerably from village to village, according to local work opportunities and the socially or spatially selective movements of migrant workers. The impact of seasonal migration, especially into the irrigated rural system, is lessened by virtue of the fact that there are "specialized" migratory networks who consistently use their own preferred routes to move between this more promising system and the more distant dry areas. In the Mandya pluvial system, the scarcity of non-agricultural employment and the wide seasonal swing in the supply of agricultural work produce under-employment in the dry season and a shortage of manpower in labour-intensive periods. This problem may restrict movement towards agricultural diversification, especially in market gardening, but overall it does not give rise to clientelism to such a great extent as in the irrigated system: the deficit in manpower covers only short periods, and can be alleviated by increasing the number of female workers. As a general rule, this problem is overcome nowadays by mutual cooperation between villagers for certain agricultural tasks, such as the cereal harvest.

This type of cooperation, which traditionally gave a certain rhythm to work in the paddy-fields in Isaan, has now almost disappeared. In villages where it still continues, mainly for rice threshing, it has taken on connotations of compulsory reciprocity, which it never had before (Phongphit & Hewison 1990). The penetration of monetarization and the intensification of socio-economic disparities are factors which can explain this change, further intensified by the high level of work mobility typical of the Khon Kaen rural systems. This mobility, which can be seen as a gamut of movement and strategies, is in any case, an expression of the limit of non agricultural employment opportunities in the rural systems or in Khon Kaen. The scale of mobility and the type of agricultural diversification encountered tend to regulate production relations at local level. As in the Mandya pluvial system, a significant factor in the Khon Kaen pluvial system is the seasonal nature of agriculture, but in this case it generates considerable seasonal mobility, caused by the attraction of the area beyond the rural system. The labour market is characterized both by the need for a large workforce during the paddy

season, which return of seasonal migrant workers is unable to satisfy in all cases, and by under-employment during the six months of the dry season. The fluctuations in wages, according to supply and demand, are less important than in the irrigated rural system. The cassava harvest, which can be extended throughout the dry season, does not interfere with work in the paddy-fields nor with the cutting of the sugar cane, and it can thus benefit from the availability of manpower. This is a typical feature of the functioning of the Isaan rural systems and its impact on the employment market is similar, whatever the specific features of the system in relation to the agricultural risk. Agricultural diversification undertaken to date has not increased to any significant extent the employment potential in the rural pluvial system: seed-production and silkworm breeding workforces are mainly family based. For those who are taken on for the sugar season in the Central Plain, or for 6 months in Bangkok factories or building sites, or even for 3 years or more in the Middle East, these employment opportunities outside the rural system help to diversify and stabilize income sources within the system and lessen the impact of clientelism relations. These do exist, however, especially for those who cannot count on receiving a money order, through consumer credit, the sale of agricultural produce or the granting of *na-lum* plots for rent from owners with landholding over and above what the family can run.

Low lands in the Nam Phong system have been put under irrigation, and it is now possible to increase and regulate the supply of agricultural work. Unlike the Mandya irrigated system, however, this system has not managed to fix immigrant workers: a smaller workforce is needed and the work is carried out partly by the populations of bordering pluvial systems and partly by those families whose land is not irrigated, or not to any great extent. It is for this reason that a few seasonal migrations do take place towards the Central Plain, the Bangkok metropolitan region or to tourist centres. Generally speaking, when a large workforce is required, salaries are higher than those earned in the pluvial rural system. This varies locally, however, depending on the mobility dynamics of the population and the types of agricultural diversification in hand. Thus, intensive paddy cultivation and agricultural diversification have enabled some farmers to exploit an "educational capital" by obtaining semi-skilled work in factories, but it then becomes essential to take on non-family members to work in the paddy fields, and this is paid for in part by the children of the family, who are settled outside the area, for a variable period⁶. Moreover, production relations may evolve when pressure on the supply of work increases heavily, affected by entrepreneurial dynamics such as dairy farming: the recruitment and supervising of day labourers become too arduous for the rice-grower, and he looks to other forms of relations. As more and more contracts become available for work on the paddy harvest and the tenancy system develops, there is more scope for families with less land capital to increase their income. They have not modified to any great extent, however, the terms of the tenancy system, by sharing the production costs, for instance, or extending the use of the plot beyond a single season. Contrasting social situations within the system and at the boundaries are an asset for those who are in a position to indulge in entrepreneurial strategies.

6- As in the other types of mobility, the amount sent back to parents in the villages decreases or may even cease altogether when the migrant marries.

The social organization of work in its different forms has an undeniable effect on production relations. Work under contract, carried out by individual workers or teams, is the preferred method for owners concerned about recruiting workers and the stability of the level of productivity. The *jaggery* producing units in the Mandya irrigated system function using teams of seasonal migrant workers, whereas the sugar cane and paddy harvests are in part allocated to contract workers and local teams. In the Khon Kaen systems, it is common practice to work in teams under the leadership of an intermediary for the cassava harvest: in this way, workers are able to make the best use of local opportunities during the agricultural slack period, and land-owners do not have to worry about the administration of the harvest while losing some of their profits. It is the Coimbatore system, however, which has the most structured social organization: there are specialized teams employed by dealers, teams with a leader who is responsible for contracts and for sharing out the pay fairly between team members and also day labourers, hired through employment agents interested in the amounts paid in salary.

With these forms of organization, workers have considerable power to make demands regarding wages and the organization of their work, which in the Mandya irrigated system or the Khon Kaen systems even the specialized teams do not enjoy. It is therefore not surprising that it should also be in the Coimbatore system that reprisals from land-owners who also own industrial workshops should be expressed most vigorously: efforts to keep certain village families dependent on agriculture, attempts to reconstitute waves of immigration, to mechanize agricultural operations; all these factors not only represent a manpower shortage, but also express the fear of urban trade unionism reaching the rural system. Strategies adopted in the other rural systems are generally more diffuse and in keeping with social relations, combining, to varying degrees depending on the system, a market style of functioning with clientelism relations. Mechanization appears to be more developed in the Khon Kean rural systems than in the Mandya rural systems: this is yet another particularly dynamic instance of mobility in work.

Conclusion

The comparative approach through a similar frame of analysis has enabled to appreciate the role of different factors leading to entrepreneurial development. The functioning of these dynamics and their impacts vary greatly according to the different rural systems. Nevertheless, the guided and leading effects of the development of entrepreneurial activities are an important clue in the analysis of the rural transformation. They have to be seen at two different levels. At the rural system level, it is important to look at the impact of those entrepreneurial activities on the evolution of the social and spatial organization. At the family level, starting an entrepreneurial activity means a will of social and economic improvement as well as a will of correlating the different activities held by the members and the family structure.

To start a business or not (and what) is however not strictly subordinate to entrepreneurial or economic opportunities but is widely linked to other factors. The rural actors' strategies and aims have to be seen within the family setting and the social networks that may influence the will of a diversification and the options held. The economic factors, the capital resources and the production

tools which can be used, play an important role in the process of diversification, but the social networks, the family structure, the level of education or the spatial mobility of the members set up either advantages or restraints that bear on the strategies.

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Entrepreneurial Rationale in Rural Areas : the Case of Shrimp Farming

Jean-Yves Weigel

Introduction

Within the same sectoral but macro-economic environment, different types of entrepreneurship may develop. In other words, a favourable macro-economic environment, which is the same for all and whose variables may be the stimulating call of an external market or the mode of operating a production chain, gives rise to not one, but several entrepreneurial responses. Thus the development of a new product and the insertion of Thailand in the world economy for that product may be brought about by the coexistence of different but obviously interactive production systems, resulting from the choices made by corporate heads. Our study, instead of merely reporting on these facts, is designed to grasp the reasoning behind the choices made by the players in entrepreneurial ventures, and to review the consequences of these choices on the entire production chain and on the strategy of newcomers.

Shrimp farming provides the optimal analytical framework in that, on the one hand, it incorporates several types of entrepreneurship, and on the other hand, its recent and very rapid development may be considered as having affected the options of the newcomers and even modified those of the old timers. And the spectacular growth of this sector, which has made it one of the top sectors in the Thai economy (Baht 12 billion in exports in 1990 and about 80,000 direct jobs), was indeed accompanied by the constant restructuring of the different segments of the aquacultural production chain and its macro-economic environment.

1. The Different Strategies to Mobilize the Factors of Production (Land and Capital)

A positive response by the head of a holding to farming innovations, in shrimp farming for instance, depends on his capacity to mobilise new land, capital or labour resources, or to distribute the resources already being used differently. This mobilisation or reallocation takes place not just on the basis of the characteristics of the holding, but also depends on exogenous factors.

Thus, the mobilisation or allocation modalities, the land available, the ways and means of using manpower and its cost, the shrimp farmer's financial situation and the conditions of access to loans will determine the entrepreneur's choice of one production system as opposed to another.

But obviously, this choice is made by taking into account a set of factors over which the entrepreneur has little or no control, such as the attraction of an internal or external market, the possibility of benefitting from technological transfers, the existence or reduction of bottle-necks in the different stages of the production chain, the cost of the factors of production, the setting up of a credit line, etc.

In shrimp farming, a distinction is usually made between three main types of production systems : extensive, semi-intensive and intensive (relating to the nomenclature used by the Department of Fisheries). A brief description of the characteristics of the different systems of production may be useful here.

-Extensive shrimp culture, which represents the first Thai stage in this context, is practised in ponds, sometimes natural, but most often artificial, watered by the tide, with a sluice gate to retain the water and the trapped fry until the next tide. This is therefore a system which requires hardly any inputs, but at the same time, the output is low.

-The semi-intensive system is, by definition, heterogeneous, because it combines both the extensive and intensive systems depending on the farmer; the fry and the feed come from both the natural environment and are injected into the pond by the supplementary addition of post-larvae and industrial feed. This combined practice explains the very high variability of annual yield, depending on the degree of intensification of the artificial pond : from 0.5 to 3 tons per hectare during the two or three annual cycles of three to four months each, a supplementary addition of industrial feed, varying from one to seven, and especially, a daily water renewal rate of 5% to 20%.

-The intensive system in Thailand was based on the Taiwanese model, and is characterised by high densities, requiring inputs in the hatcheries or nurseries, and therefore, the addition of industrial feed, fertiliser and various chemicals to maintain an adequate level of water quality, veterinarian products to prevent disease and the use of aquaculture equipment to provide oxygen and renew the water daily (the rate of renewal varies between 10% and 30%). However, even more markedly than in the semi-intensive system, the intensive system covers a wide variety of different situations, depending on the level of investment or operating costs, and thus records a wide range of annual yields, which can be anything between three and thirty tons per hectare.

The 1990 DOF's census (Department of Fisheries) relating to the shrimp culture households and companies allowed us to know the whole figure of shrimp farms. This census, like the former ones, was classified by type of production system (extensive, semi-intensive and intensive) and by cultivated area (shrimp farming). We choose a sample of shrimp farms by province, following the importance of each production system : 61 extensive shrimp farms, 73 semi-intensive ones and 212 intensive holdings. Our field work was conducted in 1991, through questionnaires distributed among a representative sample of 346 shrimp farms along the entire coastline. This survey was completed by interviews of 54 entrepreneurs all along the chain of shrimp production and marketing.

As a result of our field work¹, we make the following distinction within the intensive system : titled holdings², untitled holdings³, and tenant-farmer holdings. A breakdown of shrimp farms according to land ownership status highlights the very small number of untitled or tenant farmers in extensive or semi-intensive farming, whereas the three forms are equally represented in intensive farming.

Table 1 : Distribution of Shrimp Farms by Land Tenure and Production System (1991).

	Titled	Tenant	Untitled
Intensive	36%	33%	31%
Semi-intensive	80%	7%	13%
Extensive	85%	7%	8%

Source : field survey 1991.

Table 2 : Shrimp Farms Area by Land Tenure and by Production System (1991; in hectare).

	Titled	Tenant	Untitled	Average
Intensive	3,17	2,00	2,33	2,50
Semi-intensive	6,33	4,83	5,17	6,17
Extensive	7,67	7,50	6,50	7,67

Source : field survey 1991.

Tenant and untitled farmers develop a much smaller surface area than titled farmers. The most significant difference between them is to be found in intensive farming and may be explained by the very great pressure exerted on shrimp farming land, which, in turn, has repercussions on the lease or cost of using untitled land. Firstly, the tenant or untitled intensive farmer has to pay a very high rent per hectare. Secondly, there is a considerable price to pay for access to the land, which is presented as the price of servicing the plot, but which, in fact, is far higher than the true value, since it includes all the profits and informal costs related to illegal servicing (for instance when the land is mangrove forest). We shall see that these extra costs in using untitled land induce greater intensification and lead to a higher loan being contracted than for other forms of intensive farming, where the costs appear in the holding's fixed operating costs.

Generally speaking, shrimp farmers' strategies seem to be aimed at maintaining or improving their economic gains while reducing the risks. To this end, they seek to counteract the constraints of the production system they have adopted and to capitalise on production factors : this behaviour is described by many authors and is not just true of aquaculture. But shrimp farmers divide the overall production risk into partial risks to cover each separate factor of production and test their control over each individual factor, for example to see how far the new technologies are more risky than existing technology.

1- Conducted with the help of Abha Siriwongs (CUSRI).

2- Where the owner can mortgage his land.

3- i.e. those encroaching illegally (for example on mangrove forests, without being legalized), or temporarily enjoying the right of usufruct. The distinction made between titled and untitled farmers in agriculture is used here. Cf G. Feder and alii (1988).

An analysis of land assets and other fixed assets shows that intensification is related to land-ownership status : the weaker the ownership link, the greater the intensification to compensate for the cost of access to the land. Thus, within the intensive system, the value of each hectare of fixed assets, other than land for shrimp tenant or untitled farmers, was an average of almost Baht 300,000, or more than twice that of "intensive", titled shrimp farmers and more than ten times that of "semi-intensive" or "extensive" farmers.

Table 3 : Land and Others Fixed Assets by Production System (1991; in Baht; by hectare⁴)

	Extensive (titled)	Semi-intensive (titled)	Intensive (titled)	Intensive (tenant)	Intensive (untitled)
Land assets					
Owned land	510000	600000	840000	-	-
Tenancy title or use	-	-	-	54000	38000
Total	510000	600000	840000	54000	38000
Others fixed assets					
Serviced plot, pond construction and water circulation system	1900	9700	57000	131000	151000
Building	2600	6500	22000	50000	51000
Equipment	3900	6400	25000	55000	60000
Transportation	6500	3200	16000	35000	34000
Total	14900	25800	120000	271000	296000
Total	524900	625800	960000	325000	334000

Source : field survey 1991.

The value of land assets owned by titled farmers could explain an apparent under-investment attitude in relation to the optimum bio-economic potential. The owner of these assets, benefitting from land speculation, makes a hefty profit of the value added in any case, without having to run the risk of intensifying the shrimp farming process. Nonetheless, the value of land assets per hectare is greater in the intensive system than in the semi-intensive or extensive systems, and is Baht 840,000, 600,000, 510,000 respectively, the difference being due to land development (servicing and landscaping for aquaculture). Measured, not in terms of the value of land assets, but in terms of the cost of leasing the land, the difference between the systems adopted is even greater : on average and by hectare, Baht 38,000 for the intensive system, 8,000 for the semi-intensive system and 6,000 for the extensive system.

According to our surveys, the development over two years of land assets and other fixed assets by shrimp farmer category highlights the value added earned in property by titled farmers. Similarly, a comparison, two years later, of the purchase price and rent of land, regardless of their very high amounts, which generally affects all regions, albeit unequally, confirms the gains made by titled farmers from land speculation.

4- During the survey : 1 bath = 0,04 US\$

Table 4 : Change in Inventory of Assets by Shrimp Farm and Production System
(1988-1991; in constant Baht, based 1991)

	1988	1991
<u>Extensive</u>		
Land assets	1700000	4830000
Others fixed assets	66000	70000
<u>Semi-intensive</u>		
Land assets	1500000	4560000
Others fixed assets	151000	160000
<u>Intensive (titled)</u>		
Land assets	1600000	3420000
Others fixed assets	365000	390000
<u>Intensive (tenant)</u>		
Land assets (tenancy title)	42000	75000
Others fixed assets	493000	540000
<u>Intensive (untitled)</u>		
Land assets (land use)	34000	69000
Others fixed assets	607000	682000

Source : field survey 1991.

Table 5 : Change in Land Price and Rent by Region (1988-1991;
by hectare; in constant Baht, base 1991)

	Purchasing price		Rent(intensive system)	
	1991	1988	1991	1988
Eastern part	610000	346000	40000	28000
Inner part	1960000	1680000	53000	43000
Central part	9820000	780000	43000	33000
Southern part	580000	340000	30000	18000
Andaman sea	410000	280000	21000	12000

Source : field survey 1991 (32 missing values).

On the other hand, untitled farmers have to pay a large access fee, which encourages them to intensify by taking out loans (the possession of a title deed is not a prerequisite for obtaining a loan). But in such cases, the shrimp farmer will go deep into debt to develop his activity, and thus runs a higher risk, given the numerous hazards of shrimp farming (epizootics, pollution, etc.), than the farmer who is not obliged to intensify. On average, untitled and tenant "intensive" farmers have similar debts of around Baht 270,000 per hectare, 65 % of which is tied to institutional credit, which is more than twice that of titled "intensive" shrimp farmers. At the other end of the scale are those who practice the extensive system, characterised by much lower debts, of less than Baht 10,000 per hectare, 26 % of which is tied to informal loans.

Table 6 : Debt Outstandings by Type of Loan and Production System
(1991; by hectare; in Baht)

	Institutional loans	Informal loans	Total
Extensive	2000	5700	7700
Semi-intensive	14500	12000	26500
Intensive (titled)	83400	37900	121300
Intensive (tenant)	182000	80000	262000
Intensive (untitled)	176500	94000	270500

Source : field survey 1991 (25 missing values).

2. Extensive Production System Holding and Intensification.

Ideally, to understand the reasoning behind the selection of a new system of aquaculture, the choice must be related to the constraints affecting all the economic activities of the entrepreneur in question. While not adopting such an approach, which would require too cumbersome an investigation, mention should be made of some indicators, such as the 'rate of pluri-activity' or the annual income drawn from other activities, which may explain the rationale, which must often be sought outside the strict framework of the activity under consideration. Our surveys indicate that the number of other activities decreases with intensification since, while 81% of extensive farmers have one or two additional activities besides aquaculture, the percentage drops to 23% for the farmers practicing the more intensive system.

Table 7 : Distribution of Shrimp Farmers by Number of Complementary Jobs
(1991; by production system).

	None	One	More than 1	Total
Extensive	19	68	13	100
Semi-intensive	29	59	12	100
Intensive (titled)	58	32	10	100
Intensive (tenant)	69	23	8	100
Intensive (untitled)	77	20	3	100

Source : field survey 1991 (21 missing values).

Thus, on average, an extensive farmer declares an annual income of Baht 31,000 from other activities besides aquaculture, as opposed to Baht 12,000 for an intensive farmer and Baht 25,000 for a semi-intensive farmer. The 'pluri-activity' of extensive farmers reveals their refusal to take the risks related to intensification (debts, risks of production, possibly having to mortgage their land), while seeking to better distribute the risks involved by engaging in several activities such as aquaculture and rice cultivation or aquaculture and fisheries; our surveys show that in the extensive system, the income from aquaculture is lower than from other activities. However, in the few cases where another activity is practised by "intensive" farmers, they generally earn more from it than extensive farmers, probably because their activities are more specialised, and correspond to a higher level of education. Thus, they are usually less involved in primary sector activities, such as rice cultivation or fisheries than extensive or semi-intensive farmers.

Table 8 : Distribution of Shrimp Farmers by Main Complementary Job
(by production system)

	Extensive	Semi-intensive	Intensive
Agricultural activities (rice, orchard, plantation)	47	39	18
Fishery	29	24	8
Mechanic, craftsman, food processing	9	14	32
Wholesaler, retailer	7	11	26
Government employee	-	2	5
Private sector employee	3	3	8
Others	5	7	3
Total	100	100	100

Source : field survey 1991.

Over the past five years, the extensive system has not undergone any major changes, as can be seen from the figures for the number of holdings, their average surface area, their yield per hectare and the development of their fixed assets. From 1988 to 1991, the number of extensive shrimp farms remained stable (2,900 to 2,800), their average surface area increased by only 4% (from 7 to 8 hectares), their yield dropped by only 14 % and their fixed assets (other than land or financial) increased by only 6%. This stability in the number of "extensive" holdings and their overall configuration points to their viability and the fact that they remain outside the process of intensification.

Table 9 : Change in Number of Farms, Area, Yield per Hectare and Fixed Assets
(extensive production system)

	1988	1991
Number of farms	2910	2819
Area (hectare)	20113	22343
Yield/hectare	349	316
Fixed assets/farm (Baht)	66000	70000

Source : field survey 1991.

The extensive farmers' refusal to intensify is confirmed by the small number of extensive holdings which moved towards the semi-intensive or intensive production systems. In fact, there is very little shifting between production systems, even if the number of semi-intensive holdings that opted for the intensive system is slightly higher.

Thus, there was practically no moving from one production system to another : the original choice was maintained. It follows that the current intensive boom, therefore, does not stem from the conversion of holdings practicing another system of production, the crucial year of the boom being 1987, when the number of "intensive" holdings was multiplied by five and total output by intensive farmers increased six-fold. The driving force of this development was the setting up, by the government, of a sectoral credit policy through the main institutional credit supplier, the Bank of Agriculture and Cooperatives (BAAC); the amount earmarked by the BAAC for the development of shrimp farming increased from Baht 246 million in 1986 to Baht 1,911 million in 1991.

Table 10 : Change in Production System.

	% of present farms
Extensive shrimp farming system	
From extensive to extensive (area extending)	10
From extensive to semi-intensive	5
From extensive to intensive	3
No change	82
Semi-intensive shrimp farming system	
From semi-intensive to semi-intensive (area extending)	8
From semi-intensive to extensive	1
From semi-intensive to intensive	11
No change	80
Intensive shrimp farming system	
From intensive to extensive (area extending)	-
From intensive to semi-intensive	4
From intensive to intensive	9
No change	87

Source : field survey 1991.

A breakdown of holdings, according to the date of their establishment, confirms that "intensive" farms came about recently, since 70% of them were created after 1986. But the details of their establishment also indicate that it was the tenant and untitled farmers who were established the most recently. The shortage of land for aquaculture, strong demand and the refusal of the extensive or semi-intensive farmers to give up their activity, led the newcomers to encroach on mangrove forests - without obtaining any proper title to the land.

Table 11 : Distribution of Shrimp Farms by Date of Creation (by production system; %)

	Before 1980	From 1980 to 1986	From 1987 to 1989	From 1989 to 1991
Extensive production system	44	43	8	5
Semi-intensive production system	15	68	12	5
Intensive production system (titled)	5	33	48	24
Intensive production system (tenant)	5	15	23	57
Intensive production system (untitled)	2	19	26	53

Source : field survey 1991 (28 missing values).

An analysis of operating costs and average incomes according to the production system adopted indicates the heavy land development burden borne by the newcomers, which took the form of a rent (in the case of tenant farmers), or interest rates⁵ (for the untitled farmers) : this additional land cost

5- Our surveys show that the latter were obliged to incur much higher debts to pay for access to the land, which was labelled serviced land, but which in fact, was overpriced since it included all the profits and informal costs related to illegal encroachment (for example when the land was mangrove forest).

may be estimated at Baht 130,000 per hectare per year, an extra cost which gave the intensive titled farmers a comparative advantage. This initial handicap obliged the newcomers to intensify to earn the same profits as titled intensive farmers, while running a greater risk, and with very little added value for the land.

Table 12 : Annual Production and Revenue per Hectare (by production system;1991; in Baht)

Revenue	Intensive (titled)	Intensive (tenant)	Intensive (untitled)	Semi-intensive	Extensive
Production sold	394800	489000	576000	86000	21000
Consumed on farm	20400	17400	19200	15000	10000
Gift	25800	23400	21600	18000	6000
Change in inventory	4200	6000	9000	1000	
Total	445200	535800	625800	120000	37000

Source : field survey 1991.

Table 13 : Annual Operating Costs per Hectare (by production system;1991; in Baht)

	Intensive (titled)	Intensive (tenant)	Intensive (untitled)	Semi-intensive	Extensive
<u>Variable costs</u>					
Labor	48000	50000	60000	8000	4000
Feed	120000	126000	132000	22000	2000
Fuel and electricity	66000	60000	58000	8000	4000
Post-larvae	42000	48000	54000	11000	1000
Maintenance	6000	5500	6000	4000	2000
Medicine, fertilizers, pesticides	12000	14000	14000	8000	3000
Miscellaneous	6000	10000	12000	4000	2000
Total	300000	313500	336000	65000	18000
<u>Fixed costs</u>					
Lease (land and equipment)	12000	50000	6000	9000	1000
Interest	30000	48000	158000	12000	3000
Repairs	12000	18000	12000	4000	1000
Depreciation	36000	52000	58000	16000	5000
Miscellaneous	6000	7000	6000	4000	2000
Total	96000	175000	240000	45000	12000
Total	396000	488500	576000	110000	30000
Profit/hectare	49200	47300	49800	10000	7000

Source : field survey 1991.

Naturally, the annual profit of shrimp farms varies, depending on the production system and the farmer's land-owning status : we estimated it at an average of Baht 120,000 for the intensive system, and Baht 60,000 and 50,000 for the semi-intensive and extensive systems respectively.

Within the intensive system, the best results were obtained by titled farmers, who, on average, obtained a profit which was 1.5 times higher. Nevertheless, the sample of "intensive" holdings is characterised by a greater variation in the return on investment, which is not always higher in capital-intensive holdings, and shows up the difficulties that they have to overcome with regard to their accumulation capacity. In these cases, labour productivity does not grow in equal measure to compensate for the drop in capital productivity : this may be explained by diminishing returns of scale, and the lack of skilled manpower to adapt to new technology.

The gains obtained from the extensive system, especially when income from other activities and land value added are included, show the current viability of this system, which explains its resilience.

Conclusion

The analysis of shrimp farming brings out the viability and the coexistence of several production systems. This coexistence is explained by the various alternatives which entrepreneurs are faced with when making their choices, in light of the possibilities of mobilising the different factors of production as well as in view of factors outside the holding, which, as it has turned out, have been favourable over the last five years of the shrimp boom in Thailand, but which might be less so in the near future. However, the possibilities of mobilising the factors of production are changing, depending, for example, on the availability of certain factors, such as land for aquaculture : this is illustrated in the tremendous difference in the position of a land owning rice farmer who converted to shrimp farming five years ago, and the untitled newcomer, who has to pay a substantial amount to even gain access to land.

The inequality of the situation highlights both the maintenance of the extensive system and the process of intensification. The degree of intensification is dictated by the necessities which different categories of entrepreneurs are obliged to bow to : according to our surveys, when it is possible to establish a viable holding with a low or medium level of intensification, this solution is generally adopted. More particularly, the possibility of passive accumulation stimulated by land speculation, which the titled farmer can benefit from, slows down the degree of intensification. Again, the possibility of exercising several lucrative activities helps to maintain the extensive system.

These entrepreneurial strategies take account of the risks of intensifying, particularly the cost of mobilising the necessary factors of production and thus, the debts that must be incurred to do so. But while Asian and world demand for shrimps has kept Thai aquaculture buoyant over the past five years, the emergence of very competitive big producers (like China, Indonesia, Vietnam and Central America) may change the basics of the problem. It is the intensive farmers, who are in the front line, because they are most vulnerable to changes affecting the entire chain of production : they will thus have to reduce their costs and obtain better yields. To do this, they will have to improve their control over technological constraints to ensure an adequate return on investment and to limit the effects of pollution. They may be assisted in this approach by directive government action.

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Small-Scale Aquaculture Entrepreneurship with Particular Reference to Shrimp Farming in the Philippines

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Introduction

Aquaculture in the Philippines had been in practice as early as five centuries ago. The farming system used started with trapping and holding of milkfish and shrimp seeds brought in by tidal water inside the ponds which were allowed to grow on natural food.

The development and expansion of brackishwater fishponds was quite rapid although the levels of production per unit area was considered low. These were influenced by the declining output from the capture fisheries; government support accorded to the industry through liberal credit terms and the improvement in aquaculture techniques. In a span of 50 years, from 1940 to 1990, the area of developed brackishwater ponds increased by about 300 percent, from 60,000 ha to 222,000 ha and production by about 1,000 percent, from 21,000 mt to 268,000 mt (metric tons).

The development of shrimp farming that started sometime in 1970 was relatively fast. This was stimulated by the increase in world demand for shrimp; development of improved shrimp hatchery and growout technologies and by the availability of formulated feeds for commercial growing of shrimp in ponds. Between the period 1984 and 1987 saw the most rapid expansion of shrimp farming due to lucrative prices and high international market demand. As of 1989 some 23,446 ha of brackishwater ponds have been devoted to shrimp farming (Table 1).

The production of shrimps from aquaculture was about 45,740 metric tons in 1991. This is equivalent to 15.7% of the total aquaculture production. Shrimps constitute the top foreign exchange earner for fishery exports of the Philippines over the last five years (Table 2).

There are three distinct practices in shrimp farming in the Philippines. These are the extensive, semi-intensive and intensive operations. The major technical differences in these farming methods are shown in Table 3.

Extensive method of shrimp culture predominate and represents 70% of the 23,446 ha. Semi-intensive and intensive methods of farming account for only 25% and 5%.

The contribution of semi-intensive and intensive farms to the total shrimp production from ponds was very significant. In 1989 an estimated volume of 36,656 metric tons of shrimp were produced from ponds.

Posadas (1988) reported that without considering the time value of money all shrimp farming systems, the extensive, semi-intensive and intensive operations are profitable. Otherwise, the extensive system is not economically profitable. Under static market conditions after discounting net present value; the extensive semi-intensive and intensive operations are economically profitable. The semi-intensive shrimp farming system is the most stable as it can be profitable even if the market price of shrimp drops or the costs of production increases by as much as 20%. A comparative analysis of the economic returns of different shrimp farming operations is shown in Table 1.

Intensive shrimp farming is a capital-intensive and high risk venture. A case study of intensive farms in the island of Negros, Philippines, where most of the intensive ponds are located (Stockwell and Williams, 1988), showed that the average capital cost of development per hectare of intensive shrimp farming was US \$ 25,000; of this amount, 34% accounted for the purchase of equipment. Production costs averaged about US \$ 14,000 per hectare per crop. Feeds accounted for about 60% of the cost; postlarvae, 17%; and labor and administration, 4%. The average return was 47%.

1. Socio-Economic Aspects of Brackishwater Aquaculture

Very little information is available on the socio-economic aspects of aquaculture in spite of its centuries of practice. This may be because of its lesser contribution to the national economy compared to agriculture. Brackishwater aquaculture has a different type of tenural structure compared to agriculture since most of the land areas used are public mangrove areas which are leased for a period of 25 years. However, the leaseholder has an option to own the land if the investments made to develop the leased area had been substantial. Majority of the area that have been developed into brackishwater fishponds are leased from the government. There are also privately owned lands which were developed into fishponds by landowners.

1.1 Structure in Brackishwater Aquaculture

There are three distinct functions recognized in brackishwater aquaculture operations. These are ownership, capitalization and overall management, and daily caretaking. Individuals who perform these functions are identified as owner, capitalist and caretaker (Danhaeuser, 1986). An owner is one who owns the fishpond and leases it for a fixed rate to others for a certain period of time. The capitalist is one who leases the pond from the owner; he finances the operation of the fishpond, manages it and employs a caretaker of his choice. A caretaker undertakes the daily maintenance and shares the net income with the capitalist. There is also the owner/capitalist who finances and manages the operation of his own fishponds and shares the profit with the caretaker. A capitalist/caretaker is a capitalist who undertakes his own daily caretaking of the farm and pays lease to the owner and keeps the net income. The owner/capitalist or the capitalist may hire a manager who will be responsible for operating the farm with the caretaker. Both the manager and the caretaker will share in the net income.

1.2 Share-Cropping in Small-Scale Aquaculture

Small fishponds in the eastern and central portion of Lingayen Gulf in Pangasinan Province average 1.9 ha. In some fishponds, the owner operates the pond himself and employs occasional labor only for harvesting and major dike repairs. In others, the owner employs a caretaker to carry out the day to day operation of the fishpond. The share of the caretaker is usually one-third of the net income while the owner who provides the land and capital keeps two-thirds (Danhaueser, 1983).

Aquaculture leases in small-scale farming operations also exist. Lease contracts up to 20 years are practiced by some landowners who do not want to invest any more capital. Under this situation the leaseholder puts up the capital and appoints his own caretaker or he operates the facility himself to retain the net income. If the leaseholder employs a caretaker, the net income is usually shared 50:50 where 50% goes to the leaseholder and the other 50% to the caretaker.

1.3 Labor-Capital Relations in Large Scale Aquaculture

Large aqua-farms of 300 to 400 ha may be sub-divided into production units or blocks of 15, 20 or 25 ha units, complete with nursery ponds, transition and grow-out ponds per unit. The size of pond compartments varies depending on the production system employed by the owner. Caretakers are employed for each production unit and are supervised by the owner. The owner finances the operation and takes care of procurement of inputs and marketing of produce. Under this production arrangement a two-tiered labor relationship exist: owner/capitalist-caretaker.

The owner may hire a manager and delegate the full responsibility of supervising and coordinating the production activities in the entire farm. The owner is mainly responsible for financing the operation of the farm. The manager is the representative of the owner to the caretakers and vice-versa. He is in charge of procurement of production inputs, marketing of produce and paying the caretakers. Trustworthiness of the manager is therefore very essential. Under this aqua-farm production arrangement, there is a three-tiered labor relationship: owner / capitalist-manager-caretaker.

Large scale aqua-farms are also leased as a whole or in units or blocks of at least 20 hectares under the same arrangements as the small scale fish farms. The owner ceases to have anything to do with the production activities. The leaseholder will assume the full responsibility and risk of operating the farm. He provides the financial requirement of the farm, hires his own caretakers and manages the farm himself or hires a manager. If the leaseholder manages the farm a three-tiered relationship exist: owner-leaseholder/ capitalist / manager- caretaker. If the leaseholder hires a manager a four-tiered relationship exist: owner-leaseholder/capitalist-manager caretaker.

The rate of share-cropping in small scale farms do not apply to large scale aqua-farms. As commonly practiced in the provinces of Bulacan and Pampanga in Region 3, the manager is usually paid a monthly salary/allowance of Philippine Pesos (P) 1,000-1,500 and the caretaker P 500-800 with a pre-agreed profit-sharing scheme. In computing for the profit the lease of the land is usually valued and included in production cost whether the capitalist is the owner or the leaseholder. All expenses towards production including lease per year and the salaries/allowances given to the manager and caretakers are summed at the end of each year and deducted from the total sales of produce for that year. The balance or profit is shared 50:50, where 50% goes to the capitalist who could be the owner or the

leaseholder and the other 50% the production crew. The profit sharing among production crew are as follows: the manager usually gets two shares and each caretaker, one share. Assuming that there are four caretakers then there will be a total of six shares, two shares for the manager and four shares for the caretakers. The manager gets 2/6 of 50% and each of the caretakers will get 1/6 of 50% profit share. If the owner or the leaseholder is also the manager, he will get 2/6 of 50% share in addition to the full 50% of profit he gets as the capitalist. There could be other profitsharing schemes practiced but each formula must be pre-agreed by all parties at the start of the venture.

There are instances where instead of a profit-sharing reward system, fixed wages are paid to the manager and caretakers as one would in corporate farms. This type of administration in large fishponds do away with tenancy. Usually, the manager and the caretakers are from another place or region. However, such labor arrangement could become a sore spot among the local residents.

Where fixed wages are paid, very often pond production suffers because the salaries are not high enough to give incentive for the manager and caretakers to work hard and ensure good harvest. On the other hand, if salaries are very high, the manager and caretakers would not feel motivated to work hard because with or without production they would still receive the same salary. From experience, a reward system based on production in addition to fixed wages is most effective in motivating production crew to work hard and ensure good production.

1.4 Productivity versus Aqua-Farm Labor Management

Studies on whether productivity of brackishwater fish farms are influenced by tenancy is rare. However, an author (Librero et al , 1977) reported that highest yields are found in privately owned fishponds; leased production units are second and the last are those that are leased by the government. Their study also reported that as farm size increases (above 5.0 to 10.0 ha) the productivity decreases.

Trust and confidence between the caretakers and pond owner or leaseholder are crucial to the success of production. Owners or leaseholders depend so much on the caretaker to come up with good harvest at the end of each production cycle after giving the necessary production inputs. In most cases, the caretakers are relatives of the owner or leaseholder. A close social bond pre-exist between them and usually, this relation extends over generations.

1.5 Changes Brought about by Shrimp Farming in Labor Structure

Shrimps used to be a secondary crop of brackishwater fish farms wherein natural stocks of shrimp seeds enter the ponds through tidal inflow. This condition has changed drastically over the last 20 years as shrimp became a primary cash crop.

With the tremendous amount of investment required to develop fishponds for semi-intensive and intensive culture of shrimps, fishponds have to be owned or leased for a period long enough to recover investments and make a profit. The first brackishwater ponds to be converted and developed for semi-intensive and intensive shrimp farming are in areas where ownership and tenure can be assured. Many privately owned ricelands and sugarlands along the coast were also converted to fishponds. In Negros Island where sugar is the main crop, many landowners converted part of their plantations along the coast into semi-intensive and intensive shrimp ponds at the height of shrimp industry expansion that

coincided with the decline of world market price of sugar. Shrimp farming was looked at by sugar planters as a very profitable diversification of business. By the end of 1987 more than 1,000 ha of semi-intensive and intensive ponds were developed in Negros Island alone.

In the process of this development, dislocation of farm labor in sugar plantations took place. It was reported that 7-8 laborers work a 5 ha sugarland for the caring and maintenance of the crop while it took only 3 laborers to work an equal size of shrimp farm (Primavera, 1989). Aquaculture farm caretaking needs a special skill and experience which the sugarland workers do not have unless they are given some form of training or given the practical exposure to shrimp farming operations.

In most semi-intensive and intensive shrimp farms, the traditional labor-management/capital relationships were replaced by a corporate farm structure. Managers, technicians and laborers were hired as regular employees on fixed salaries. An incentive scheme based on production performance were adopted, either as a fixed percentage of profit or based on salary.

In areas where ownership and tenure cannot be ensured because ponds are just leased from private owners and the government, the extensive method of shrimp culture predominate. In the provinces of Bulacan and Pampanga, where most of the shrimp ponds are leased and consequently employ the extensive method of farming, the traditional labor-management/capital relationships were preserved. The same ponds that were used for milkfish have been shifted to shrimp with very little modification. Many farms that adopted a corporate structure failed to sustain production and reverted back to the traditional structure.

2. Small Scale Entrepreneurship, Role of the State and Prospects of Shrimp Farming

As shown in Table 1, shrimp farming requires substantial capital investment for development and operation. For example, a 5-ha fishpond could be considered small scale in terms of area. However, if this area were developed into an extensive or semi-intensive shrimp farm, the cost of development could cost at least P 750,000 and a working capital of at least P 80,000/ton of shrimp produced. These costs are not small to a typical Filipino household and has to borrow capital if it were to engage in shrimp farming. Private owners fishpond could mortgage the property to the bank. However, fishpond operators who lease their ponds from private owners or from the government could not mortgage the property. This is one reason why most of the fishponds leased from government are usually underdeveloped and remain to be operated on extensive method of culture.

Thus, shrimp farming in the Philippines has been dominated mainly by entrepreneurs with assets, access to capital and technology or have prior experience in business. Individuals who own the farm or other real estate assets could either mortgage the property and avail of loans for development and working capital. Individuals who have the money but do not have the land could go into a joint venture with someone who has an existing fishpond or land that is suitable for a shrimp farm. In some cases a technical person who has the know-how could participate in a shrimp farm venture using his expertise as equity to the project.

Up until 1989, the Philippine Government has given liberal incentives to shrimp culture projects and other related activities through credit and tax exemptions. This resulted in the formation of many business partnerships and corporations for the purpose of engaging in shrimp growout and hatchery, feed mill and processing plants. Several large corporations fully or partially integrated their operations and dominated the shrimp farming and exporting industry. Owners of small farming operations organized themselves into cooperatives in order to vertically and horizontally integrate their operations.

The rapid expansion of shrimp farming in the Philippines catalyzed the emergence of small-scale entrepreneurship in shrimp hatcheries and allied businesses and service sectors like equipment supplies, shrimp fry dealerships, spawner collection and technical consultant services. Many small-scale hatcheries were established by individuals with training and experience in shrimp fry production and had access to capital. Skilled technicians without the capital, tied-up with capitalists and established small-scale hatcheries. This is the main reason why so many small hatcheries are located in Panay Island, where a major shrimp research laboratory and a fisheries college is located.

In the regions of Bulacan and Pampanga, where extensive shrimp farms predominate, entrepreneurship emerged in support services and allied businesses. In these part of the country, boats are the main mode of transporting supplies and products to the ponds and market. The produce are sold at auction halls. Individuals including managers of fishponds invested in boats which are rented out for P 500-1,000 per trip to haul harvest from the ponds to the auction halls. Likewise, many invested in specially designed boats rigged as pumps and rented out for P 500-1000 per 8-hour operation to pump water out of the ponds during harvest and pond preparation when tidal flushing is not possible. Collectors of natural feeds, shrimp fry brokers and operators of auction halls operators also proliferated in response to the expansion of shrimp culture. Auction hall operators even extended credit for working capital just to ensure that the producer will use that auction hall during the next harvest.

The drastic decline in prices of shrimps in the world market that was experienced in 1988-1989 made heavily capitalized intensive shrimp farming operations unprofitable. The extensive and semi-intensive shrimp farming operations were not so badly hurt by the crash in world price of shrimp and today are still operating profitably. Many shrimp hatcheries closed due to low demand for shrimp fry coupled with problems with diseases during production of post-larvae. Several processing plants and dealerships of pond equipment and supplies were also affected and were forced to close due to poor business.

The price of shrimp has improved and supply does not seem to be a problem at the moment. Farms which can produce at a lower cost are still competitive. It is expected that companies engaged in integrated operations would be able to retain the major share of the international market and the smaller, extensive and semi-intensive operations would be able to tap the domestic market. Already, more farmed shrimps are becoming available in the local market at prices that are within the reach of the consuming public. As the domestic economy improves, domestic consumption of farmed shrimp is expected to increase thereby allowing the profitable operation of extensive and semi-intensive shrimp farms.

Table 1 : Comparative Features of Extensive, Semi-Intensive and Intensive Systems of Shrimp Culture. (Adapted from IAC, 1989).

	Extensive	Semi-Intensive	Intensive
<u>A. Assumptions</u>			
Farm size	7 ha	7 ha	7 ha
Stocking rate	2-5/m ²	5-15/m ²	15-30/m ²
Survival	70%	70%	70%
Average body weight	38 g	35 g	30 g
Crops/year	2	2.5	2.5
Production/crop/ha	798 kg	2.45 tons	6.3 tons
Materials/ha/crop			
Fertilizer, organic	1 ton	1 ton	1 ton
Inorganic	200 kg	-	-
Lime	1 ton	2 tons	4 tons
Teaseed cake	-	200 kg	400 kg
Power (kw/h)	-	1,000	3,000
Labor (man-days)	120	240	480
FCR	1.2	1.6	1.6
Development cost/ha	P 150,000	P 200,000	P 500,000
Initial investment/ha	P 200,000	P 428,000	P 1,145,000
<u>B. Economic Indicators*</u>			
Payback period (yr.)	2.7	1.7	1.95
Average rate of return (%)	30	56	47
Net present value			
P150/kg, static	264	2,340	4,281
P140/kg +/- 7%	181	1,681	2,585
P140/kg +/- 20%	272	292	(985)
Internal rate of return (%)			
P150/kg, static	30**	57**	46**
P140/kg +/- 7%	23**	47**	36**
P140/kg +/- 20%	9	25**	13

* Undiscounted :

Payback period - no. of years to recover initial investment plus interest from expected earnings.

Average rate of return - ratio between annual profits expected and value of project after depreciation of investment.

Discounted :

Net present value - difference between present value of project earnings and cost ; () is negative value

Internal rate of return - discounted rate which equates present value of project benefits and cost.

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**III. SELF-EMPLOYMENT
AND SMALL SCALE INDUSTRIES**

Presentation

Small-scale enterprises have retained much attention particularly in countries where the private or public modern sector was incapable of supplying employment for a fast growing labour force. Most studies on the informal sector were done with the objective of setting up alternative policies where the modern sector failed to lead the economic growth. The case of Thailand is then specific. The economic performances of Thailand, which are described elsewhere in this book, offer a context which is very different from the countries under adjustment policies. But despite their rapid development, manufacturing industry and services did not stream all the available labour force to the factories. On the contrary, employment in the manufacturing sector remains low, and even with the recent growth of services, a majority of people are still engaged in small scale activities, as self-employed or hired workers. In 1990, the manufacturing (modern) sector employed less than 10% of the total labour force. More than half of the urban labour force was engaged in "informal" activities.

So, despite the performances of the Thai economy, the main source of employment remains non modern activities, and mainly agriculture. In the period of 1978-1988, there were about 16 million new jobs on the labour market, that is an increase of 50% of the labour force. Agriculture supplied nearly half of these jobs, while the remaining was equally shared between the modern sector (including government's positions) and small scale activities. Thus, in a country where investment in the modern sector is the driving force of the economy, small scale industries and self-employment still have an important role in supplying employment and income to the population.

When one talks about self-employment and small scale entrepreneurs in the context of entrepreneurship and socio-economic transformation of Southeast Asia, one thinks of three major themes.

First is the entry point of entrepreneurs or the making of the entrepreneurs. Connected with this first topic are also issues like how can a small entrepreneur become big. Here of course, one deals with the attributes of the entrepreneurs, the education and training, the experiences, the marketing, the building of management skills and financing. This is the main topic discussed in Xavier Oudin's paper, who also shows that the average educational level of the small entrepreneurs is not below the one of the workers of modern factories. However, as nowadays modern factories at least require secondary education, the situation could be changed in the future, with many people rejected in informal activities as those engaged in "survival" occupations who are described by Barbara Igel.

Second, from the economic development perspective, the roles of self-employment and small scale entrepreneurship are sometimes discussed within the context of the role of the "informal

sector"¹. But in developing countries, the more important issue is that of the poor self-employed in this sector and that is where some papers of this section focus. Here, development economists are interested in how to deploy the informal sector as a means to solve or reduce the problem of unemployment, underemployment and poverty. How can the informal sector develop as the "backward", "low productivity", "low income" sector, or the ghetto where the "reserve army of the unemployed" is congregated.

The different papers highlight some various aspects of this question, and might sometimes seem conflicting. While Xavier Oudin insists on the success of small scale entrepreneurs who are better off than factory workers, Barbara Igel, looking at the slum economy, sees evidences of "survival" occupations of slum dwellers². Voravidth Charoenloet examines the situation of garment shophouse owners and workers, and gives a mixed description of their conditions, especially working conditions. The reason for this apparent conflict is that the authors examine different segments of the "informal sector", and it is not surprising that their findings on the income of people engaged in this kind of activities are not uniform. This raises the question of using the concept of "informal sector" to understand the social transformations in a fast developing economy.

The third theme is that of government intervention. What roles can the government play to make small entrepreneurs, and the self-employed in the informal sector grow and become a part of the dynamism. The government's intervention is necessary in many areas, and may not be desirable in others. One of the question is how to achieve a right balance and a right mix of government policy interventions. H.B. Solignac-Lecomte and Naruemol Bunjongjit, although they do not make any proposal for government intervention, give an account of how small scale enterprises behave in relation to the regulations. The study shows a good acceptance of regulations by small entrepreneurs in three countries, but not especially in Thailand. Here again, the concept of "informal sector" seems to be open to criticism. The definition on an institutional basis (the enterprises of the informal sector are defined as activities which do not follow the regulations or are not registered) once was part of the main trend of thought on the informal sector, and this inspired government action.

However, there is a need to improve labour conditions, as Voravidth Charoenloet mentions. It appears clearly from the findings of the different papers that there is an urgent need to upgrade social welfare in these segments of the Thai society.

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- 1- The self-employed may not necessarily be in the informal sector, such as the case of self-employment among highly professional occupations such as lawyers, architects, and so on.
 - 2- One of her main findings is that the slum economy is much linked with the urban economy (not with the rural areas), and is fairly integrated in the society. We are far from the "marginalized" people of the Latin American slums.

Education and Career Patterns among Small Scale Entrepreneurs in Thailand

Xavier Oudin

Introduction

Since the beginning of the 1970s, the growing urban labour force not employed in modern factories, services or the administration has become a major concern of the governments of developing countries. The so-called informal sector, once considered a social pariah, has been surveyed and analyzed, and is now seen as a socially useful "sponge" of unemployment. This shift is one of the benefits brought about by the greater emphasis international agencies have placed on the informal sector: the ordinary labour of million of people has been acknowledged by their governments as being socially useful.

Soon after the discovery of this social phenomenon, the need for government action was brought to the front stage. Beyond the ordinary social welfare policies, one of the major fields of intervention of governments in the informal sector is training and education. Under the auspices of the International Labour Organization (I.L.O), many projects of training or upgrading the skills of the self-employed, workers or small entrepreneurs in the informal sector have been established throughout the world.

Early research on this topic noted the low educational level of people engaged in the informal sector as well as their lack of skills, low productivity and low incomes. In comparison, the formal sector was supposed to attract well-educated and trained people with higher salaries. Hence the theoretical background of the dualistic economy, where the barrier of the technical level in the modern sector would reject the surplus of labour in an informal low income-generating sector.

Data has been found to support this theory, consisting generally of evidence gathered from a very specific segment of the informal sector, that is low-income areas. In Thailand especially, research on the informal sector has generally been conducted among selected low-income households, in order to gather data to be used for social welfare policy. Although the quality of these studies might be excellent and the objective of these policies be laudable, it cannot be used to prove anything about the characteristics of the informal sector, since the conclusions are already contained in the premises: it is obvious that the average income of a sample of households selected based on their low earnings will be low! And such a population is likely to be poorly educated, not well-prepared to meet the needs of a modern economy, etc.

The objective of this paper is to examine entrepreneurs in small-scale industries, who indeed are in the informal sector whatever definition is chosen, by looking closely at their educational and training backgrounds. After a discussion of the educational level in Thailand, focusing on the labour force (section 1), we shall see the characteristics of entrepreneurs in small-scale industries in this respect (section 2). Then, we shall try to analyze the impact of their educational and career characteristics on their success, through their income (section 3).

1. Education and Training Background of the Labour Force

Lagging behind many other Asian countries in education for many years, Thailand has made considerable efforts to upgrade the educational level of its population. This policy has been crowned with success: Thailand has now one of the highest levels of literacy in Asia. However, the legacy of the past is still be evident.

1.1 Education Level of Labour Force in Thailand

Since 1992 primary education has been compulsory in Thailand. Enforcement of education laws took decades, while full schooling of children was achieved only in the 1960s. In 1962, compulsory schooling was raised from four years of primary to complete primary (six years). However, the 4th year ("Prathom 4") continues to be the basic education level attained by the majority of the population.

Thailand now has one of the highest literacy rates of Asia. This is due to the stringent policy set up by the Government after the 1932 revolution. While these considerable improvements have favoured primary school enrollment, the rate of schooling in secondary schools remains low, as compared with neighbouring countries.

Table 1 : Enrollment Ratios in Selected Asian Countries, Mid 1980s

	Primary	Secondary	Higher	% adults literate
Thailand	97	30	20	91
Malaysia	99	53	6	74
Indonesia	118	42	6.5	74
Philippines	106	65	38	86
India	92	41	9	43
Viet Nam	102	42	na	88

Enrollment ratios are the ratio of pupils on the total population of an age group. In primary, it can be over 100, since children above the age limit are enrolled.

Source: Jee-Peng Tan, Alain Mingat (1989) except for Viet-Nam. Data based on UNESCO sources. For Viet Nam, World Bank, (1990) and General Statistical Office (1991).

The Thai school system is characterized by a very low enrollment ratio in secondary school. While enrollment in primary school is satisfactory, there is a drop at the start of secondary school with half the children leaving the system. On the other hand, the drop at the other end of the system (end of secondary) is low, as compared with other countries.

This unique situation holds heavy consequences for the educational level of the labour force. As Charles N. Myers and Chalongphob Sussangkarn (1991) point out, "The current secondary enrollment ratios are below the sixth Plan targets, the lowest in ASEAN, less than half of what they were in Korea when GNP per capita in Korea was at Thailand's current level, and less than half of what they are now in Sri Lanka which has about a third of Thailand's current per capita income. While increases in these ratios according to the Seventh Plan target will improve the situation considerably, there are long lags before the improvement will have significant impact on the average quality of the Thai labor force. This is because improvement in the education system only affects the new entrants into the labor force, and there are still a very high proportion of those with low education in the current Thai labor force." (p. 31)

The structure of average education levels of the labour force reflects the general situation with a lag of one generation, therefore at a lower average level. In urban areas where the educational level is much higher, less than half of the entire labour force has an education level beyond primary. Among production workers, the education level is especially low: less than 30% have studied beyond primary. We shall later compare this group (urban production workers) with our sample of entrepreneurs.

Table 2 : Percentage of Labour Force Having Completed Primary School, by Gender, in the Whole Urban Labour Force and Selected Categories, 1988

	Under prathom 4	Lower primary	Upper primary	Lower secondary	Upper secondary	Tertiary
Whole labour force, males	5.3	33.3	13.4	16.8	14.9	16.3
Whole labour force, females	7.3	37.2	14.2	9.1	13.9	18.3
Production workers	6.1	46.2	19.2	13.5	10.3	4.7
Sales workers	12.4	42.9	14.8	9.1	14.2	6.7

Source: Labour Force Survey, 1988, 3rd round, National Statistical Office.

Improving general education remains a major concern of governments, but since full schooling of children has been almost achieved, emphasis is now being given to the secondary school as well as to matching of education to the needs of the economy.

Besides general education, Thailand has had to face dramatic challenges in training its labour force. In the last twenty years, the economy grew at one of the highest rates in the world. Over the same time period, the total labour force has doubled, from 16.7 million in 1970 to 32 million in 1990. Vocational training, which is fairly developed in Thailand, has to adapt very quickly to the needs of economy.

2. Education and Training among Small Entrepreneurs

We shall now examine the situation of education and training of entrepreneurs of small enterprises. The data are drawn from a random survey made by the ORSTOM and CUSRI project on some 735 entrepreneurs of individual enterprises in five selected activities in urban areas of Thailand. The five activities are: garment making, metal production including aluminium, restaurants- either

inside buildings or the street, wooden furniture production, and electrical appliance repairs. Further in the text, these five activities are merely referred to as garment, metal, restaurants, wood and electric. Some results for the first three activities, focusing on the behaviour of entrepreneurs vis-à-vis the institutional background, have already been published (Naruemol Bunjongjit and Xavier Oudin (1992)). The referred publication contains information on the methodology and scope of the survey, as well as detailed information on the characteristics of the entrepreneurs.

Small entrepreneurs of these five activities do not represent the "informal" sector of Thailand. Beyond the limitation of activities and the exclusion of rural areas, the sample is representative of all kind of entrepreneurs, provided their enterprise is not registered as a company. No assumption has been made prior to the survey, such as the size of the enterprise, the level of income, technological characteristics, etc., to draw the sample. Thus, the sample consists of self-employed or home workers with no employee at all or only family helpers (55% of the sample have no employee or only family labour), as well as small enterprises with employees. But the sample is not weighted by activities. No correction has been introduced in order to give a weight to each activity proportionally to their importance at the national scale (which could be estimated from various sources). For this reason, most results are presented here by activity. Finally, the sample is representative of urban areas at the national scale (the sample was weighted by main region, proportionally to the estimated whole population of individual enterprises in each activity).

2.1 Results for Thailand

As in other countries, available data show low average levels of education among people involved in informal activities. Data differ according to the unit surveyed. When the unit consists of members of households, the average level of education is lower. When the unit is defined as the entrepreneur alone (i.e., the head of enterprise, including one-person enterprises), the levels of education are higher. This is the case in the CUSRI-ORSTOM survey. In table 4 where we consider average duration of schooling, the Department of Labour and ILO survey gives quite high figures: more than 9 years on average for entrepreneurs (end of lower secondary level). This is due to the fact that a two-step sampling gave more weight to entrepreneurs in units with at least 5 employees (see tables 3 and 4).

Though difficult to compare because of the various methods used to draw the samples and differences of definition of the informal sector, these data are to an extent consistent. They show that the average level of education of people involved in informal activities is not much below that of the labour force. If we consider the whole labour force, including rural areas, 6% of the labour force never attended school, and 37% have attained upper primary or over. When considering entrepreneurs, including self-employed and home-workers, it cannot be assessed that these people fall into the informal sector because they are blocked from entering the modern sector due to their insufficient levels of education. Further evidences on incomes will later support this idea. But first, a closer look at the educational level of entrepreneurs in small-scale activities is needed.

Table 3 : Education Level of Different Categories of Entrepreneurs and Workers, from Several Surveys in Thailand

Survey	Date of survey	Place	Pop surveyed	No. cases	% min. educated*	% not educated	
NIDA	1981	Bangkok	Households in slums	1851	20.3%	8.6%	a
NESDB, ILO-Artep	1986	Bangkok	Self-employed in 2 sub districts	235	37.0%	13.2%	
TDRI	1990	Bangkok + 4 towns	Heads of households e: in small activities w:	e: 373 w: 153	36.5% 38.5%	10.7% 6.9%	b
CUSRI-ORSTOM	1991	Urban	Head of individual enterpr.	735	53.6%	4.6%	
Urban Labour Force	1988				58.7%	3.9%	
Production workers	-				47.7%	3.4%	

Notes: * Above 4th year of primary; e: employers; w: workers.

a: The sample is made up of households in selected slum areas. The households must have at least one person working in the informal sector (self-employed, casual workers, workers in units with less than 10 persons or earning less than minimum legal wage).

b: From a sample of households, heads of households engaged in activities either as self-employed or as a worker, provided that the activity does not employ more than 10 people. Bangkok's weight is 70% of the starting sample. 80% of households were drawn in slum areas.

Sources: NIDA, see Suwatee (1982); NESDB, see: ILO-ARTEP (1988); TDRI, see: TDRI (1992); Urban Labour Force: see table 2.

Table 4 : Average Duration of Education of Different Categories of Entrepreneurs and Workers in Selected Surveys

Survey	Date of survey	Place	Pop surveyed	No. cases	Entrep.	Workers	Notes
Dept. of Labour, ILO	1990	Bangkok	Enterprises with less e: than 10 workers w:	e: 275 w: 1753	9.1 y	6.7 y	a
CUSRI-ORSTOM	1991	Urban	Head of individual enterpr.	735	7.0 y		

a: Sample of 300 enterprises in six activities, divided into two sub-samples: one for enterprises with 0 to 4 workers (131 cases), one with enterprises with 5 to 20 workers (169 cases). Source: see above.

2.2 Discrepancies between Genders and Ages

The distribution of entrepreneurs by school attainment varies tremendously by age, showing the improvement of the school system nationwide over the last 30 years. Two-thirds (68%) of male and three quarters (77%) of female entrepreneurs older than fifty have a level of education below or equal to prathom 4. Among younger entrepreneurs (under 31), the figures are 16% and 24 % respectively. During the same period, those who have at least reached upper secondary level are more than 40% among younger males, and one third (34%) of their age categories among females.

Beyond the dramatic improvement of education levels that has affected the whole population; these data show a strong discrepancy between males and females, except among the youngest

entrepreneurs. This gap between genders is evident in other aspects of small-scale activities, females having generally a smaller level of business and turnover.

However, improvement in education is clear. It is faster for females, who start from a lower level (5 years of schooling among the elder), and overtake the males in the youngest generation, with an average of 8.4 years (8.2 for males). Since there are still fewer females with higher degrees and more with low degrees, the higher average duration of schooling suggests that females take more time to reach a given attainment, but also that the ones who carry on lengthy studies do it longer than their male counterparts.

2.3 Family Background and Education

In addition to gender and age, family background is one cause for major educational gaps between entrepreneurs. Due to the improvement of education in Thailand that we have described, access to primary school is now possible for everyone, whatever the social background. However, a social gap --that is the disadvantage of being the child of a farmer-- appears at the end of primary school. The children of farmers make up 44% of our sample. They also comprise 44% of entrepreneurs who have completed primary school, but are only 30% of those who studied upper secondary school, and 8% of those who went beyond secondary school. Comparing this share at different levels with the share of each social group in the whole sample, we can set up a ratio that can measure the advantage or disadvantage of each social group at different educational levels.

While in primary school, all social groups are represented according to their share in the sample, but a gap appears from this point and widens as we look at higher levels. The farmer's ratio goes down to 0.6 at upper secondary level, and to 0.2 at higher level. By contrast, children of industry workers, and even more so children of government employees are over-represented in higher educational levels.

By comparing the ratio of all groups to that of children of farmers, we can compute an "index of selectivity", the relative probability of entering the next stage of education as compared with farmers. Thus, children of government employees are nearly three times more likely to attend upper secondary school than children of farmers. The probability of entering university is 30 times higher than entrepreneurs from farmers' families. The gap in the population of entrepreneurs is however narrower than the one for the whole population. Jee-Peng Tan and Alain Mingat (1989), from whom this method is drawn, compute a share of enrollment in upper secondary level and university level of 0.3 and 0.2 respectively for people from farming families (in the case of social equity, the ratio should be 1, that is more than three and five times respectively).

It can also be shown that despite a dramatic improvement in school enrollment in all groups of society, which benefited much to people from farmer families as far as primary school is concerned, the gap between social groups does not shrink with time for females. Average duration of schooling is similar for younger male entrepreneurs from all family backgrounds, while there is a gap of nearly two years between elder children of farmers and others. This gap has disappeared in younger groups, showing that nowadays, social background is no longer a cause of discrepancy in this class of small-scale entrepreneurs.

But things are different as far as female entrepreneurs are concerned. The gap between daughters of farmers and others is widening due to the presence in the sample of many female home-workers in garment, but more, street workers in restaurants.

Table 5 : Average Duration of Schooling by Gender, Age and Social Background

Parents	Males			Females		
	Not farm.	Farmers	Δ	Not farm.	Farmers	Δ
Under 35	10.3	10.5	-0.2	10.7	7.7	3.0
36-42	9.1	8.4	0.7	8.0	6.1	1.9
Over 42	8.4	6.5	1.9	6.6	6.1	0.4

Including duration of vocational school.

Source: CUSRI-ORSTOM-OECD Survey, 1991

2.4 Acquisition of Skills

In addition to improved education, entrepreneurs need skills to succeed in their businesses. The source of acquisition of skills can be divided into two main systems: 1) schools (including vocational school in the national school system) or specialized institutions, either public or private; 2) on the job experience, either through a specific period of training (apprenticeship), or through work without specific training.

On the job --or informal-- training is by far the main source of acquisition of skills for small entrepreneurs. Not surprisingly, formal training --especially public vocational school-- is more common for people with a higher level of general education.

Table 6 : Source of Acquisition of Skills by Level of Education

	Prathom 4 or less		Comp.primary or lower sec.		Upper sec. & over		Total	
	No.	%	No.	%	No.	%	No.	%
No training (by oneself, with friends...)	160	46.8	98	42.8	74	45.7	332	45.3
Apprenticeship	139	40.6	73	31.9	19	11.7	231	31.5
Vocational school	0	0.0	5	2.2	47	29.0	52	7.1
Long term training in vocational private instit.	22	6.4	20	8.7	12	7.4	54	7.4
Short term training courses	21	6.1	33	14.4	10	6.2	64	8.7
Total	342	100.0	229	100.0	162	100.0	733	100.0

Source: CUSRI-ORSTOM-OECD Survey, 1991

The importance of apprenticeship in Thailand's informal sector is one of the striking results of this survey. There are more former apprentices among younger entrepreneurs than among older ones. In garment and metal, the activities where this kind of training is the most widespread; apprenticeship has

been the source of skill acquisition for 45% of entrepreneurs under 35 years old, but for those aged 42 and above, it was 36%.

In these two activities, people with a low level of education are more likely to have been apprentices (53% of those with a level of prathom 4 or less). In the same way, 53% of farmers' children also are former apprentices (32% for the other). Finally, apprenticeship is more often a type of training addressed to males (52% are former apprentices against 28% of females).

Furthermore, when entrepreneurs are asked what has been the most useful training for their present job, apprenticeship receives the higher rate of satisfaction, as compared with technical education.

Apprenticeship appears definitely as a way to obtain skills for people who suffer a disadvantage in their family or education background. In this sense, it has been (and probably still is) a powerful tool of integration of disadvantaged people into the labour market. Apprenticeship is also well adapted to managerial training for small entrepreneurs since it teaches more than technical skills. While apprentices, young boys and girls are often initiated into all the aspects of the management of the enterprise. Nowadays, many entrepreneurs still train apprentices. This function of informal entrepreneurs as trainers should be fully recognized and encouraged.

3. Factors for Success of Entrepreneurs

Having seen that the education level of entrepreneurs in the informal sector is not a factor that would prohibit them from entering the modern sector, it is worth considering the benefit they receive from being educated. This is possible inside our sample only, and we shall consider the benefit from education and individual characteristics of the entrepreneurs relative to the others.

3.1 Measuring the Benefit of Education and Training

It is widely hypothesized in all areas of the social sciences that education and training bring benefits. In industrialized societies and in most of others, the "benefits" can be measured by wealth. This value is held so strongly nowadays, that any training program of education or training for skills is considered as an investment (and a cost) and must return benefit under the form of better income for the recipients. In economics, the theory of human capital has formalized and elaborated this basic idea.

The basic idea is still very simple. It consists of examining the effect of a difference in investment (here, education is the investment) on the income, among several individuals. Two factors however make the relation between education and income more complex. The first one is that there are several kinds of investment in education and training: besides general education, there are specialized courses, vocational training for different kinds, on-the-job training, and other work or educational experience that is not necessarily formal. The impact of these different factors is likely to be unequal. All career experiences, not necessarily educational, should also be taken into account, all the more since we have seen that on-the-job experience is the first source of skill acquisition for entrepreneurs.

The second thing is that income is the effect of many other factors that are not at all or indirectly related to education and other individual characteristics. The income of entrepreneurs is

calculated here from the enterprises' accounts. It is the difference between all receipts and all expenses of the enterprise. All factors that may influence the different steps of the calculation have thus an impact on the income. For instance, better equipment is likely to raise production, and as a consequence, the income of the entrepreneur.

Statistical techniques provide tools to deal with these problems. Using multiple regressions allows us to study the effects of different variables on the variance of the revenue. We shall first consider the importance of individual characteristics (education, training, experiences...) as compared with economical factors (labour and capital), but shall not comment on function of production. Then we shall examine more precisely the effect of education on revenue. We shall conclude by presenting some typical career paths depending on some characteristics we have seen.

3.2 Importance of Individual Characteristics in the Success of Entrepreneurs

Many different factors contribute to the value of revenue. Two of them, labour and capital, which are essential explanations of the process of production, have retained the attention of economists in economic theory. Among other factors, we shall focus on individual characteristics of the entrepreneurs, that is, their social background, their education and training, and different stages of their work life.

As expected, employment and capital (defined as the value of all machines, tools and vehicles used by the enterprise, but not including buildings or land) are the main variables that determine the level of production of small enterprises. Employment has the strongest effect, and this is not surprising in labour-intensive industries with a low level of capital. Depending on the activities, employment can account for 25% (restaurants) to 70% (garment) of the variance of the revenue. It should be noted also that labour productivity increases significantly with the size of enterprise. Though trivial, this result simply shows that these small-scale enterprises are rationally managed.

Additional factors will therefore explain the difference in revenue between entrepreneurs whose enterprise has the same characteristics of employment and capital. Though somehow significant, the effect is weak, given the importance of economic factors. The level of education appears as the third factor in explaining revenue for all activities. In garment (more precise analysis shows more effect of education among male entrepreneurs) and electric, the effect of education is the strongest.

The next individual factor taken into account in the model is migration, meaning that all other things being equal (i.e., for enterprises of the same size and entrepreneurs of the same education), those who have migrated from their province of origin tend to get higher revenue. This is the return of a kind of dynamism for the entrepreneurs who leave their birthplace to work.

Employment and capital, or the size of the enterprise itself, depends on ability, educational background of the entrepreneur and other non-economic factors. Here again, education is part of the explanation for the size of the enterprises. To summarize, it can be shown that enterprises with better equipment are generally owned by people who are younger and better educated than the average. In other words, the biggest enterprises in the sample are not the result of a long and patient accumulation, but rather the evidence of a different kind of entrepreneur, probably better introduced into the modern circuits of the economy. Age, experience and even technical knowledge are not of any use

for greater success, while being younger, better educated and having contracts with modern enterprises have positive effect on success (working as a subcontractor is a positive factor of success).

When considering only non-economic factors, we still can explain between 10 and 30% of the variance of the production, depending on the activities. This means that regardless of the enterprise's size, production is determined by the factors, in descending order, of education, migration, training and miscellaneous experiences. Among them, the length of time spent as a wage worker or farmer has a negative effect, meaning that the longer the individual remained in this stage, the lower his revenue (these effects are however marginal). The relations are quite different between activities, and while we cannot go into detail, we can provide a few examples. In metal, 15% of the variance of the production is significantly explained by non-economic factors. The first is education (number of years of schooling, for 8%). Then come different stages in the career, with a negative effect (having wage-work experience or having been unemployed is more characteristic of those with lower revenue).

3.3 Effect of Formal Education on Success

Formal education (i.e., school) proves to be the main non-economic factor that affects the success of entrepreneurs, as measured by the performance of their enterprise.

Direct effect of education on the income of the entrepreneurs can be seen from the results shown in table 7:

Table 7 : Average Yearly Income of Entrepreneurs by Activities and School Attainment

	Prathom 4 or less	Comp.primary or lower sec.	Upper sec. & over
Garment	72 000	120 000	277 000
Metal	238 000	294 000	519 000
Restaurants	108 000	131 000	201 000
Wood	545 000	233 000	986 000
Electric	58 000	127 000	135 000

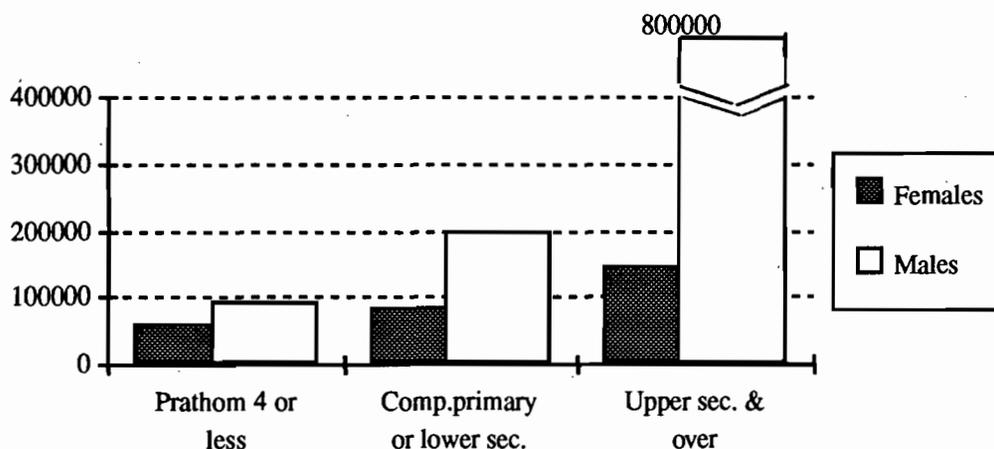
Source: CUSRI-ORSTOM-OECD Survey, 1991

However, the effect of education is neither linear nor automatic. This means that it cannot be assessed that supplementary schooling brings in all cases a supplementary income. Rather the data above show an effect of education on income by stage. They show that after a certain level of education, the income tends to be higher. In electric repair for instance, those who have gone to school beyond the 4th year of primary have, on the average, an income twice as high as those with less education. But after this level, supplementary income due to a higher school attainment tends to be very small. In restaurants, the gap starts after lower secondary level.

The case of wood is extreme. Under lower secondary, there is no relation between school attainment and income (some experienced and older entrepreneurs with a prathom 4 level have reached a higher level of income than less experienced entrepreneurs with a primary degree). But the difference can be seen clearly among entrepreneurs with an upper secondary --or higher-- level.

The figures above do not take into account discrepancies due to gender, social background or experience. It can be shown however that the general trend of higher income matched with better education remains when these characteristics are taken into account. For instance, incomes by gender and by school level among garments' entrepreneurs are as following:

Graph 1: Yearly Production by Gender and Education Attainment in Garment Industry



In garment industries, males have more than one "step" advantage, i.e., males of the first category (prathom 4 of less) earn a bit more than females who have completed primary, etc. The same pattern happens when considering those who have migrated as compared with those who never left their province. In both cases, one can see a better income with a better educational level, but the general level of income is higher among those who have migrated, whatever school attainments they have reached.

This pattern could be checked in further sub-categories, by age, social background, etc. In fact, the trend we have seen by gender is not repeated whatever characteristic we consider. For instance, among entrepreneurs with a given level of education --say lower secondary--, income does not change significantly with age. In other words, older, educated entrepreneurs do not earn more than younger, educated ones. The same thing can be seen with social background. As we have seen previously, there is an important gap in school access between children of farmers and others. But when we consider all the entrepreneurs of a given level of education, there is no more difference in income by social background.

These are very important results. It shows that education is a definitive advantage, which neither experience nor training out of school can replace. It also tends to prove that school is the only way to overcome the disadvantages of being born in a farmer family. In other words, school has been a powerful means of overcoming social differences.

On the other hand, it shows that acquiring general knowledge is a condition for success. But this does not necessarily constitute a good evaluation of school. As we have seen, once a certain level is reached (before complete primary, except in the case of wood, where it is higher), additional studies

in secondary do not bring a definitive advantage (exceptions to this are the few who completed university degrees, and who now range among the highest income in the sample). Undoubtedly, while a general educational background is a condition for success, the knowledge itself is not necessarily useful, nor is further vocational training, as we will examine in the next section.

3.4 Effect of Technical Training

Unlike general education, vocational training --whatever kind of training it is-- does not seem a major factor in determining the success of entrepreneurs. There is no direct effect: people who have had vocational training in an institution or who have been apprentices do not have higher incomes than the others. Technical training thus seems to be overall neutral. This can be interpreted as an equal benefit from whatever kind of training entrepreneurs have had, including training on the job. In other words, those who had technical courses from institutions do not enjoy any advantages as compared with those who acquired skills on the job, including those who worked as apprentices. However, there are some specific cases where training and success can be related, and these are examined hereafter.

People who have been engaged in vocational training generally have had longer work experience. However, this is not a positive factor since it indicates that it took them longer to reach the position of entrepreneur. This is because institutions train people at technical skills only, and the recipients tend to enter wage-worker positions, rather than be self-employed. They are not trained, in either case, to run an enterprise.

Apprenticeship does not bring better benefits than institutional training, as measured by the level of income of the entrepreneurs. As for those who attended vocational training, apprentices tend to continue in their career as wage workers. On average, this kind of experience is not favourable for success. (To be exact, it should be noted that the number of years of such an experience is not --or even negatively-- related to the level of income, but a short experience as a wage-worker can be useful).

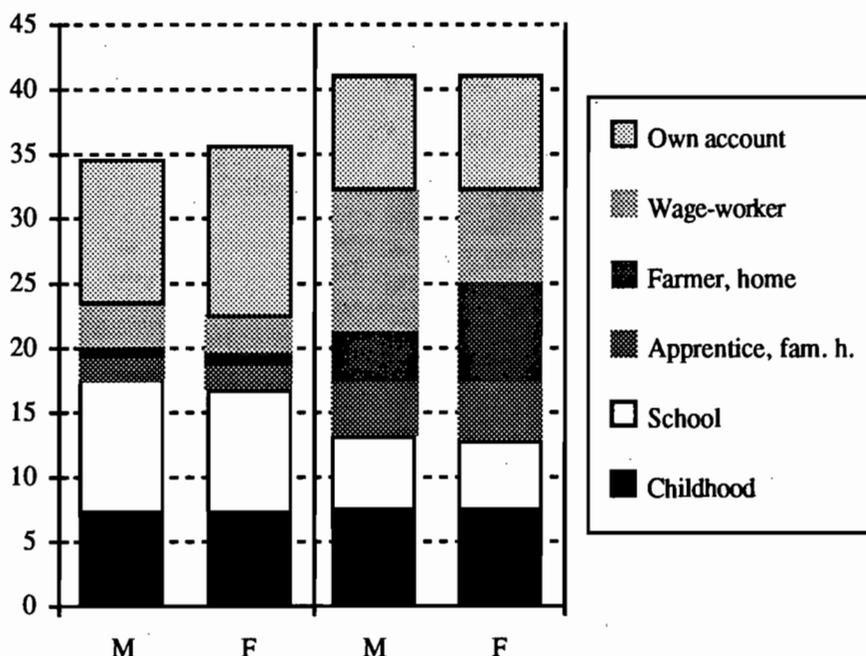
This does not mean that apprenticeship is not useful. If we take into account the social cost of different kinds of training as compared with their rate of return, apprenticeship would certainly be well ranked, as compared with public vocational training. As a matter of fact, the social cost of apprenticeship is nil. For people coming from poor families, apprenticeship is a substitute to school --or at least to vocational school--, and gives returns faster than other kinds of training (apprentices are generally paid after a few weeks of work).

3.5 A Path to Success

The effect of education and other work experiences in determining the success of entrepreneurs can be summarized in a unique factor, the time it takes to become an own-account worker. This is the duration between the end of formal studies (including vocational courses) and starting at one's own account. Generally, those who did not study long held positions such as family helper (sometimes in agriculture) and wage-worker a long time before being able to start their own enterprise. On the other hand, those who finished at an older age spent less time in various experiences before starting their own enterprises. It did not take them long to become self-employed. The graph below shows the

average duration of different stages of education and career, by gender, in two patterns: on the left, those who got to the position of own account in no more than 12 years, on the right, the others.

Graph 2: Average Duration of Different Stages of Educational and Work Career, by Pattern of Career and Gender



On average, entrepreneurs falling into the first pattern have spent 10 years at school (including vocational), while the average of the second group spent in under 6 years (in both cases, females have a lesser duration at school). Duration in other positions is of course shorter in the first category, due to the criteria to define it. Duration as a farmer (or at home, especially for females) is negligible in the first group. This actually means that very few entrepreneurs in this group ever worked as a farmer. Experience as an apprentice is also lower in the first category (20% have at one time been apprentices, 45% in the second category), because apprenticeship is more typical of a low education profile. It can be seen in the chart below that the time spent as an apprentice or family helper in the second category nearly fills the gap of school duration. It clearly indicates the role of this kind of training as a complement to school, for those who did not have the chance (often because of their family background) to continue in school.

As a result of their short duration of work experience before becoming own-account workers, and despite a longer duration at school, people in the first group have become entrepreneurs at a much younger age than the others, nearly 10 years before, on average. The average age of starting as an own-account worker is 23 years old in the first case, 32 years old in the second case. Despite their relative youth, more entrepreneurs in the first category now have longer experience as head of enterprise (or

self-employed). Thus, the length of life --and stability-- of the enterprise is not merely a result of the age of entrepreneurs (though within each category, it is related to age), but is also related to the educational and career profile of entrepreneurs.

The better-educated entrepreneurs in the first category, who were very young when they started their enterprise, are also more successful than others. They have on average bigger enterprises and better results.

Table 8 : Average Size and Income of Enterprises, by Career Patterns of the Entrepreneurs

	Pattern 1		Pattern 2	
	Tot. employment	Income*	Tot. employment	Income*
Garment	5.0	129000	4.6	102000
Metal	6.7	401000	4.8	259000
Restaurant	2.5	155000	1.8	117000
Wood	6.8	892000	5.0	295000
Electric	2.2	129000	1.7	89000

* Average yearly gross profit of the enterprise

Source: CUSRI-ORSTOM-OECD Survey, 1991

Education allows entrepreneurs to reach a certain level of income earlier. In this sense, it can be considered a very profitable investment.

Conclusion

The entrepreneurs in urban small scale industries have an educational level comparable to the rest of the labour force, and especially with production workers. There is no evidence in Thailand that entrepreneurs work in the informal sector because a lack of education prevents them from entering the modern sector (some of them were previously wage-worker in modern factories). The average income of these entrepreneurs is also higher than the average salary of the modern sector. Thus, not only does education bring benefits, but so does the entrepreneur position. The distribution of income is, however, very unequal. There is also specific segments of the society, where people run informal activities, that would not allow for an optimistic diagnosis.

Within the group of small entrepreneurs, a better education is also a main advantage. It helps the individual to reach the entrepreneur position earlier and to achieve a decent level of income. Especially for children from farmer families, education, even at a low level, has been a powerful means of social -- or at least income-- upgrading. The same thing can be concluded for the position of small entrepreneurs in general. Far from being a supplementary barrier to social moves, the "informal sector" in Thailand, as represented here by self-employed and small entrepreneurs in urban areas, seems to be on the contrary a way of moving upward socially.

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Informal Sector : the Economy of the Poor ?

Voravidh Charoenloet

With the adoption of export-led growth in 1985, the integration of the Thai economy into the world economic system greatly accelerated during the 1987-1990 economic boom. The boom during this period was mainly supported by three factors of foreign markets, foreign capital and foreign tourists (Charoenloet 1:1991). The engine propelling this growth came from the manufacturing and service sectors (Phongpaichit: 1990).

Although industrialization has been gaining rapid momentum, indicating a growth of about 17.0% from 1989, it has been very unbalanced. The growth of the agricultural sector has been lagging behind, averaging 3-4% a year since the last decade. The capacity of the industrial sector to absorb labour is limited; about 8 to 10% of the labour force at present is employed in manufacturing. Rapid growth in the Thai economy has not led to the "trickle down" effect, but has tended to generate increasing concentrations of wealth among the rich (share of wealth among the affluent, the richest 20 per cent, rose from 49.3% in the last decade to 55.6% in 1988), the hyperurbanisation of Bangkok and the marginalisation of the poor. As a result, many have had to find alternative employment in the "informal sector", ranging from street vendors, garbage collection, and motor-bike hiring to manufacturing.

It is estimated that not less than 30 million people throughout the country are engaged in some kind of informal activity. They operate either from the home-base or row house shops. Some, especially in the ready-made garment industry, produce for the export market. This paper will focus on some of the findings drawn from " Shop-house Ready-made Garment Manufacturing: A case Study of the Informal Sector in Bangkok", conducted by the Commission for Peace and Justice.

During the early phase of industrialization, textile manufacturing consisted mainly of import-substitution industries. The major investment in textile production came from the Japanese. It was hoped that these industries would create linkages, especially "upstream" ones. However, the activities of spinning, weaving and finishing are relatively capital-intensive and rely on the import of machines and synthetic fiber. This development has not been very favourable whether considered in terms of employment generation or reduction in a country's trade deficits. However, with the current boom in exports, there has been a shift from textiles into the labour-intensive fabrication of ready-made garments. The export value of ready-made garments amounts to two-thirds of the total value of all textiles exported, or 87,690 million baht, in 1991. For three consecutive years (1989-91), it ranked first on the list of major income earners for the country. Producers of ready-made garments include domestic as well as foreign investors, among which investment from Hong Kong and Taiwan has been

increasing significantly in recent years. This coincides with the strategy of relation of labour-intensive industries away from the Newly Industrializing Countries (NICs) toward the Association of Southeast Asean Nations (Asean) as a cheap base for producing export goods. At present, of the 3.2 million workers employed in the manufacturing sector, about 1.3 million work in textile factories and 800,000 in the ready-made garment industry.

1. Subcontractors in the Ready-Made Garment Industry

At present, the Thai government has no formal policy on workers in the "informal sector", but in the Seventh Plan, the emphasis is given to the development of the subcontracting system and its "spill over" into the countryside. Subcontracting is viewed by the government as one way to solve the problem of the market as well as to check on the quality of the products. The spread of the subcontracting system will lead to the dispersion of small, decentralized production units. This will create employment opportunities, provide new sources of income to farmers and actualize the government's programme of rural industrialization. Thus, it is suggested that modern business has a network of subcontractors as its foundation. However, from our study on the emergence of informal activities, especially the shop-house, the situation is not that "idealized". Small is not always beautiful: small undertakings which come into existence quite spontaneously as a result of the export boom may appear vigorous, but our case study proves that the market mechanism may not be that beneficial, whether considered from the view-point of the owners or workers in these small establishments. Certainly, there are many producers now striving to obtain contracts producing for an external market that is highly volatile, uncertain and uncontrollable. As a result, the strategy used to organize subcontracting is "defensive flexibility", i.e., to cut down on labour costs.

The rapid growth of garment-making industries and exports in the context of the world recession translates into fierce competition in a shrinking world market. Trade in textiles and ready-made garments is one of the areas heavily regulated under the Multi-Fiber Arrangement (MFA). Thus, in recent years, many firms in the textile and garment business have pursued the strategy of flexibility, i.e., to pass from the regime where labour is considered "fixed" or "rigid" to one in which it is "variable". This has resulted in the laying off or termination of certain positions once occupied by "permanent workers" where the firm has to bear "fixed" costs (wage, welfare and seniority), and instead relying more on hiring temporary or out-workers to accomplish the same task. Trade unions in Thailand have been successful in campaigning against the hiring of temporary workers and the government has accommodated their demands by making such a practice illegal when extended beyond a certain period of time. Despite these actions, the rapid expansion of garment industries has led firms to rely more and more on subcontracting out certain lines of production to small-scale producers or home-based workers as a way to achieve cost-minimization.

According to certain studies, informal activities originated from the subcontracting system organized by firms in the formal sector. But "subcontracting" or "contracting out" orders may be done by trading firms engaged directly in export. Although subcontracting is quite preponderant in the garment industries, our interviews with some small producers reveal that such a system is not always preferable to expert seamstresses. The reason given are that it lacks flexibility and is subject to strict

quality control. A shop-house owner complained that subcontracting a piece of work from the factory, such as attaching shirt-collars or patching up jean pockets is not very enriching. In the long-run it tends to rob them of their skills as they have to specialize in a single task, and thus makes them very dependent on the factory. What small producers would prefer is to compose the whole dress and not just parts of it. It is also difficult to organize workers along the factory line, as the informal sector functions solely on the family and patron-client relationships. Therefore, small producers prefer to have orders contracted out by trading firms, usually those located at the Baiyoke Tower. These firms are engaged in the direct sale of ready-made garments, both for domestic and export markets, and have a network of "subcontractors": the shop-house owners in Din Daeng or Huay Kwang districts. These "subcontractors" are supplied with raw materials, especially cloth. After completing the task specified by the order, the subcontractors are paid on a per-piece rate. The costs and the risks due to the uncertainty of the market are spread among these many small producers or subcontractors.

2. The Informal Sector: Poor Entrepreneurs Struggling to Survive?

At present, informal shop-house producers of ready-made garments are but an outcome of the strategy of "defensive flexibility", i.e., cuts in labor costs. This excludes these small-production units from playing a complementary role in the formal sector of the economy, i.e., as a flexible production unit, highly specialized, using skilled labor to produce high-quality goods. The small informal producers in Thailand may thus be surviving at the subsistence level.

The informal garment-making industry does not pose much of a barrier to entry. The initial investment in opening a row-house shop is small, between 30,000-50,000 bahts --enough to purchase a two-storey house, and 2 or 3 sewing machines. However, the determining factor that differentiates between the first or second hand-shop is the acquisition of skills. Most successful owners of row-house shops have accumulated post experience working as employees in tailor-shops. This gives them skills needed in designing and pattern-cutting as well as personal contact in obtaining stable orders. The problems facing these small informal producers are the uncertainty of the order as well as the low piece rate paid by trading firms. With the proliferation of small producers in garment-making in Bangkok, this tends to drive down the piece price. These small producers have less liberty to play a role in the market. They are highly dependent on a certain number of trading firms for providing product outlets and supplying raw materials. Cloth supplied to subcontractors cannot be bought directly from the market. The supply of this raw material is restricted due to a monopoly organized between the textile factory and the ready-made garment factory or trading firm. Receiving no aid from the system, these small shop-house producers can hardly be capable of improving their position in the market. Since many of these small producers compete for the same orders and are unorganized, the trading firms prefer to negotiate individually and to play one against the other. Small producers thus cannot have much bargaining power nor a fair share of the market. Trading firms capture a large margin of profit as can be shown in the figures below.

Table 1: Comparison of Responsibilities, Duties and Income Received within the Shop-House Garment Manufacturing Cycle

Baiyoke shop owner (trading firm)	Shop-house owner	Workers
Arranges market contracts; purchases raw material (cloth)	Organizes sewing of garments; secures equipment (sewing machines); uses labour	Use labour to produce garments
Retail sale: cost/piece: short sleeve shirt 120-130 Baht	Sewing cost/piece: first contract shop 15-16 Baht, sub-contract shop 13-14 Baht	Payment/piece 6-7 Baht

The income of a shop-house owner depends very much on the order he contracts from the trading firm. This source of income is uncertain because it depends on the external market. When in a period of difficulty such as that during the 1991 Gulf War, trading firms may be inclined to postpone cash payments for the finished work or instead prefer to pay in kind, i.e., by the number of pieces fabricated or an open-dated cheque. Many of the shop-house owners are forced to accept this situation in order to retain contracts with the trading firm. They have no other alternative but to adapt.

In the production process, a shop-house owner is often constrained by the need to make ends meet. His major concern is to have enough cash in hand to cover general expenditures in the shop-house, and also to pay his workers in due time money to be sent to their parents. For a successful shop-house owner, two conditions are necessary for the survival of his business: the management of rotating funds and the management of human relations.

To constitute the rotating fund, shop-house owners lack access to easy credit. So, many have to compete for orders and force down prices for the piece-sown just to have cash in hand. As a result, the growth of small producers tends to be concentrated in certain areas and not to the dispersion but cluster of small undertakings. In fact, the concentration of producers, especially near the market, can be viewed as a strategy to reduce costs, e.g. the cost of transport, but it also creates a sense of security. There is one fairly common characteristic of mutual assistance among shop-house garment producers. When one of their friends or workers wants to start the business, they are helpful in giving advice and sometimes advance money. They consult with one another on how to design, change patterns or technical problems. They borrow from each other when short of cash. To hold together as a group can also provide advantages, by enabling them to have access to credit from Credit Union (a cooperative) but also by helping them to find orders. Thus, the growth of the informal sector in town is but a recent phenomenon of hyperurbanization rather than dispersion of activities as one might expect.

Owners of shop-houses in the ready-made garment industry typically base their operations in popular areas such as the districts of Din Daeng and Huay Kwang, where costs are relatively low for room rentals or labour. Each shop-house owner has his own network of labour which he can rely on. Workers come from his-or his wife's-family, typically young (under 18) and with limited education (completing only compulsory primary level education). In order to work, they are not required to have prior skills or experience, since dress sewing skills can be acquired through apprenticeship. Most young women workers do not choose to work in a shop-house, but are forced by their parents. Many of these workers thus lack motivation in taking up this work seriously as a career. The rotation of labour in and out of the shop-houses is high. Thus, for a "successful" shop-house owner, the management of human relations is very important. The workers must be encouraged to work as a

group, usually in pairs, by creating a sense of belonging to one large family. Shop-house owners and workers eat, live, and work together. Problems are shared and workers must be convinced that they, as daughters, have the obligation to earn money they can send home to their parents. Work must be shared fairly. As the income of workers depends on the number of pieces done in a day, too much difference in earnings can lead parents to withdraw their son or daughter from the establishment. A shop-house owner must also be ready to assert his authority, especially when it is related to the behaviour of his workers in general.

Work-hours in the shop-house are typically long, 12-15 hours a day. The pace of work is slow in the morning and quickens at the end of the day as workers strive to finish the number of pieces assigned for the day. Work is irregular depending on the order. As the revenue of the shop-house owner and his workers depends on the number of pieces completed, when there are many orders coming in, work hours may run from the morning till midnight. Long hours of work have negative consequences on worker's health and they may complain of back-aches, cramps, ulcers and respiratory problems. These workers lack social protection and proper health care as they have no social status as workers. Subcontracting is, thus, a disguised form of wage payment. It can degenerate into a system of self-exploitation and the exploitation of the workers: low pay and long hours of work.

Differing skill levels can be the basis for the distinction between the first or second hand shops. Greater skills can give the first hand shop not only the option of choosing with which trading firm to work but can also allow the shop to negotiate the price of each order. Shop-house owners can earn about 20,000 to 30,000 baht a month (net income), much higher than income earned by working in a factory. This disparity has encouraged some workers to leave the formal sector to become a patron. Although they lack experience in sewing, such skills may not now be too much of an obstacle to entering the business. Skill in cutting cloth and pattern-making are now becoming an integral part of trading firms, while small shop-house owners are becoming just simple producers (sewers). Many complain of loosing their skills by being made to specialize in certain jobs such as shirt-making or sewing. In recent years, we have seen the proliferation of these small producers in the informal sector, competing for a limited number of orders and, in this process, driving down the price they can charge. The aim of the informal sector is, thus, not to maximize profit as one would find in the formal sector, but rather "to survive".

To conclude, we have seen that the informal sector of the ready-made garment industry has come into existence spontaneously with the opening of the domestic market. Facing international competition, many factory and trading firms in the formal sector have relied on subcontracting as a strategy to reduce costs. This has led to the agglomeration of subcontractors whether they be the homebase workers or small shop-house owners which physically concentrate in areas close to the market. Entrance into the informal sector does not pose much of a barrier today: requiring little capital, using family labour and bringing acquired skills; there can emerge a new entrepreneurship with the capacity to organise and take risk. However, recent evolution may not support these positive aspects. As informal sectors are left alone to the freely play of the market, subcontracting often results in the adoption of "defensive flexibility", i.e., to reduce labor costs. Competition among small-producers leads to a fall in prices, self-exploitation and the exploitation of workers. Beneficiaries are usually factories or trading firms in the formal sector, which tend to capture a larger share of the profit. For the

informal sector to play a more constructive role and not one in which survival is the only purpose, an alternative option may be as follows:

1. It should be organized to play a complementary role to the economy. The domestic market should be activated more, so that shop-houses do not depend solely on the external market, which is unreliable.

2. Local communities must step up their role in providing access to technology, to bank credit or intermediate products as well as provide greater assistance in upgrading the quality of the product and marketing.

3. Shop-house owners should become organized in order to have bargaining power.

4. The government can play an important role in skill formation, not only technical skills in sewing, but also skills in designing, management and marketing.

5. Informal workers should be protected under the labour legislation and covered by some form of social welfare.

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The Economy of Survival in the Slums of Bangkok

Barbara Igel

1. Analyzing slum economies with the informal sector concept

Bangkok, the capital of Thailand, with its rapidly growing population - from 3.5 million inhabitants in 1970 to at present about 8 million¹ - is a showcase for regional and local disparities caused by rapid urbanization. Bangkok's population grows by 3.6% per year. Two thirds of Thailand's urban population live in the central region, and 90% of them in Bangkok. About 44% of the gross national product and 77% of manufactured products are generated in the Greater Bangkok Metropolitan Area, and more than 90% of all jobs in industries are concentrated here. Every year more than 100,000 persons searching for employment migrate to Bangkok (Pakkasem, 1987). The registered supply of labour grows by more than 80,000 workers per year. Only a few of them are employed by medium and large scale industries equipped with modern technologies. More than 70% of the employees in Bangkok are found in the trade and services sectors.

Apart from these regional imbalances, local disparities are being aggravated. In 1983, 448 slum areas, inhabited by 1.2 million persons had been counted in Bangkok. In 1985, a new survey found 1,020 slum areas with an estimated population of 2.4 million. Therefore, today about 33% of Bangkok's population lives in slums.

Despite their heterogeneity, informal economic activities share some common characteristics: they escape from economic policy controls, do not pay taxes, lack registration, maintain contractual relations beyond the official legal order (which often even conflict with the law), and impart professional skills outside of recognized education and training systems (Paul, 1985).

There is no doubt that informal economic sectors and slum areas are not congruent, neither do all informal entrepreneurs and their employees live in slums or squatter settlements, nor do all slum inhabitants work in informal enterprises. Based, however, on the above mentioned data on the pace of urbanization, the forecast that the informal sector could, in the future, be the dominant mode of economic activity in the urban areas of developing countries may very well come true. Therefore, the thesis that the informal sector is the economic parallel to the informal settlements in slum and squatter areas (Baldeaux, 1983) seems to be plausible.

1- Henning/Jenssen/Kunzmann (1978). The actual figures are estimates which include non-registered inhabitants in slum areas. In 1985, Bangkok had a registered population of 5.26 million, see Thai Rath, 19.9.85 and Pakkasem (1987)

It is obvious that for slum households, fundamental links exist between the generation of their survival income and their habitat. For low income households, improving the habitat has to take a back seat to the necessity of generating a sufficient income to satisfy their basic needs. Likewise, the style of living - the social and spatial organization of the habitat - is determined by the necessity to secure the daily survival minimum. Consequently, a habitat and form of housing is chosen which guarantees the safest income. By ignoring these fundamental links, conventional housing policies and programmes had to fail.

However, recent programmes which aimed at improving the living conditions of slum residents - like sites and services, self-help housing construction, and upgrading projects - have also perceived dwelling as a purely physical problem, and thus neglected the social and economic fabric and networks of entrepreneurs and households living in the slum. Physical slum reconstruction resulted in a destruction of the living base through increased rents and lack of space for small business enterprises. Resettlement to the outskirts caused the loss of social relationships and regular clients.

Reconstruction projects in slums and resettlement programmes for slum residents can only be successful if they manage to remedy existing defects while preserving the values of these settlements for their inhabitants, i.e., not endanger or even destroy their economic survival base. Manifold experiences show that not upgrading projects planned from outside, but rather a stimulation and promotion of the economic development potential existent in the slums can improve the living conditions of its residents .

This study explores, in five of the far more than one thousand slums in Bangkok, some options to strengthen the development potential of the economy of survival. During three empirical surveys between 1985 and 1988, five slum areas in Bangkok² were researched by collecting primary data and applying the method of participant-observer evaluation. The surveys focused, in particular, on informal economic activities and their contributions to the households' survival income, as well as on the interweaving of economic activities between the slums, other urban sectors, and rural areas which had been established through the economic self-organization of slum residents.

2. Microenterprises in the slums of Bangkok

The employment opportunities of slum residents in Bangkok are determined by the location of their settlements, as most of their income sources depend on their proximity to business firms and households in the formal sector. Here the fundamental connection between the needs of income generation and habitat becomes evident. The way of life is determined by the daily struggle to secure the minimal survival income.

Residents of slum settlements close to large food markets find work as coolies; produce and sell candies and other sweets; trade vegetables, fruits, fish and meat; and collect paper, cardboard and plastic bags for recycling. Inhabitants of slums in the vicinity of factories producing such goods as canned

2- The slums researched are Soi Ban Baat with about 200 households, Trok Tai with 49 households, Rimbueung Makkasann with 334 households, Rot Fie Asoke with about 250 households, and Chumchon Pattana in the outskirts of Bangna with 43 households.

fruits, soft drinks, ice, cement and steel tubes are employed as day-labourers. Squatters who have lived more than two decades on land belonging to the State Railways of Thailand are employed as conductors, gatekeepers, technicians, and workers repairing tracks.

Other jobs of the slum residents are less dependent on the location of the settlement, such as:

- Taxi drivers, construction workers, street-sweepers, sewer men, garbage men, mobile sweets and beverage stalls at central bus stations, mobile noodle and rice cooking-shops, flower and newspaper vendors; employees on fixed contracts (watchmen, drivers); employees in the public sector, like bus drivers, conductors, electricity meter controllers, policemen, and soldiers.
- Illegal activities, like beggars, prostitutes, gamblers, and drug dealers.
- Activities within the boundaries of the settlement, like letting out rooms, selling electricity, grocer's shops and food stalls inside the slum settlement.

Criteria as simple and clear as possible are selected to record and analyze the economic activities of slum residents, and to delimit informal from formal employment. They are based on recognized characteristics found in the majority of other studies on the informal sector.

The most important criteria is the self-generation of activities by the entrepreneur and his family. The search for employment and income is considered as the essential cause for the informal sector's emergence. The informal entrepreneurs' behaviour is determined by their search for means to survive, also called the "Economy of Survival"³. The main purpose of founding an enterprise must be the creation of employment and income generation opportunities for oneself, and maybe one's relatives, whereas later on some non-family-members can be employed. The employment of these external workers is also considered as informal.

A second important criterion to distinguish the informal from the formal sector is the fact that informal businesses escape from economic policy controls because they are not registered or legalized by an industrial or commercial board.

The third feature of informal economic activities is a high level of risk and insecurity which the decision-makers face due to the many events beyond their control that seriously affect their enterprises and cause great variations in their income. Elwert mentions, in this context, the strata of the "unsecured" (Schicht der "Ungesicherten", Elwert et al., 1982). The sources of risk are mostly irregular demand for informal products and services, the illegal nature of the enterprise, lacking access to credit, subsidies and financial incentives, and lack of insurance in case of illness, unemployment, or old age.

The contribution of informal employment to the survival income of slum residents is determined by applying these three criteria in the analysis of microbusinesses operated by inhabitants of the five researched slums. The findings of the operational analysis of 413 microbusinesses owned by the slum residents can be summarized⁴ as follows:

3- Herrle defines the informal sector as the Economy of Survival or *Okonomie des Uberlebens*", see Herrle (1983).

4- For the details of this operational analysis see Igel (1988).

- Commercial enterprises, with 44.8% of the 413 explored businesses, hold the first rank, followed by food processing with 20.8%, services with 18.4%, and other manufacturing businesses with 16% (see table 1).
- 334 businesses offer their products and services at locations outside of the slum settlements, whereas 79 entrepreneurs sell their goods exclusively to their slum neighbours. Their markets are small, mostly cooped in and easy to survey.
- They have no marketing relations to bigger private business companies or the public sector. Only 26.6% hold a legal operating permit.
- Two thirds of the microbusinesses are headed by women; 44% of these women are the main income earner in their family.
- Only 15% of the microentrepreneurs have been trained specifically for their job. About half of them are migrants who had moved to Bangkok to search for better employment opportunities.
- Most of the goods produced by the microbusinesses are oriented towards satisfying basic needs; 73% of the 337 manufacturing and trade enterprises supply primary sector goods. The production technologies applied are labour-intensive, except in a few cases (5.5%). All raw materials, commodities and equipment used in the production process are local products and mainly purchased from small retailers.
- The microbusinesses show a wide spectrum of functions and structures, which is reflected in great variations of investment capital and operating revenues.
- The majority, or 55% generate an income per person which is higher than the minimum wage in Bangkok. Most of the 21.4% of entrepreneurs who earn considerably less than the minimum wage rate are incidental income earners and work comparatively few hours per day.
- The age under the present head of the microfirms and a dominance in ownership by the head of the enterprises indicate potential for long-term persistence of these informal businesses. This potential for further development, however, is constrained by limited markets, harassment by the public administration, and missing access to financial resources in formal credit markets.

Other important development constraints are, in many cases, the social obligations which successful owners of the microfirms have to fulfill towards their relatives. The payments to non-employed family members frequently cause a substantial outflow of capital and limit the scope for necessary investments.

- The microentrepreneurs have no access to financial resources, with the exception of savings within their extended families and the informal credit market, where interest rates of up to 360% per annum are charged. In 81% of the microbusinesses the owner has generated the initial investment capital out of his family's savings. Investments after the establishment of the business are comparatively small. Except in one case, the microbusinesses had invested only in the substitution of equipment which was worn out.
- The 413 researched microfirms employ altogether 489 persons or one third of the roughly 1,500 workers living in the five slum areas; 116 work in food processing enterprises, 80 in the manufacturing sector, 194 in trading and 99 in service firms.

- The average investment per workplace equals Baht 6,470, which covers a range from Baht 2,078 to 33,256 in food processing, Baht 850 to 12,400 in the manufacturing firms, Baht 125 to 16,000 in trade, and from no investment at all up to Baht 19,600 in the service sector. The average floating capital of Baht 5,152 per worker and per month⁵ is strikingly high when compared with the average investment capital per worker.

Table 1: Supply of goods and services

Branch	Number	Share in percent
Food processing	46	20.8 %
Other manufacturers	66	16.0 %
- Based on primary sector goods		
+ Clothes and shoes	8	
+ Wood products	15	
+ Paper bags, garlands, toys	30	
- Based on industrial goods		
+ Motorcycle workshop	1	
+ Bicycle workshop	1	
+ Metal wares	12	
Trade	185	44.8 %
+ Food	63	
+ Newspapers	41	
+ Sweets, soft drinks	12	
+ Flowers	32	
+ Scrap materials	32	
+ Others	7	
Services	76	18.4 %
+ Transport	20	
+ Laundry	18	
+ Hairdresser	3	
+ Landlord/-lady	23	
+ Prostitute	12	

- The value added which equals turnover less cost of raw materials and stocks on hand varies considerably, and can only be estimated. The collection of relevant data was difficult due to lack of record-keeping by the microentrepreneurs. In the food processing microbusinesses, the value added ranges from 15.7% to 53%, and manufacturing shows a spectrum between 33.3% and 89.5%⁶.

5- This average amount of floating capital for raw materials, working materials, products in store, wages to be paid, unpaid bills less liabilities, and cash is derived from the individual estimates by the heads of the micro-businesses of floating capital necessary for one week of operation. The rate of exchange for US\$ 1 ranged in 1985/86 from Baht 25 to 26.

6- All 86 food processing enterprises together produce a value added of Baht 4,565,958 per annum (70 rice and noodles cook-shops Baht 3,465,350 and 16 candy producers Baht 1,100,608). The other 66 manufacturers achieve an annual value added of approximately Baht 3,643,680. Thus the candy producers realise the highest average value added of Baht 68,788 annual per production unit, followed by other manufacturers with Baht 54,383. The rice and noodle cook-shops achieve an average of Baht 49,505 annually per unit.

The microbusinesses owned by slum residents shall be classified as belonging to the informal or to the formal sector. Based on the three criteria which determine the informality of an enterprise, namely self-generated employment, lack of registration or other legalization, and a high degree of risk and insecurity (like official harassment due to illegal production location, high fluctuation of demand, exclusion from formal subsidized credit markets, minimum-wage legislation and social security programs), around 94% of the researched microbusinesses can be classified as informal. Indeed, all 413 microbusinesses comply with the criterion of self-generated employment with regard to their owner, and only 3 enterprises employ workers who are not members of their extended families. Likewise, all microbusinesses are excluded from access to the formal credit market, government subsidies, social security programs and guaranteed minimum wages. However, only about two thirds suffers from pursuit due to their illegal status (around 30%) or extreme variations in demand for their products (about 32%). The criterion of risk and insecurity is not met by about one third of the firms.

The 390 households which own the 413 microbusinesses have been surveyed with the purpose of ascertaining the contribution of income generated in the informal microfirms to the whole household income. Twenty-three households operate two different microfirms at the same time. The average household size is 4.4 persons out of whom 2 are working.

The total income per household of the 390 slum families ranges from Baht 450 to 30,000 per month. The average monthly income the households earn in the informal sector is Baht 3,540. For 176 families, an average of Baht 2,255 income from the formal sector comes in addition to the income from the informal sector, making an overall average monthly income of about Baht 4,784. These income data elucidate that formal employment contributes an important part to the families' income even in those households which operate an informal microbusiness. In 38 households (9.7%) the income from formal sources is considerable higher than earnings from informal sources. Fifty households (12.8%) earn almost equal formal and informal incomes. 125 households (32.3%) receive a clearly higher informal than formal income whereas the majority, or 176 households (45.1%) earn their living solely within the informal sector. Besides, taking into account that in about 30% of the cases the investment capital for founding the microbusiness had been earned through employment in the formal sector, while the sales of two thirds of the microbusinesses depend on the purchasing power of their customers outside of the slum settlement, it becomes evident that the informal sector alone cannot be considered as the "engine of a self-sustaining development process" in these slum areas, as assumed by Baldeaux (1983).

3. The economic survival territory of slum inhabitants

Following the insights gained from the previous discussion - that the informal sector concept can catch only parts of the very complex economic activities found in the slums settlements - the model of the economic survival territory shall be introduced. The concept of the economic survival territory (EST) enables us to distinguish and fully analyze the slum residents' complex and diverse income generation activities, and the related streams of goods, money and migrating people. The EST-model does not focus on a supposed dichotomy between an informal and formal sector, but rather looks at the entire activities of the slum households which, caused by a striving for secure employment and

income opportunities, lead to strategic actions directed towards a combination of different income sources.

The fundamental ideas of the EST-model are based on the paradigm of the "Überlebensökonomisches Territorium" developed by Maennling (1984) which lays hold on the spatial shape of socio-economic exchange relations between poor rural and urban population groups. Owing to the centralization and departmentalization of the public administration measures, the fight against urban poverty has in most developing countries remained confined to less efficient, singular projects, such as sites-and-services, in contrast to comprehensive rural development programs. Insufficient interdisciplinary cooperation between the different academic disciplines which deal with regional development theory led to research studies about migration focusing mainly on the extent, structure, short-term course and individual motives of the migrants. Thus, they give only disconnected facets of economic survival activities of poor population groups which do not relate to the regional context of their established exchange networks.

The central thesis of the EST assumes that rural-urban migration in developing countries has caused poor population groups in rural regions and urban slum areas to mould a survival economy with specific features⁷ because they cannot find sufficient occupation and income neither by farming nor in the urban industrial sector. This peculiar manner of economic activity is called survival economy. The households have to combine formal and informal occupation with subsistence production to satisfy their basic needs. Their strategic action plans aim at applying the total labour force available in their household in such a way that the highest possible income is realized. Due to this, a substantial number of households in slums and villages change their composition within certain periods. The household members engage in permanent or seasonal intercity, intracity, and circular rural-urban-rural migration. As a consequence of these migration flows, distinctive economic rural-urban networks are established which play a central role, both for the survival of slum households as well as their relatives living in rural communities.

Based on these considerations Maennling developed the paradigm of the "Überlebensökonomisches Territorium" with emphasis on the context of peripheral urban settlements, the center of the regional growth pole and peripheral rural settlements. The economic transaction networks are created between the regional growth pole and urban settlements at the periphery as well as among the peripheral urban settlements. Such transaction networks also exist connecting rural settlements and the related central town. The extension of the intrasettlement and rural regional connections for securing the resources for survival and the sustained exchange of goods, services and labour between rural and peripheral urban settlements, even across considerable distances, is pointed out as a distinctive feature of the living conditions of poor families in peripheral locations.

The household plays a central role in the actual exchange of transactions through the established networks. The households' room for actions to secure survival and to explore new production and reproduction resources by combining reproductive work (subsistence production, homework) and employment is largely determined by the available labour potential (Maennling, 1984).

7- See Bennholt-Thomsen (1981); Herrle (1983); Illich (1983); Jacobi/Niess (1980).

The economic exchange networks are established within the reach of extended families and regionally split-up households. They are directed towards exploring access to the resources of their counterparts. This is done through the direct exchange of goods and money as well as indirectly on informal markets which, according to Maennling, are not dominated by neoclassical market forces.

The stability and intensity of the exchange relations depend mainly on the extent of communal organization within the settlement, which is more distinctively developed in rural regions but influences also the spatial and communal organization of villagers who have recently migrated to the city. Other factors affecting the exchange networks, like distance, diversification and shortage of exchangeable goods, can be relativized by strong family ties. As a precondition for the stability of the exchange networks the benefits of exchanged goods, services and labour must be perceived in the long run as equal, whereby the exchange relations are judged based on economic as well as socio-cultural criteria.

Through the exchange networks which are organized along family and communal ties the households form economic action-rooms for the generation of their survival income. These action-rooms can condense in the cities in the form of slums to economic survival areas in which intensive exchange relations emerge between rural households of small holders or tenants and households in poor urban settlements of the related regional center (Maennling, 1984). The ability of people living in slums and small holder communities (economic survival areas) to overcome, at least partially, the settlement-specific shortages of resources is seen as an indigenous development of these areas.

Several economic survival areas (slums and villages) connected by exchange relations via the regional center form an economic survival territory. The reach of the EST depends more or less on the formal economic sectors in the region. The transport infrastructure and a certain number of workplaces in factories, food markets, construction sites, ports, etc. available for slum residents as well as markets for the microbusinesses - all these are important preconditions for the formation of migration streams and the consequent establishment of household related exchange networks.

Maennling leaves the question unanswered whether the EST concept, originally designed for the context of exchange networks between peripheral slums and rural communities channeled through a regional center, can also be applied to inner-city slums and dispersed rural communities. He recommends testing this for different countries and regions in individual case studies. This will be done in Chapter Four for three of the five slum settlements researched in this study.

For this purpose the EST of slum residents in Bangkok will be structured and analyzed from the urban perspective with the "circular flow" analysis, an instrument which is usually applied in the calculation of the Gross National Product (GNP) for a country. The "circular flow" analysis depicts the transactions between the different sectors of an economy, and measures the level of economic activity which is indicated by the size of the GNP.

The economic structure of slums as parts of the EST is analyzed along the lines of the categories of the "circular flow" of transactions in a national economy in order to grasp the economic transactions between the slum and the world around it. Thus, all transactions of slum households as producers and consumers within the survival area slum, as well as the exchange with other urban sectors and the home villages of migrants living in the slum, can be recorded. The economic interlocking of urban and rural survival areas, their relative autonomy, and the extent to which the

slums are integrated into the urban macroeconomy can be analyzed with the "circular flow" categories. In particular, with regard to the purpose of this study, to evaluate the contribution of informal employment to the survival income of slum residents and potential development perspectives of slums as economic survival areas, the "circular flow" analysis is most suitable for comparative city and country studies.

The categories of circular flow of economic transactions applied in the calculation of the GNP allow a systematic consideration of the very complex and heterogeneous economic survival activities which previously could be recorded only to a limited extent with the informal sector concept.

The transaction categories applied in the GNP calculation have been developed for modern industrialized market economies and can certainly not be applied unchanged. Slum settlements are not political economies, nor do the economic transactions in slums have all the same characteristics, like the streams of goods and financial resources in an industrialized country with specialized subsectors.

In the following analysis of economic cycles in three of the five researched slums in Bangkok, some transaction categories cannot be found at all while others exist only in a rudimentary form. Essentially the following modifications are necessary:

- For the public sector: in general, there are no public sector institutions in slums and squatter settlements. Compared to other sectors in the urban economy, microbusinesses and households in slum and squatter settlements pay no or relatively low amounts of tax. Only 1.2% of the researched microenterprises run by slum residents pay a small business tax while none pay any income tax for their workers. For the following calculation of the 'Gross Slum Product'(GSP) of the economic survival area, tax on wages is considered only for those employees who could confirm with certainty that their employers pay tax on their wages to the tax authorities. The minimum tax rate on wages of 7% which is valid for a yearly income up to Baht 30,000 is applied homogeneously to all tax-paying employees.

- For the private business sector: the owner and head of the microbusiness, usually considers the operational profit of his business as his freely disposable income and does not reinvest it. Since in most of the microbusinesses investment capital is rather low, none or only very small amounts of depreciation and investment to replace outworn equipment were found. Only 0.9% of the microentrepreneurs had reinvested into their business within the last three years.

Most of the raw materials and commodities are purchased from small retailers in the city, very seldom from traders inside the slum. Some migrants bring agrarian commodities, like rice and herbs from their home villages to the city. These raw materials for food stalls are valued by the prices of the commodities sold on the markets in the slum neighbourhood.

Due to the fact that the microentrepreneurs consider profits (after taxes, if they pay tax) less wages as their personal income, the microfirms' savings are always zero. Any amount saved by the microentrepreneurs is considered as personal savings and recorded here under the category of savings within his family's household.

- For the private household sector: unlike several other studies (Evers and Korff, 1982; Evers, 1981 & 1982) which consider the subsistence production as an important contribution to income

generation in slum households, in the slums researched here only a minority produce goods for their own daily consumption, i.e. food. For these households, a simple production account is established which sets the self-produced output (valued by the local market price for similar goods) against a calculated factor income as payment for the production factor's contribution. The subsistence production found in the slums in Bangkok consists of food production, collection of half-rotten vegetables from markets in the neighbourhood, collection of fuel wood, charcoal production, and construction of shelter and drinking water wells by unpaid labour from household members and friends⁸. In the cases of recently built houses we were informed about the total monetary expenditures including materials and paid labour. For older houses the owner could not recall the total construction costs, but told us an estimated actual resale price.

Besides being engaged in their own microbusiness and in subsistence production activities, the slum residents earn wages in private business companies, the public sector or private households in the city. A few households receive transfer incomes, like wages from relatives working in Saudi Arabia or from household members who try to earn a living as beggars. Others send transfers to their home villages to support relatives or to finance investments into their family's farm.

- For the 'slum economy' sector: the sector 'slum economy' of the economic survival area is not congruent with the settlement area. Apart from the microenterprises located within the settlement, those run by slum residents outside the slum area also belong to the private business sector⁹. The incomes of all self-employed and their paid workers are considered as being generated within the 'slum economy' sector, regardless of the microfirms' location.

The wages of slum residents employed in business companies and private households outside the slum and in the public sector, however, are considered as generated outside of the 'slum economy' sector. These incomes from outside are part of the 'balance of payments', like the transfer incomes from Saudi Arabia and from relatives living outside the slum, as well as agricultural raw materials from the home villages. The related account is here called "outside world".

"Outside world" account	
Exports of consumer goods	Imports of production inputs
Transfers received	Imports of investment goods
Income from employment	Imports of consumer goods
	Raw materials from home villages
	Transfers paid
	Direct taxes
	Balance of payments

The following analysis of the economic structure of three slum settlements cannot determine the 'GNP' of the whole economic survival territory (EST), i.e. the slum and home villages of migrants, but rather only the Gross-Slum-Product (GSP) of the economic survival area slum and its

8- Evers (1981) and Evers and Korff (1982) define the construction of shelter, water wells and walkways as urban subsistence production. As the newly constructed houses and water wells serve mainly for satisfying basic needs of all households members they are not considered as investment into the microbusiness.

9- Nationals (concept of the GNP) calculation.

dependence on external relations to the city and the home villages of migrants¹⁰. The transactions recorded in the "outside world" account are reflected in the following consolidated accounts of all microbusinesses and all slum households for production, utilization of income and change of capital:

Slum production account	
Depreciation	Consumption
Remuneration for production factors	Raw materials from home villages
Imports of production inputs	Profits of microfirms
	Exports of consumer goods
Slum income utilization account	
Transfers paid	Remuneration for production factors
Consumption	Transfers received
Savings	Profits of microfirms
Direct taxes	
Slum capital account	
Imports of investment goods	Depreciation
Balance of payments	Savings

4. The economic cycle in the survival area slum

The circular flow of transactions or the "economic cycle" within the slum, its linkages to other economic sectors in the city and to the home villages of migrants will be analyzed for the following three slum areas in the metropolis of Bangkok:

The slum Trok Tai, which has existed for more than 100 years is located on a very small strip of land, and its huts are squeezed in between a water canal and the walls of a shop-house complex. The owner of this land is the Crown Property Bureau. Today, 49 families with 113 adults, 42 youngsters and 21 children remain in Trok Tai. The average household size is 3.6 persons. Most of the families earn their living as artisans and peddlers, as they have done for many generations. Only 18% of the 101 working residents are employed in the formal sector while 82% run their own informal microbusiness. No subsistence production activities were observed during this survey.

The squatter settlement Rimbueng Makkasann is situated in a swamp area owned by the State Railways of Thailand (SRT) close to the big railway repair-shop at Makkasann. The population of Rimbueng Makkasann consists of 334 families with 837 adults, 180 youngsters and 324 children. The average household has 4 members. 47% of the 657 gainfully employed residents work in the formal and 49% in the informal sector. Some 10% are engaged in subsistence production.

The relatively young squatter settlement Chumchon Pattana in the suburb Bangna is located on a privately owned plot close to an approach road leading to the superhighway. The first squatters settled

10- One could calculate the 'Gross Village Product' for all villages of migrants living in the slum and combine this with the 'Gross Slum Product' in order to get the 'GNP' of the whole EST. This calculation would consider exchange between the rural and urban survival areas not as external but rather internal transactions. The effort to collect all relevant empirical data, however, could not be accomplished within the framework of this study.

here about eight years ago. The families in Chumchon Pattana, like the residents of the other two settlements, don't pay rent for their plots. They do have, however, a permit signed by the landowner to stay on provided they prohibit new families from settling down¹¹. The squatters have in return signed a document promising to leave the area without any resistance in case the owner wants to sell or lease the site. The 43 families, 110 adults, 26 youngsters and 39 children who used to live in 1986 in Chumchon Pattana had at the average 4.1 household members. Out of the 92 persons who worked rather regularly, 59% drew their income from formal and 41% from informal sources; 49% were, in addition to their employment, engaged in some subsistence production.

4.1 Income generation within the settlements

The residents of the three researched slums generate income in the microbusiness sector within the slum settlements mainly in manufacturing and services (see tables 2, 3 and 4). Only in Rimbuing Makkasann does the trade sector hold the first rank, with 8 food shops and a news agent, whose young vendors sell the newspapers at crossroads to motorists. Moreover, due to the favourable location on the edge of a swamp, 16 families are engaged in urban farming activities.

Table 2: Income generation in the microbusiness sector within the settlement Trok Tai

Sector	Number of firms	Number of employers	Number of employees	Average income per month, in Baht	
				employers	employees
<i>Services</i>					
Laundry	2	2	-	650	-
Electricity sales	1	1	-	400	-
<i>Manufacturing</i>					
Paper garlands	22	24	-	2,031	-
Toys	8	12	-	2,750	-

Table 3: Income generation in the microbusiness sector within the settlement Chumchon Pattana

Sector	Number of firms	Number of employers	Number of employees	Average income per month, in Baht	
				employers	employees
<i>Services</i>					
Laundry	2	2	-	2,497	-
Landlady	1	1	-	400	-
<i>Manufacturing</i>					
Candies	2	4	-	2,334	-
Pastry	2	2	-	1,198	-
Bicycle workshop	1	1	-	5,000	-
Tailor	1	1	-	300	-
<i>Urban farming</i>					
Pig breeding	1	1	-	4,092	-

11- The squatters have to organize the stopping of new arrivals themselves. Since 1987 they have had an elected committee to coordinate their actions and negotiations with the landowner and government officials. The only newcomers allowed to stay in the settlement are relatives of old-established residents.

Table 4: Income generation in the microbusiness sector in Rim bueng Makkasann

Sector	Number of firms	Number of employers	Number of employees	Average income per month, in Baht	
				employers	employees
<i>Trade</i>					
Food	8	8	-	2,958	-
Newspapers	1	4	2	7,121	2,400
<i>Services</i>					
Hairdresser	2	3	-	4,054	-
Landlord/-lady	10	10	-	340	-
Laundry	9	9	-	2,498	-
<i>Manufacturing</i>					
Cook shops	6	6	-	1,564	-
Tailor	4	4	-	2,375	-
Shoemaker	1	1	-	3,000	-
Motorcycle workshop	1	1	1	3,958	600
Paper bags	8	16	-	400	-
<i>Urban farming</i>					
Chicken breeding	6	6	-	1,200	-
Duck breeding	5	5	-	1,800	-
Pig breeding	3	3	-	4,000	-
Vegetable gardening	2	2	-	2,800	-

4.2 Income generation from outside

The self-employed microentrepreneurs in Trok Tai and Chumchon Pattana generate income outside the slum settlement, in the city, mainly by food processing. In Rim bueng Makkasann trade in fruits, vegetables, flowers and newspapers ranks first before cook shops and transport services (see table 5). The activities of these micro-entrepreneurs are, in some cases, spread over extraordinary long distances as many of those who had been evicted already several times from other slum areas were able to maintain their old sales markets and clientele. Most of the microentrepreneurs in Chumchon Pattana, however, who had migrated to Bangkok within the last five years, have established their business relations in a food market and close to a stop for intercity buses in the neighbourhood. The microentrepreneurs of Trok Tai who had lived here for many generations could maintain and deepen their business contacts in the immediate and wider vicinity of their settlement.

The majority of the working residents in two slums are employees; 58% of the working residents (380 out of 657) in Rim bueng Makkasann and 67% in Chumchon Pattana (62 out of 92) are employed outside the slum settlement while three people in Rim bueng Makkasann work as employees in microfirms within the settlement. In Trok Tai, however, only 33% of all working residents are employed outside the settlement.

4.3 Total income generation - the net slum product

The residents of Rim bueng Makkasann, the biggest settlement among the three slum areas researched between September 1985 and November 1986, produced an aggregate annual income in 1986 of Baht 16,664,260 equal to Baht 12,427 per capita, which consists of the following components:

Table 5: Income generation in the microbusiness sector outside the settlement

Sector	Rim bueng		Chumchon Pattana		Makkasann	
	Number of firms	Average income	Number of firms	Average income	Number of firms	Average income
<i>Trade</i>						
Food	34	4,547	-			-
Newspapers	21	1,430	-			-
Flowers	17	1,600	-			-
Candies	10 (16)	2,250	-		2 (6)	-1,650
Scrap dealers	5	3,417	-			-
Cardboard, paper & plastic waste	8	400	-		4 (6)	260
Drugs	5	1,500	-			-
Paper garlands & toys			4	1,500		
<i>Services</i>						
Auto-taxi	5	3,330	-			-
Sahmlor (tuk-tuk)	12	2,958	-			-
Tricycle-taxi	1	1,300	-			-
Go-go girls	5	3,000	-			-
Prostitutes	3	5,000	4	10,000		-
<i>Manufacturing</i>						
Cook shops	38	2,878	-		4 (6)	2,782
Fish grill shop			9 (12)	4,900		-

Notes of table 5:

- Five households in Rim bueng Makkasann earn by begging in shopping centers and on pedestrian bridges about Baht 1,500 per month. Two families in Chumchon Pattana who don't make enough income by collecting waste materials for recycling, like cardboard, plastic and bottles, get one free meal per day from alms left over by monks in a nearby temple. These transfers amount, on the average, to Baht 633 monthly per household.
- Once or twice per year, 26 households in Rim bueng Makkasann bring rice and dried spices back from visits to their home villages. Thirty-five families here and four households in Chumchon Pattana have left their school-aged children behind in the village with relatives because it is less expensive to support them there than in Bangkok. The families of Trok Tai do not maintain any connections with their villages of origin as they had migrated to Bangkok many generations ago.
- Two young men and two women from Rim bueng Makkasann - who earn, in Saudi Arabia, an income of Baht 8,000 per month as construction workers and, as nurses in a hospital in Ryad, Baht 5,000 per month - transfer each between Baht 1,000 and 3,000 per month to their families.

Table 6: Income generation Rim bueng Makkasann in 1986 (in Baht)

	Slum	City	Villages	Total
Trade	683,376	3,519,804	---	4,203,108
Services	456,204	3,663,624	---	4,119,828
Manufacturing	394,104	4,387,560	---	4,781,664
Construction	---	1,412,688	---	1,412,688
Public sector	---	1,452,564	---	1,452,564
Urban farming	405,600	---	---	405,600
Subsistence production	87,888	---	10,848	98,736
Subtotal	2,027,172	14,436,240	10,848	16,474,260
+ Transfers				
National	90,000			
International	100,000			

Net Slum Product (valued by market prices) = Slum Income 16,664,260

Microentrepreneurs contributed 39% of the Baht 14,436,240 generated outside the settlement in the city, while 61% was earned by employees. Within the settlement Baht 2,072,172 was produced mainly by microbusinesses (96%), while the remaining 4% was obtained by subsistence production.

The families in *Trok Tai* produced during the same period an aggregated annual income of Baht 3,253,260 or Baht 18,484 per capita. Microfirms contributed 59% of the Baht 2,251,680 generated outside the settlement, while 41% was obtained by residents who are employed in factories and on construction sites. The remaining Baht 1,121,580 was produced by microbusinesses located within the slum settlement.

Table 7: Income generation Trok Tai in 1986 (in Baht)

	Slum	City	Villages	Total
Trade	---	72,000	---	72,000
Services	36,000	834,240	---	870,240
Manufacturing	1,085,580	1,076,640	---	2,162,220
Construction	---	148,800	---	148,800
Subtotal	1,121,580	2,251,680	---	3,253,260

Net Slum Product (valued by market prices) = Slum Income 3,253,260

In Chumchon Pattana the total slum income in 1986 amounted to Baht 2,203,416, which equals an annual per capita-income of Baht 12,591. Microentrepreneurs produced only 18% of the income of Baht 1,870,008 generated outside the squatter settlement, while 82% was contributed by employees who work mainly in factories. The share of microbusinesses located within the settlement amounted to Baht 318,216. Transfers in the form of free meals obtained from a Buddhist temple in the neighbourhood contributed Baht 15,192.

Table 8: Income generation Chumchon Pattana in 1986 (in Baht)

	Slum	City	Villages	Total
Trade	---	139,680	---	139,680
Services	64,728	465,744	---	530,472
Manufacturing	204,384	1,017,072	---	1,221,456
Construction	---	80,592	---	80,592
Public sector	---	166,920	---	166,920
Urban farming	49,104	---	---	49,104
Subtotal	318,216	1,870,008	n.a	2,188,244
+ Transfers				
- National	15,192			

Net Slum Product (valued by market prices) = Slum Income 2,203,416

The main part of the total annual slum income of all three slum areas, or between 69% and 86%, is produced outside the settlement, within Bangkok. In Rim bueng Makkasann and Chumchon Pattana, employees contribute the biggest shares of 61% and 82% respectively. In Trok Tai, however, the microentrepreneurs whose families used to pass their profession on to their children for many generations obtained 59% from activities outside and a further 34% from within the slum settlement. These higher shares are explained by the fact that young migrants from up-country, who usually prefer to work as employees in a factory, cannot settle in Trok Tai as there is no more space available.

4.4 Income distribution

In both Rimbueng Makkasann and Chumchon Pattana, the income generated by employees - Baht 8,881,764 and Baht 1,533,936 respectively - is higher than the income produced by the microentrepreneurs - Baht 7,493,760 and Baht 654,288 respectively. This is also reflected in both settlements by the relatively high contribution of incomes produced in the formal sector. In Trok Tai, on the other hand, the microentrepreneurs' income is - parallel to the importance of informal occupations - two and a half-times higher than the employees' income. By adding the depreciation of equipment used in the microfirms to the net slum product valued by market prices, one arrives at the gross slum product as the microfirms neither pay indirect tax nor receive any subsidies.

Table 9: Income distribution in Rim bueng Makkasann in 1986 (in Baht)

	Entrepreneur income	Employee income	Transfers income	Subsistence production	Total income
<i>Rim bueng Makkasann</i>					
Slum	1,874,484	64,800	---	87,888	2,027,172
City	5,619,276	8,816,964	90,000	---	14,526,240
Villages	---	---	---	10,848	10,848
Abroad	---	---	100,000	---	100,000
Slum Income	7,493,760	8,881,764	190,000	98,736	16,664,260
+ Depreciation	36,960				
Gross Slum Product					16,701,220
<i>Trok Tai</i>					
Slum	1,121,580	---	---	---	1,121,580
City	1,257,600	874,808	---	---	2,131,680
Slum Income	2,379,180	874,080	---	---	3,253,260
+ Depreciation	160				
Gross Slum Product					3,253,420
<i>Chumchon Pattana</i>					
Slum	318,216	---	---	---	318,216
City	336,072	1,533,936	15,192	---	1,885,200
Slum Income	654,288	1,533,936	15,192	---	2,203,416
+ Depreciation	968				
Gross Slum Product					2,204,384

4.5 Income utilization

In all three settlements expenditures for consumer goods share a very high proportion of the utilization of income, with 85% in Rim bueng Makkasann, 88% in Trok Tai, and 69% in Chumchon Pattana. In addition to these monetary expenditures, a few families produce food by subsistence production, which amounted, in 1986, to Baht 98,736 equal to 0.6% of the total slum income.

The share of total expenditures for consumer goods purchased from microfirms within the settlement was 12% in Rim bueng Makkasann, 1% in Trok Tai, and 8% in Chumchon Pattana. On average, a household spent Baht 3,550 for consumer goods per month in Rim bueng Makkasann in 1986, Baht 4,898 in Trok Tai, and only Baht 2,959 in Chumchon Pattana. The expenditures for consumer goods of individual families ranged between Baht 470 and 11,000 per month.

Table 10: Income utilization in 1986 (in Baht)

	Slum	City	Village	Total
<i>Rim bueng Makkasann</i>				
Consumption				
- Monetary	1,682,747	12,544,015	---	14,226,762
- Subsistence production	87,888	---	10,848	98,736
Direct taxes	---	428,244	---	428,244
Transfers paid	---	---	395,400	395,400
Savings				1,515,118
Net Slum Product (valued by market prices) = Slum Income				16,664,260
<i>Trok Tai</i>				
Consumption				
- Monetary	31,280	2,848,700	---	2,879,980
- Subsistence production	---	---	---	---
Direct taxes	---	4,500	---	4,500
Transfers paid	---	---	---	---
Savings				368,780
Net Slum Product (valued by market prices) = Slum Income				3,253,260
<i>Chumchon Pattana</i>				
Consumption				
- Monetary	117,070	1,409,642	---	1,526,712
- Subsistence production	---	---	---	---
Direct taxes	---	69,460	---	69,460
Transfers paid	---	---	35,800	35,800
Savings	571,444	---	---	571,444
Net Slum Product (valued by market prices) = Slum Income				2,203,416

Unlike the residents in the two other settlements, the families in Chumchon Pattana saved the comparatively high amount of Baht 571,444 in 1986, which equals 26% of the total slum income. Most of the 43 families in this squatter settlement expected to be evicted sooner or later. This expectation and a high portion of migrants from rural areas who tend to save as much as possible for investments into their residence in the home village led to this high savings rate. Like the households in the other two settlements, the 29 families who stated that they pay regularly money into their saving accounts at commercial banks did not, however, want to reveal the total amount of savings kept.

In all three settlements, the annual savings are estimated for each individual household from the difference of the total income and expenditures reported by the households. Unlike Chumchon Pattana, the annual savings estimated for Trok Tai of Baht 368,260 and for Rim bueng Makkasann of Baht 1,515,118 are not entirely paid into bank accounts but include a considerable portion of expenditures for gambling, underground lotteries and purchase of gold ornaments which can be sold in times when the household is short of cash. Also included are expenditures for drugs, like cannabis, opium and heroin, which slum residents consume regularly but did not report when asked about their expenditures.

Additional components of the slum income utilization are the direct taxes paid by some microentrepreneurs and employees in the formal sector. In Rim bueng Makkasann, 325 employees paid 7% of the income as tax on wages, while 13 microentrepreneurs (12 taxi drivers and a newspaper retailer) paid motor vehicle tax and business tax. In Trok Tai, however, only 18 employees paid tax on wages while public sector employees, watchmen, drivers, factory workers and 2 microfirms in Chumchon Pattana paid tax on wages, business tax and bribes to policemen and other government agency representatives.

4.6 The economic cycle in the three slum areas

The slum residents' income generating activities are primarily linked to the demand of private households. The annual income of microentrepreneurs from sales of consumer goods to urban households outside the slum areas amounted in Rim bueng Makkasann to Baht 26,531,505 and in Trok Tai to Baht 5,565,220. In both slums these components contribute the highest share of the total annual slum income. The microfirms' sales to other slum residents of Baht 1,682,747 in Rim bueng Makkasann and Baht 31,280 in Trok Tai are comparatively low.

The wage income from employees in private business companies outside the slums contributed the second highest share of income in Rim bueng Makkasann and Trok Tai with Baht 7,094,400 and Baht 874,080 respectively. The public sector employees in Rim bueng Makkasann earned an annual income of Baht 1,452,564 while employees in microfirms received Baht 64,800. In Chumchon Pattana, where many of the rural migrants who have rather recently come to the Greater Bangkok Metropolitan Area are employed in factories along the Bangna-Trad highway, the wage incomes earned in private business companies contributed the highest share of Baht 1,367,016, followed by the microentrepreneurs' income of Baht 654,288 and wages earned in the public sector of Baht 166,920.

The microentrepreneurs purchase raw materials, other production inputs and investment goods mainly from private urban retail shops. The public sector supplies only between 0.3% and 0.7% of the production inputs in the form of water and electricity to Rim bueng Makkasann and Trok Tai. The squatter settlement Chumchon Pattana is not connected to any public utilities. The microfirms in Rim bueng Makkasann and Chumchon Pattana in 1986 purchased investment goods in gross for Baht 60,000 and Baht 2,800 respectively. In Trok Tai, no investments were made in that year. The depreciation of 10% annually is due to the low value or old age of the equipment - Baht 36,960 in Rim bueng Makkasann, Baht 968 in Chumchon Pattana, and Baht 160 in Trok Tai.

Direct taxes, like business tax and motor vehicle tax, are paid by only a few microentrepreneurs in Rim bueng Makkasann and Chumchon Pattana (Baht 4,050 and Baht 7,200 per year respective).

The slum households buy most consumer goods from small private retail shops. In 1986, the consumer goods purchased outside of the slum settlements amounted to Baht 12,544,015 in Rim bueng Makkasann, Baht 2,284,700 in Trok Tai and Baht 1,409,642 Chumchon Pattana, equivalent to 88%, 99% and 92% of the total monetary expenditures for consumption per year.

The economic exchange relations with the home villages of migrants consist of one way transactions, except for the transfer of raw materials to two microfirms in Rim bueng Makkasann, which amounted to Baht 9,120. The migrants in Rim bueng Makkasann and Chumchon Pattana have

transferred Baht 395,400 and Baht 35,800 to their home villages, which represents 2.4% and 1.6% of the total slum income generated in 1986.

The extent to which the researched slum areas depend on their environment, the "outside world", is measured by contrasting the in- and outflow of consumer goods, services, production factors and transfers which determine their balance of payments (for details see page 21). The settlement Chumchon Pattana, with a negative balance of payments of Baht 13,247 per household, depends most on the "outside world", followed by Trok Tai with Baht 7,259 per household and Rim bueng Makkasann with Baht 4,467.

5. Territory and features of the economy of survival

The family household plays a central role in the economy of survival of slum residents in Thailand. The household members combine various formal and informal income generation activities and subsistence production in order to secure the income required for the survival of their family. Far more than half of the slum households combine formal with informal employment to earn their living. Regular subsistence production of food like vegetables, eggs, bananas, etc. and of charcoal was found in only 10% of the households. More than 75%, however, had built their houses themselves, relying on the help of family members and friends. The remaining households had engaged paid construction workers.

Within the last fifteen years, during which the industrialisation of the Greater Bangkok Metropolitan Area and some surrounding provinces has accelerated rapidly, formal employment has obviously gained more importance for slum residents. Research studies of slums in Bangkok during the seventies still found that the vast majority of the slum population was employed in informal enterprises (Rabibhadana, 1977, Yamklungfung, 1973). But many of the younger residents interviewed during this study whose parents earn their living as microentrepreneurs stated that they preferred to be employed in big factories. Among the reasons mentioned were regular and fewer working hours, more security, and making friends among co-workers. Big factories in and around Bangkok, however, prefer in general to employ women. These workers seldom earn more but often less than the legal minimum wage and can be usually laid off without major problems.

Two thirds of the mostly informal microfirms run by slum residents are headed by women, of whom 44% are the main income earners in their families. The majority (55%) of incomes earned by the microentrepreneurs are noticeably higher than the legal minimum wage, and the 20% who earn less also work considerably fewer hours per week than their colleagues.

The supply of goods and services is geared towards basic needs. Almost 74% of the microfirms sell goods which are produced with raw materials from the primary sector and labour-intensive technology. The age of the microentrepreneurs and the fact that almost all own the microfirm they head speaks for the sustainability of the microfirms. The existing entrepreneurial skills and potential for expansion, however, are in many cases constrained by government regulations, harassment, scooped out sales markets, lack of access to loans from the formal banking sector and social obligations towards their extended families which often cause a considerable outflow of working capital.

Table 11: Share of different slum income sources (in percent)

	Rim bueng Makkasann	Trok Tai	Chumchon Pattana
Micoentrepreneurs	45 %	73 %	30 %
Wages: Private business firms	44 %	27 %	62 %
Wages: Public sector	9 %	-	8 %
Wages: Microfirms	0.4 %	-	-
Subsistence production	0.6 %	-	-
Transfers from abroad	1 %	-	-

Note: Among the working slum residents, 5% have more than one occupation to earn their income.

The economic survival territory of slum residents has its centre in urban areas outside the slum settlements. The economic cycles of the three slum areas researched here in detail clearly show that metropolitan slum settlements are economically highly integrated into the urban economic system and sustain only singular and limited exchange relations with the home villages of rural migrants.

In all three slum settlements, the microfirms contribute substantial parts of the total annual slum income. But the incomes they generate are for most families not sufficient to guarantee a basic subsistence, and have therefore to be supplemented by employment of household members in formal private business firms and the public sector. The share of total slum income generated through continuous subsistence production is, at 0.6%, comparatively low. Without subsistence production, however, several families could not secure a sufficient survival income.

The microfirms buy raw materials and investment goods almost exclusively from small retailers in the city. The slum households purchase food and other consumer goods mainly from markets and small retail shops outside their settlements. Only up to 35% of the expenditures for consumption are spent at microfirms which supply their goods within the slum areas. The microfirms run by slum residents find their main markets and customers outside of the slum settlements and sell barely 30% of their goods and services to their neighbours within the slums.

Therefore, contrary to some opinions, slum and squatter settlements are by no means autonomous islands in the urban system which are interwoven with rural settlements through a network of economic reciprocities (Maennling, 1984) and endowed with an independent development potential (Baldeaux, 1983). Slum and squatter settlements, on the contrary, depend to a high extent upon their immediate urban neighbourhood for the sale of goods and services produced by microentrepreneurs, purchase of production inputs and investment goods as well as food and other consumer goods.

Although more than half of the microentrepreneurs and the majority of adult slum residents have migrated to Bangkok from rural areas, the economic exchange relations between their home villages and their urban slum residence are hardly pronounced. With increasing age of the settlement and a growing number of families that have lived in the slums for many generations, the socioeconomic linkages to the origin village of migrants lose their intensity, like, for example, in the slum Trok Tai, which has existed for more than 100 years and is located in the old centre of Bangkok. Only in cases where several households in older slum areas let out rooms to seasonal or new rural

migrants can some linkages between older slum areas and rural villages emerge as, for example, in Rim bueng Makkasann. Indeed, slum residents tend, both as microentrepreneurs and as consumers, to engage in economic transactions with small family enterprises and market retailers for which the features of informality mentioned in the beginning hold true, which are self-employment, no registration and a high level of risk and insecurity.

Maennling's presumption, however - that economic transactions between households in rural areas and urban slum and squatter settlements established through migration, besides being mediated via the direct exchange of goods and money, would be mainly channeled through informal markets which are ruled by other than market forces (Maennling, 1984) - cannot be verified for the slum areas researched here. The existing market mechanism, of course, cannot be equated with the market systems of Western industrialized economies which are controlled by fiscal and monetary policies. It is not an economic system which is characterized by a differentiated subsystem (Luhmann, 1970) equipped with its own decisive logic. The economic decisions are rather embedded in sociocultural conditions which are determined by Buddhist philosophy and the system of social values, and dominated by instrumental pressure groups, like patron-client networks, and the related hierarchy of authority (Igel, 1988). The social obligations towards the family and reciprocal relationships with neighbours and friends likewise influence the economic decisions.

The socioeconomic behaviour of the actors in the economy of survival is determined by the fundamental principle of reducing insecurity regarding the supply of basic goods caused by fluctuating incomes¹². However, despite the various strategies of risk minimization, like the combination of different income sources and tying of reciprocal exchange networks beyond the extended family, the microentrepreneurs respond positively to market signals, like growing demand, rising sales prices, etc.

That there is potential for innovations in the economy of survival has been proved by hundreds of thousands who changed their profession from tenant or small holder to microentrepreneur or wage worker. Yet, most microentrepreneurs' potential for innovation is restricted to imitating successfully tested production techniques and sales strategies of their neighbours and friends. The market mechanism, which functions in principle, is curbed considerably in many areas by dominating cartels, as on the informal credit market, and Mafia-like limits of access to resources and sales markets as well as patronage and nepotism.

12- The lack of planning, a high appreciation of quick, visible profits and the widespread tendency to engage in illegal lotteries and gambling, which involves comparatively high amounts of money, was found in almost all slumhouseholds and is, according to the microentrepreneurs, motivated by the daily insecure supply of basic goods and a latent or acute threat of eviction from their settlements and work places.

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Micro and Small Enterprises and Institutional Framework: a Comparative Study of Thailand, Ecuador and Tunisia

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Introduction

In most developing economies, modern sector enterprises have failed to provide rapidly growing active populations with sufficient levels of employment. The impact of structural adjustment programmes has increased this shift: both cuts in public expenditure and the economic recession have led existing parastatal and private firms in the modern sector to reducing their staffs. Therefore, the development of small private activities -- the so-called "informal sector" -- appears as the only alternative to job stagnation or reduction in the modern sector. Finding ways of promoting job creation in the informal sector has thus become a major issue in development economics.

Aside from "traditional" economic analyses of this question, the institutional approach has drawn a growing interest in the 1980's (See de Soto, 1986):. One of its main features is the assumption that inadequate laws and regulations impede the growth of informal activities; if legal obligations, such as the fiscal burden or minimum wage laws, are too expensive and/or too difficult for small entrepreneurs to comply with, they may either endanger the profitability of small businesses or oblige them to operate outside the legal parameters, denying them access to vital inputs such as credit from banks, or opportunities such as public contracts. Consequently, reforming institutional frameworks might be a low-cost way of promoting the growth of these informal activities through a better integration with the modern "formal" sector.

The aim of this paper is briefly to review some of the first results of the OECD Development Centre's project, "Relations between the Informal Sector and Public Authorities, and Political Power". This project aims at assessing the impact of institutional regulations on the development of micro and small enterprises in developing countries. In that perspective, surveys have been carried out in seven countries: Algeria, Ecuador, Jamaica, Niger, Swaziland, Thailand and Tunisia. This paper proposes a comparative analysis of three of these case studies: Ecuador, Thailand and Tunisia, with a particular focus on Thailand. These countries have similar levels of per capita income but they differ largely in terms of geographical situation, institutional settings and cultural background. Their economic situations also differ, although the three countries now have open market economy regimes. Still, the

growth rate of the Ecuadorian economy since 1988 has been picking up after almost a decade of stagnation, while Thailand's GDP has grown rapidly -- doubling in ten years -- and Tunisia is recovering after a period of structural adjustment.

We will study the degree of compliance of entrepreneurs with various aspects of the different legal and regulatory frameworks: registration, taxation, labour regulations and health and security standards; for each of those aspects, we will also study the reasons given by proprietors for evading their obligations. Finally, we will try to draw preliminary conclusions from this comparative review and to assess the relative impact of institutional constraints compared with macro-economic constraints on micro and small enterprises. The samples used for the surveys are presented in the annex.

1. Registration

In each of the three countries, firms have to be registered in order to establish themselves as businesses. In Ecuador, getting a RUC (Taxpayers Registry) is the first step to qualifying for the promotion laws for craft activities¹: entrepreneurs who register as craftsmen benefit from several economic advantages, compared with "common" small enterprises (cf. infra). Therefore, it is not surprising that the degree of registration should be particularly high in Ecuador: 69 percent of the sample is registered in this country, while the proportion is 20 percent in Thailand and only 3 percent in Tunisia. In the latter two countries, registration is not actually linked with specific advantages; the great majority of those who do not comply with the registration obligation say that it does not concern them or that they do not know about it. In addition, the frequency of registration varies with the size of the establishment: larger enterprises tend to be registered more often than the smaller ones. Still it should be noticed that 50 percent of the own-account entrepreneurs in Ecuador are registered, which seems very high compared to the registration levels observed in the two other countries, where the lack of information from civil services towards entrepreneurs --and especially the smaller ones -- might explain this result.

2. Taxation

2.1 Tax Legislation

Tax legislation appears to vary greatly from one country to another. In Ecuador, three main taxes apply to all enterprises but important exceptions are provided to persons, crafts and firms that earn less than a certain level of income and/or are smaller.

The Thai system is simpler, with one main tax (business tax) accounting for 90 percent of the total fiscal burden (at the time of the survey); moreover, a recent reform has replaced this tax with a Value Added Tax, from which smaller enterprises will be exempted. Of the entrepreneurs, 60% pay the business tax, but these firms represent only 37% of the self employed. The main reason stated for not

1- In Ecuador, the specific regime of firms registered as crafts provides them with a highly protected status and with advantages which allow them to compete with larger firms of the modern sector.

complying with the fiscal obligation is that they are not concerned by it or they are not aware of its provisions. On the part of entrepreneurs, there is no fear of the consequences of not complying with the fiscal obligation. Only a few mentioned some problems such as the need to change location often or the risk of paying a fine. Moreover, not many Thai entrepreneurs complain about fiscal obligations in general (16 percent of the sample): they do not fear the fiscal administration, and it is sometimes possible to negotiate with civil officers in case of late tax payments.

The Tunisian legislation is slightly more complex and provides fewer exemptions for small establishments than the Ecuadorian and Thai systems. In addition, non-payment of taxes in Tunisia can lead to sanctions including the obligation to cease all activity. Nevertheless, the attitude of civil officers toward the recovering of tax duties appears to be rather lax: in doing so, they aim at reducing the actual fiscal burden imposed on micro-enterprises, which sometimes appears to be too heavy for small producers.

2.2 Compliance with Fiscal Obligations

Payment of taxes is uniformly the type of regulation that small entrepreneurs comply the most with. Table 3 displays the degrees of compliance in the three countries for the main tax, i.e., the most expensive as well as the one for which exemption cases are the most seldom.

Table 1: Compliance with Main Taxes, by Size and Activity*

	Ecuador (patente)	Thailand (business tax)	Tunisia (patente)
1	28	37.4	40
2-5	77	70.8	85
6-10	89		92
+ 10	90	72.8	88
Total	75	60.4	85

Source: Results of the surveys, 1991.

* Percentage of the sub-samples of entrepreneurs liable to pay these taxes.

In all cases, a majority of entrepreneurs say they pay their taxes: 75.5 percent in Ecuador, 60.4 percent in Thailand and 85 percent in Tunisia. In addition, tax payment follows the size of the firm: less than half of the self-employed actually comply with fiscal obligations (28 percent in Ecuador, 37.4 percent in Thailand and 40 percent in Tunisia). Moreover, as the size of the enterprise considered grows, the degree of compliance with fiscal obligations gets higher.

2.3 Reasons for not Complying with Fiscal Obligations

Entrepreneurs who didn't pay their taxes were asked why they evaded this obligation (see table 2). Surprisingly, the main reasons given were neither the cost of taxes (except in Tunisia: 18 percent gave this reason) nor the complexity of administrative procedures, which was not even mentioned in the Thai and Tunisian entrepreneurs' answers. In these two countries, firm owners say that they were unaware of those taxes or that they are not concerned by them. It is worth noting that Thai firms

working as subcontractors can be exempted of the business tax, if it is paid by the main contractor (it depends on the kind of contract); enterprises earning less than 4.000 bath per month are also exempted. There are fewer exemptions in Tunisia, and ignorance of tax regulations seems to be a more widespread reason for "evasion" than in Thailand and Ecuador.

Another reason frequently given is the absence of control or sanctions from civil officers in case of non-payment (42 percent in Ecuador, 35 percent in Thailand and 36 percent in Tunisia). If we assume that all the entrepreneurs who have evaded taxes for that reason, or because of the cost ("too costly") or the complexity of procedures, are true "swindlers", then the "swindle" rate, for each country sample, is 13 percent in Ecuador, 18 percent in Thailand and 8 percent in Tunisia². These rates appear to be relatively low, especially considering the low level of income of many entrepreneurs. Since tax regulations are the most pressing set of institutional rules, we can conclude that refusal of all constraints and preference for illegality are not a dominant feature in the circle of MSEs.

Table 2: Reasons for not Complying with Fiscal Regulations (%)*

	Ecuador (patente)	Thailand (business tax)	Tunisia** (patente)
Unaware of the tax	8	25	36
Non-applicable tax	-	25	-
No controls or sanctions	42	35	36
Too expensive	8	10	18
Procedures too long/complicated	8	0	0
Other reasons	33	5	10

Source: Results of the surveys, 1991.

* Percentage of the number of enterprises not complying with tax regulations (Patente in Ecuador and Tunisia, Business Tax in Thailand).

** Not including the tapestry sector.

As far as the fiscal obligation is concerned, small entrepreneurs do not live with fear of the fiscal administration. Sometimes, negotiation with officers for a postponement can occur. Although there are many complaints about taxation in general, this matter is not a main constraint for the small entrepreneurs. In Thailand, where this measurement is possible from the survey, it appears that the tax pressure among small enterprises is not high on average (although not fairly distributed). Thus, the fiscal obligation is not a crucial obstacle to the growth of small enterprises. This situation should not change with the introduction of the VAT system, since most small enterprises are under the minimum taxable level³, and it will actually benefit small producers.

2- The figures for Ecuador and Tunisia might be slightly under-estimated, due to the selection method used to build up the samples : very small establishments might be under-represented in those two countries, including those operating "underground".

3- According to the new tax law, any enterprise which brings an annual income of less than 600,000 baht is not liable to pay VAT.

3. Labour Regulations

3.1 Legal Frameworks

As for taxation, the Ecuadorian and Thai legal frameworks provide small establishments with more advantages and exemptions in terms of labour regulations than the Tunisian system does⁴. For instance, in Ecuador, craftsmen have to pay a minimum wage to their wage workers that is 25 percent higher than other micro-enterprises, but at the same time, the various exemptions from which they benefit (concerning compensatory wage bonuses, two additional wages every year, etc.) reduce the salaries that they pay by 43 percent, when compared with other enterprises not registered as craft shops. In Thailand, at the time of the survey, firms employing fewer than 20 people were exempted from contribution to the Workmen's Compensation Fund at the Department of Labour. In Tunisia, labour regulations are somewhat stricter and there are no provisions in favour of small establishments for exemptions concerning minimum wage or social security.

3.2 Compliance with Labour Regulations

While considering compliance with labour regulations, it must be remembered that minimum wage and other obligations designed to provide employees with protection do not concern the owners themselves, the self-employed, apprentices, non-regular workers and family helpers. It should also be kept in mind that only part of the labour force employed in the firms of our samples actually has a wage-earner status.

Generally speaking, the degrees of compliance with labour regulations in Ecuador and Tunisia are not as high as with tax regulations (table 3). This is clear in the case of social security contributions, where the global rates of full compliance in those two countries are respectively 26.7 percent and 15 percent⁵. Similarly, only 41.5 percent of the firms in the Ecuadorian sample comply with the regulations concerning maximum working hours. On the contrary, minimum wage laws are mostly followed in the three countries. In Ecuador, this legislation is largely complied with due to the low level of the minimum wage imposed on small entrepreneurs registered as craftsmen; this explains the high proportion of wage workers in the total labour force (cf. supra). In the case of Tunisia, where the level of the minimum wage is the same for large and small enterprises, entrepreneurs actually comply with this regulation, but they tend to reduce the salaries' burden by employing a greater proportion of non-wage workers (37 percent of the total labour force) such as apprentices and family helpers; moreover, "after-hours" work mostly remains unpaid. The lowest degree of compliance with minimum wage laws is observed in Thailand, but it still represents a significant proportion of the sample (63.1 percent).

4- Data concerning compliance with labour regulations differ from one country to another. Thus, a few preliminary remarks are necessary before commenting the figures: for Thailand and Ecuador, we consider the sub-samples of firms with at least one wage worker or apprentice; for Tunisia, the figures for this type of sub-sample were not available and we refer to the whole sample of firms surveyed, not including the sector of tapestry, in which labour regulations are totally ignored.

5- Social security contributions are fully paid by 15 per cent of the Tunisian entrepreneurs, but 61 per cent say that they actually pay them "partly", i.e. not for all their wage workers, but only for some of them.

Table 3: Compliance with Labour Regulations, by Size*

	Ecuador			Thailand			Tunisia			
	2-5	6-10	Total	1-5	+ 5	Total	2-4	5-10	+ 10	Total
Social security	24	54	26.7	70	81.7	73.3	16	7	13	15
Minimum wage	91	91	91	61.8	65.9	63.1	n.a.	n.a.	n.a.	90**
Maximum working hours	39	69	41.5	60.1	65.9	62	54	70	87	60

Source: Results of the surveys, 1991; n.a.: not available.

* Percentage of enterprises employing at least one wage earner. ** Estimated.

Note: Thai firms with less than 20 employees were not liable to social security contribution at the time of the survey; entrepreneurs were asked if they "agreed" with the regulations concerning social security. Thus, one should be very careful in comparing those figures with actual rates of compliance in Ecuador and Tunisia. There is heavy suspicion that those percentages do not actually reflect the rates of compliance that would occur if entrepreneurs were actually liable to pay those contributions. For Tunisia, the figures represent the percentage of entrepreneurs which comply strictly with labour regulations; thus, the other entrepreneurs of the sample either comply only partly with those regulations, or do not comply at all.

The link between size and compliance with regulations is once again obvious: the larger the firms, the more frequently they comply with labour regulations, except for Tunisia, where smaller firms pay their social security contributions more frequently than the larger ones. This paradox can be explained by the fact that, since the burden of contributions falls heavily on the global payroll of Tunisian enterprises⁶ and is a function of the number of wage workers, those who hire more than one or two wage workers generally do not declare all of them. 54 percent of firms employing between 5 and 10 people say they pay contributions only for some of their wage workers, while this proportion is zero for firms employing 1 to 5 persons (they either pay contributions for all of their declared employees or none of them).

3.3 Reasons for not Complying with Labour Regulations

Among the reasons given by entrepreneurs not complying with minimum wage and social security regulations, it is interesting to compare two kinds of answers: on the one hand, some consider compliance with regulations as "too expensive"; on the other hand, some others say they are "not concerned", they "do not know" them, or "procedures are too complex" and "there is a lack of information" (see table 4). In the first case, evasion of obligations is truly a matter of purpose, and firm owners intend to bypass an obstacle endangering the profitability of their business. In the second case, motives are not so clear and seem to relate more to a lack of information from governments.

In Tunisia, if we consider the cases of minimum wage and social security laws, the most frequent answer of firm owners on this matter concerns the cost of compliance ("too costly"). In this country, labour laws are more restrictive than in Ecuador and Thailand, especially due to the absence of specific exemptions targeted toward small establishments, and entrepreneurs evade these regulations

6- In Tunisia, social security contributions represent the equivalent of a 33 per cent rise in the monthly payroll, which is a very heavy burden for small firms.

because they cannot economically afford to comply fully with them. Nevertheless, the relatively "lax" attitude of the government is also reflected by the entrepreneurs' answers: the second most frequent answer is that there are "no controls" from civil officers. Thus, labour regulations may be restrictive, but poor enforcement of those regulations is apparently a major cause of non-compliance.

Table 4: Reasons for not Complying with Labour Regulations*

	Minimum wage			Social security			Maximum working hours		
	Ec.	Thai.	Tunis.	Ec.	Thai.	Tunis.	Ec.	Thai.	Tunis.
Unaware / not concerned	47	44	2	40	23.8	2	n.a.	13.7	33
Procedures too complex / lack of information	-	6	-	7	2.4	1	n.a.	11.8	-
Too costly	21	3	47	4	2.4	45.5	n.a.	33.3	-
No controls	-	9	20	4	7.1	29	n.a.	2	56
New activity / new employee	5	-	-	21	-	-	n.a.	-	-
Employee refuses	2	-	-	12	-	-	n.a.	-	-
Other reasons	26	38	31	11	64.3	22.5	n.a.	39.2	11
Total	100	100	100	100	100	100	n.a.	100	100

Source: Results of the surveys, 1991; n.a.: not available.

*Percentage of the answers given by entrepreneurs evading labour laws totally or partly; except for Ecuador: percentage of reasons given for each employee not affiliated.

The Ecuadorian and Thai cases show different types of constraints and different attitudes from entrepreneurs: the main reasons for not complying with minimum wage and social security laws are ignorance of legal obligations, assumed non-liability and, to a lesser extent, lack of information and complexity of procedures. One feature of the Ecuadorian case is of some interest: a certain number of entrepreneurs (12% of the sample) say they do not pay social security contributions because their wage workers refuse to contribute; since the minimum wage is very low, they prefer to get the total amount of their gross salary rather than "lose" a part of it through social contributions.

Thai entrepreneurs, unlike their Tunisian counterparts, do not generally consider labour laws as an obstacle to the growth of their activity, even if the type of organization of Thai firms makes it difficult to comply fully with regulations. It must be noticed that the survey took place during a period when scarcity of labour, and especially skilled labour, was particularly acute: institutional constraints, which are less burdensome than in other countries like Tunisia, were therefore better accepted. Moreover, the forthcoming measures designed to strengthen workers' protection are following a global growth trend in the Thai economy (and especially in manufacturing activities). Thus, several factors can explain the greater compliance of Thai entrepreneurs with labour regulations compared with Ecuadorians and Tunisians: the need for skilled labour, a less restrictive regulatory framework and growth rates that allow them to bear the cost of complying with laws. Thai entrepreneurs, however, complain about the provision of the minimum wage law. The main reason given by entrepreneurs for not complying with the minimum wage is that it is "too costly". Many entrepreneurs express that the

minimum wage laws should not be applied to small enterprises. If they were to comply with the standard wage, entrepreneurs say that they would be unable to "survive". But in practice they do not suffer restrictions imposed by the authorities. It is frequently said that there is "no inspection" and this is a reason for not complying with the minimum wage regulation. Poor enforcement may be one of the crucial factors determining ignorance of legal obligations.

As for the provision on maximum working hours, the attitude of the entrepreneurs varies according to the activity concerned. In the metal sector, almost all entrepreneurs comply with this provision. "After hours" work is mostly paid to employees by firm owners in this sector. This is due to the situation of the labour market where the degree of labour mobility is considerably high. Also the shortage of skilled labour is obvious. To this extent, most entrepreneurs want to keep employees working for their firms as long as possible. The link between the labour situation and compliance with the provision is obvious: the higher degree of labour shortage, the more frequently entrepreneurs comply with the maximum working hour obligation.

The situation is somewhat different in cases of the food preparation activities and the garment sector. Most firms with hired workers, in the garment sector, work with subcontracts. Their work order is restricted by deadlines. Hence, employees are paid as piece workers, so payment is not according to the duration of work. Most of the firm owners believe that they are not concerned with the provision of maximum working hours. Real worker incomes calculated from the survey show that piece workers generally receive an income higher than the legal minimum wage.

The Thai case clearly shows that the attitude of the entrepreneurs toward labour regulations is dependent on the state of the labour market and even of labour sub-markets, and that institutional factors (apart from the minimum wage) are not a major problem for them.

4. Health and Safety Standards

4.1 Legal Obligations

Data on this question is scarce for Ecuador. Nevertheless, hygienic conditions are specifically regulated in food preparation activities: 69 percent of the entrepreneurs in this sector say that they are submitted to strict regulations of that kind. In Tunisia and Thailand as well, there are hygienic regulations for food preparation that are fairly enforced and observed.

In Tunisia, safety legal obligations are also very strict: the matching of legal norms is required for electric installation, arrangement of equipment, soundproofing of premises, etc. Under the law, this applies to all firms (whatever the size), but as a matter of fact only a few basic norms are required from MSEs, and controls are not frequent. The only exception is food preparation, where legal obligations are stricter and their application better enforced: restaurants must have tiled walls, a refrigerator, glass cases for food and separate premises for cooking and dish washing.

In Thailand, the Factories Act imposes enterprises with at least 2 horse power machines (it can be found only among the largest enterprises of the sample, in the metal sector only) a whole set of health and security standards that are necessary for obtaining the operation license: emergency exits,

alarm signals, fire fighting equipment, etc. In case of serious public nuisance, the firm might be closed by public authorities. This is due to the fact that most premises, particularly in the metal sector, have not been located in the proper business location specified in the regulation. As a result, restrictions on location and environmental conditions are apparently a major constraint among entrepreneurs in large enterprises (especially metal firms). This, in turn, becomes a basis for frequent harassment and extortion of bribery by officials. Labour laws also require the availability for workers of clean drinking water, sanitary and medical facilities. Controls are not very frequent but according to 70 percent of the entrepreneurs, they occur at least once a year in MSEs.

4.2 Compliance with Regulations and Reasons for not Complying

In Ecuador, the only information available is that half of the firms of the sample follow health regulations in general.

In Tunisia, 52 percent of the sample comply fully with hygienic and safety norms and 37 percent comply only partly with them. Once again, the degree of compliance, when adding full compliance and partial compliance cases, varies with the activity considered: it reaches 70 percent of the sample in repair services and two thirds of the sample in garment. In food preparation, it is impossible to avoid controls, which occur frequently, or to evade norms completely. The rate of full and partial compliance reaches 92 percent; the rate of partial compliance alone is 50 percent, i.e. half of the entrepreneurs comply only partly with those regulations, either because of a lack of information (57 percent of them) or because of their cost (43 percent).

In Thailand, the attitude of entrepreneurs varies according to the activity considered. In the garment sector, only 16 percent disagree with health and safety regulations, whereas a majority of entrepreneurs engaged in food preparation complain (73.8 percent of the sub-sample), saying that complying with health standards would be too costly and that they cannot afford it⁷. Nevertheless, regulations are not strictly enforced by authorities, especially in Bangkok where very few controls occur. In the metal industry, most of the firm owners believe that safety standards are a necessity: they manage to pay the cost, although they complain that it is too high. However, restrictions on location and environmental conditions appear to be a major constraint: controls are frequent, especially among larger enterprises, and entrepreneurs sometimes have to pay a bribe to officials to get the operation license.

5. Labour force

The average total labour force (owners included) equaled 3.9 in Ecuador, 3.6 in Thailand and 3.7 in Tunisia. Wage workers account for less than 50 percent of the labour force both in Thailand and Tunisia (respectively 43.3 percent and 47 percent). In Thailand, more than half of the firms surveyed have no wage workers: some are own-account firms and the others only employ family workers and/or apprentices. On the contrary, 69 percent of the total labour force in Ecuador are wage earners; this finding may be partly explained by the bias mentioned above (which leads to an under-representation of the self-employed).

7- Still some of the firm owners comply with the hygienic norms thinking that getting the certificate will bring them more clients.

The proportion of apprentices reaches a peak of 30 percent in repair services (Ecuador and Tunisia) and in metal industries (Thailand). As far as the garment sector is concerned, this proportion is higher in Tunisia (28.1 percent) than in Ecuador and Thailand (7 percent and 16.5 percent). Generally speaking, apprenticeship is more important in Tunisia (25 percent of the total labour force covered) than in Thailand (18.5 percent) or Ecuador (14 percent).

Table 5: Average Composition of Manpower, by Activity*

	Ecuador				Thailand				Tunisia			
	Garment	Food	Repair services	Total	Garment	Food	Metal	Total	Garment	Food	Repair services	Total
Owners	3	3	8	5	31.1	57.1	21.4	32.8	17.3	23.3	23.4	21
Wage workers	78	69	60	69	49	24.6	47.3	43.3	47.4	50	42.5	47
Apprentices	7	6	30	14	16.5	0.5	29.8	18.4	28.1	16.9	30.4	25
Family helpers	11	21	1	12	3.4	17.8	1.4	5.6	3.9	10	2.4	5.4
Others**	-	-	-	-	-	-	-	-	3.3	-	1.3	1.6
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Results of the surveys, 1991.

* Percentage of the labour force. ** Piece-workers.

Note: Figures for Ecuador unfortunately did not take the self-employed into account; therefore, the percentage of firm-owners is under-estimated and the percentage of other categories, and especially wage workers, is slightly over-estimated. This should be kept in mind when comparing these figures with others in Thailand and Tunisia.

5.1 Profile of the Entrepreneurs

The proportion of female entrepreneurs varies greatly with the activity: in the three countries, they are very weakly represented in metal industries and in repair services (less than 10 percent of the samples). On the contrary, 100 percent of the entrepreneurs in the Tunisian tapestry sector are women. Nevertheless, the picture is more strongly contrasted between countries in the other activities. For instance, two thirds of the entrepreneurs engaged in the garment sector in Thailand are women, while this proportion falls to 22 percent in Ecuador; similarly, in food preparation, three firms out of four are owned by women in Thailand, and one out of four in Ecuador. Apparently, this partly reflects the traditional job divisions between men and women, which are related to each country's specific cultural background.

In terms of level of education, figures were not available for Tunisian entrepreneurs, so the following remarks are based on the Thai and Ecuadorian cases. Owners of larger firms tend to have a higher level of education than those of micro-enterprises; the gap is particularly noticeable between own-account workers and entrepreneurs who hire employees, although this appears less clearly in the garment sectors in Thailand and Ecuador. In firms with at least one employee, a correlation between the level of education of the owner and the size of his business does appear, but it is not as sharp as could be expected; the reason for this might be the following: apparently, older entrepreneurs, who have been in the business for a longer time than their younger counterparts, are more numerous in the

larger enterprise sub-samples, and they usually have a lower level of education because schooling rates were lower for their generation.

Conclusion

Using three country case studies, we have briefly studied the degree of compliance of MSEs with a few aspects of the institutional frameworks they operate in --registration, taxes, labour regulations and safety and health regulations. We also reviewed the reasons why some MSEs do not comply fully or partly with those legal and regulatory settings. In doing so, we left unaddressed other aspects of institutional environments that are essential to a more complete approach of that issue, such as regulations concerning financial credit, relations with clients and suppliers, subcontracting, etc (see Morrisson, Solignac Lecomte, Oudin, 1994).

First, the degree of compliance with regulations is determined not only by the more or less constraining character of those regulations, but also by the "degree of enforcement" imposed by authorities. For instance, poor controls and/or sanctions in case of non-compliance with fiscal obligations in Ecuador, Thailand and Tunisia are the main reasons for not paying taxes.

It is also noticeable that compliance with regulations is more frequent than could be expected from so-called "informal" enterprises. For instance, 60.4 percent of the entrepreneurs interviewed in Thailand pay their main taxes, and that proportion reaches 75 percent in Ecuador and 85 percent in Tunisia. In that respect, we have already mentioned the fact that MSEs cannot be globally considered as operating beyond regulations.

Moreover, administrative obligations and procedures are not the main obstacles to investment and growth for MSEs, as table 6 shows.

Table 6: Main Obstacles to Investment and Growth*

	Thailand	Tunisia
None	-	28
Lack of demand	5.1	-
Lack of funds	67	74
Administrative obstacles	16.4	12
Raw materials / equipment	1.1	-
Bad location or premises	17.9	-
Lack of labour or skilled labour	34.3	-
Others	7.7	-
Total	149.5	114

Source: Results of the survey, 1991.

*Percentage of the samples; multiple answers.

According to a large majority of entrepreneurs in the Thai and Tunisian samples, lack of funds is by far the main problem MSEs face: it is cited as such by 67 percent and 74 percent of the

entrepreneurs interviewed in the two countries respectively. In contrast, administrative obstacles are cited by only 16.4 percent of the Thai entrepreneurs and 12 percent of the Tunisian entrepreneurs. In Thailand, lack of labour is also more frequently cited as a drawback than regulations. Therefore, in these two cases, institutional constraints can be considered as secondary obstacles compared to the supply of inputs such as credit and, in Thailand, labour. Nevertheless, it should also be kept in mind that access to inputs such as credit is also linked to the degree of integration of MSEs in the legal and regulatory framework. For instance, firms that do not pay their taxes may have difficulty in gaining access to credit if payment of taxes is one of the conditions required by commercial banks for granting a loan. This means that institutional issues have both a direct and indirect impact on the environment in which MSEs operate. Further data on this matter should allow us to draw a more precise picture of those issues.

Annex: Methodology of the surveys

In each country, a quantitative survey was conducted among 300 enterprises (500 in Thailand): altogether, more than a thousand units were covered. Then, 30 entrepreneurs were selected among each country sample to answer a qualitative questionnaire in order to get more detailed information on their behaviour and motives.

An enterprise defines any economic activity run by an individual in order to yield an income, whether it requires hiring labour or not. In developing countries, micro-enterprises often employ apprentices or family helpers, who are not wage earners; we have therefore listed those enterprises by number of workers, which is not necessarily related to the number of wage earners (many small firms that have two to five workers⁸ have no wage earners).

Since there is no operational definition of informality -- which can not be based on total illegality, since the bulk of firms pay at least one tax, the criterion used in this study is size: all the firms surveyed are enterprises that have 10 workers or fewer; thus, we call them micro and small enterprises (MSEs) rather than informal enterprises. About 10 percent of the samples consisted also in firms that had 11 to 20 workers; they were used as test groups to be compared with the MSEs samples.

Table 7: Number of Enterprises Surveyed, by Size and by Activity.

	Ecuador	Thailand	Tunisia
<u>Micro and small enterprises</u>			
1	30	163	9
2-5	198	226	205
6-10	39	91	61
+ 10	31	23	14
<u>Test group</u>			
Garment	100	183	80
Food preparation	103	188	92
Repair services	95	-	87
Metal	-	132	-
Carpets	-	-	30
Total	298	503	289

Source: Results of the surveys.

1. Scope

1.1. Sampling Method and Selection of Activities

The different activities selected for the samples are about the same in the three countries: they are among the most widely spread in developing countries and those where small scale enterprises are the most numerous. In Ecuador, these activities were garment, food preparation and repair services; in

8- The term "worker" has here a comprehensive significance : it includes proprietors and employees.

Thailand, garment, food preparation and metal industries; and in Tunisia, garment, food preparation, repair services and carpet making. Whereas in Tunisia lists of enterprises were available from an official statistical institute, the research teams in Thailand and Ecuador had to build their own.

In Thailand, a preliminary census was made in Bangkok with 72 blocks selected, in which all small establishments of the selected activities were counted: 1500 micro-enterprises were found, from which the final sample for Bangkok was built. No such preliminary census was made in other towns, where selected blocks were surveyed one by one, small activities were spotted and samples progressively built up by activity. These methods make sure that all types of enterprises are represented in the sample, even the very small and/or unregistered ones.

In Ecuador, a list of firms was established progressively through a direct search of firms meeting the requirements of size and activity, i.e. there was no preliminary exhaustive census by block as in Bangkok, and very small activities, especially own-account entrepreneurs, might be under-represented. A bias might then appear in the sample, where larger enterprises might be over-represented.

In Tunisia, this bias is even more acute: firms were selected from an official file⁹ and the final sample was built through a random selection procedure from this list of firms. Very small firms and own-account workers must have been under-represented in this sample; this was confirmed by the Tunisian research team¹⁰.

2. Location

The objective of the study was to focus on urban activities; thus, the survey covered the capital cities and main cities of each country: Quito, Ambato and Cuenca in Ecuador; Bangkok and the main cities of another ten provinces in Thailand; Tunis, Sfax and Kairouan in Tunisia. Fifty percent of the enterprises included in the samples are located in the capital cities (58 percent for Tunisia).

3. Size

In the three countries, more than half of the firms belong to the 2- to 5-person¹¹ class (see table 1). The highest proportion of self-employed entrepreneurs was found in Thailand; it was especially high in food preparation (more than one half of the units covered) and in garment (about one quarter of the units). In Ecuador and Tunisia, the under-representation of the self-employed (10 percent of the sample in Ecuador, 3 percent in Tunisia) reflects a bias toward larger enterprises; the reason for this may be related to the poor visibility of own-account firms: the methods used in Ecuador (direct door-to-door search) and in Tunisia (selection from an official file) were not based on an in-depth census as in Thailand and probably overlooked this type of firm, which have no workers and may be located in the entrepreneurs' homes.

9- The name of this file is FENA (Fichier des Etablissements Non-Agricoles).

10- They pointed out that updating of this official file was more systematic for larger enterprises than for the smaller ones.

11 - Including firm owners and workers.

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Promoting Informal Sector Entrepreneurs : A Comparative Analysis of Asian and African Countries

He Yong

Introduction

The informal sector plays an important role in developing countries. According to International Labor Office ILO estimates for 17 African countries, the informal sector's production represents on average 20% of GDP and 59% of urban labor work within the informal sector. (the World Bank 1989 chapter 6)

Anderson (1982) distinguished three phases of industrial development: 1). a phase in which household manufacturing is predominant. 2). a phase in which small workshops and factories increase at a comparatively rapid rate. 3). a phase in which large-scale production becomes predominant. We define the problem of entrepreneur promotion within the informal sector as that of the formalization of informal enterprises, or, the passage from the first to the second phases as described by Anderson. In other words, we shall analyze how an entrepreneur of informal sector can accumulate enough capital in order for him to increase the size of his enterprise and to become a formal sector entrepreneur.

This process of transformation is sometimes presented as unavoidable. As Judet (1989) wrote: "the unstructured sector is usually a component of the organic process of industrialization. It should be considered as a cradle of entrepreneurs and of enterprises, and its existence is unavoidable and merits to be promoted." To criticize the judgment that the informal sector only signifies a prolonged survival in crises and can never found a development dynamics, he wrote: "we have forgotten to inquire the way by which industries as a whole have been formed with the passing decades, going from simple to complex, from unstructured to structured."

This judgment is doubtless correct. However it seems that it only fits well with the experiences of Asian countries. As Anderson (1982) has shown, the countries of South-East Asia have rapidly realized their transformation from the first to the second phase. Poapongsakorn ("The Informal Sector in Thailand," in Chickering & Salahdine 1991) has shown that Thailand has implemented good policies and has had strong growth, which has resulted in a steady decline in the informal sector.

On the contrary, this transformation appears to be very difficult in the case of African countries. According to the ILO (1989), while the proportion of the informal sector in total urban employment of African countries was on average 60% in 1970s, it remained at the same level in 1988 (58%). The World Bank (1989) recognized that, apart from the informal sector and large firms, African countries

lack small and middle-size firms. This problem of the "missing middle" is considered to be the major obstacle to African industrialization¹. Rather than accumulate their capital, the most serious problem for informal enterprises is how to survive. According to a survey of a large number of informal enterprises in four African cities (Bamako, Lomé, Nouakchott and Yaoundé), there are 13,3% of employers and 83,7% of employees whose weekly wages are lower than the guaranteed minimum wage of their countries (Maldonado 1987 p.133).

To explain the difficulty of such a transformation from informal to formal enterprises, the supply side conditions are often emphasized. To Aftab and Rahim (1989), "barriers" to the growth of informal enterprises lie in their artisan base which is initially determined by the educational background, knowledge, skills and the economic resources of the owner-manager. Consequently, the governments are often urged to improve their supply conditions: financial and technical assistance, formation, technology, infrastructure, input supply, etc. (Page and Steel, 1986)

While policies favoring of the informal sector as practised in India, have led to failure in the Southeast Asian countries where informal enterprises are dynamic, the governments have not deliberately helped them in this way.

These observations lead us to agree with Schmitz (1982, p.445): "the issue is not whether small enterprises have growth and employment potential but under what conditions."

The analyses of three markets: the labor market, the product market and the financial market will show that 1). the difference between the performances of informal enterprises in Asian and African countries lies in their different rural conditions; 2). this difference links less with the supply side conditions, but more with the demand side conditions of informal enterprises. From this point of view, state intervention should stress the improvement of the economic environment and the demand side conditions facing informal enterprises.

1. Analytical Framework

In this section, we will analyze how the performance of informal enterprises is conditioned by the labor market, the product market and the financial market.

1.1 Labor Market

Here we borrow a diagram from Hemmer and Mannel (1989) with some modifications, which helps us to understand the interactions among the informal sector, the formal sector and the agricultural sector in the labor market.

(See Figure 1 in annex).

In figure 1, the horizontal axis represents the quantity of labor, the vertical axis the production level of the agricultural sector (X1), the formal sector (X2) and the informal sector (X3). We suppose that the total labor input is measured by OG. We also suppose that the production of each sector is

1- In the case of Kenya, cf. Livingstone (1991).

only a function of labor input, so, for example, the production function of the agricultural sector is noted by $X_1(L)$. In the zone (I), starting from the point C, the slope of the $X_1(L)$ is equal to zero, which illustrates the existence of an excess rural labor input measured by EG. The average product (and the average income) of rural workers is measured by the slope of the line OH.

In the zone (II), $X_2(L)$ is the production function of the formal sector. The slope of the line W_2 represents the wage in the formal sector, which is often over-determined by public regulations related to the market-clearing wage. The tangent point between $X_2(L)$ and W_2 , T, determines the quantity of labor absorbed by the formal sector, which is measured by OS.

In the zone (III), $X_3(L)$ is the production function of the informal sector. The labor absorption of the informal sector is determined in the following way. Based on Todaro's model 1967, the immigration decision of a rural laborer is a function of the laborer's estimate of the wage he will receive after his migrating. This estimation (W_e) is calculated according to the formula

$W_e = p_2 \times W_2 + (1-p_2) \times W_3$, where P_2 is the probability of being employed by the formal sector.

This allows us to obtain W_e . Then, by drawing in the zone (I) OJ as a symmetric line to W_e , we can obtain the quantity of rural-urban labor migration as measured by GF. With $OR=GF$, we have the quantity of the labor absorption of the informal sector, which is measured by $OR-OS=SR$. The informal sector's wage is measured by the line indicated by slope= W_3 .

Two conclusions can be drawn from this analysis: 1). the economic situation in the rural areas is of crucial importance for the performance of the informal sector. Both a productivity improvement or a decrease of demographic pressure in rural areas will reduce the labor quantity that should be absorbed by the informal sector. This will, in turn, increase the informal sector's productivity and average income level. 2). the wage level of the formal sector influences its ability of absorbing labor quantity, which in turn affects the pressure of employment born by the informal sector. Furthermore, it modifies rural-urban migration through its impacts on the income expectation of rural workers for immigration².

1.2 Product Market

We have shown how in the labor market the division of labor is realized among the agricultural sector, the informal sector and the formal sector. Now, we will analyze how product market shares are determined between the formal and informal sectors.

(See Figure 2 in annex).

In figure 2, we will begin by distinguishing the specific demand (D_s) and the nonspecific demand (D_n). Following the definition of Hemmer and Mannel (1989 p.1546), "specific demand is defined as the exclusive demand for goods of one particular sector.... Correspondingly, nonspecific demand refers to formal as well as informal products and directs itself to the sector with the lower

2- The regulation of wage level in formal sector results in an increase in labor and a decrease in wages in informal sector. These effects have been analyzed in Rauch's model (1991).

price." The specific demand for the formal sector (D_{sf}) is addressed to products whose production requires a level of technology and of investment beyond the reach of the informal sector (for example, most electronic goods). The specific demand for the informal sector (D_{si}) is characterized by its flexibility and its small quantity (the demand for many non-durable products corresponds to this criteria.)

In figure 2-A and 2-B, we illustrate respectively the product markets for the formal and informal sectors. S_f and S_i are the supply curves of the formal and the informal sectors, which are based on their marginal production costs. We suppose that the tangent of S_i is superior to that of S_f .

The intersections between S_i and D_{si} , and between S_f and D_{sf} determine the optimal specific productions of the formal sector (Q_{f2}) and of the informal sector (Q_{i2}) and their respective prices (P_{f2} and P_{i2}). We observe that if the informal sector's production cost is given, to increase its benefice, that is, to enlarge the triangle OEP_{i2} , the specific demand for its products should increase; that is, D_{si} should displace towards the north-east.

In figure 2-C, S being the total marginal cost ($S=S_f+S_i$), its intersection with the nonspecific demand (D_n) gives the optimal nonspecific production (Q_1) and its optimal price (P_1). The formal sector and the informal sector respectively produce Q_{f1} and Q_{i1} , which can be observed in 2-A and 2-B, with $Q_1=Q_{f1}+Q_{i1}$.

From this analysis regarding nonspecific product market, we conclude that the cost function of the informal sector is unchanged, and therefore the only way for it to increase its benefice (which is measured by ONP_1 in 2-B) is the increase of the nonspecific demand, that is, the D_n displaces towards the north-east.

1.3 Financial Market

In developing countries, the informal financial market constitutes an important source of financing for the informal sector. Related to the formal financial market, its financing ability is more limited. These two markets can be substitutable or complementary. We can formalize their relationships in the following way:

(See Figure 3 in annex).

In figure 3, D is the demand curve for credit. For the formal financial organizations, credit extended to the formal sector is less risky and therefore cheaper than that extended to the informal sector. This is reflected by the curve C_{ff} (the cost of financing the formal sector by the formal financial organizations), whose tangent is inferior to that of the curve C_{fi} (the cost of financing the informal sector by the formal financial organizations). Consequently, the quantity of loans provided to the informal sector (Q_{fi}) is much lower than that to the formal sector (Q_{ff}). In the same way, the interest rate set by formal financial institutions for the informal sector (P_{fi}) is much higher than that for the formal sector (P_{ff}).

We introduce then the curve C_{ii} , the costs of financing the informal sector by the informal financial organizations. We suppose that the tangent of C_{ii} is inferior to that of C_{fi} . This means that the costs of financing the informal sector by the informal financial organizations are lower than those

by the formal financial organizations³. We also suppose that the financing ability of the informal financial organizations is more limited, so starting from Q_{ii} , C_{ii} transforms itself into a vertical line.

In this figure, first, we observe that there is some substitutability between the two financial markets. Theoretically, the interest rate of the informal financial market can vary between P_{ii} and P_{ii} , but it cannot be too speculative in that it cannot surpass P_{fi} , the interest rate of the formal financial market. Otherwise, the informal enterprises will turn to the formal financial market. Therefore there exists some degree of competition between the two financial markets, which prevents to some extent the interest rate to be too speculative in the informal financial market. Second, we can conclude that if the informal financial market improves its performance, that is, if the tangent of its cost curve reduces and/or if it increases its financing ability, it can increase its quantity of loans with a lower interest rate. This is shown by the curve C'_{ii} , which leads to Q'_{ii} , with $Q'_{ii} > Q_{ii}$.

2. Applications to Asian and African Countries

2.1 Rural Conditions

In our analysis of the labor market, we have shown how the performance of informal enterprises is conditioned by rural development, more specifically, by agricultural growth and population growth. The difference between the Asian and African countries in these growth patterns is fundamental. At first, we shall consider some Asian countries.

Table 1: Growth Rate of Agricultural Production (%)

	1960-69	1970-79
Taiwan	4.6	4.5
	1961-70	1971-85
Korea	3.5	3
	1971-81	1980-84
Indonesia	3.7	4.6
Malaysia	4.7	3.4
Philippines	4.9	2.1
Thailand	6	3.4

Sources: Taiwan Statistic Data Book (1990); Korea Statistic Yearbook (1971); Korea Statistic Data Book (1990); Barghouti, Timmer and Siegel (1990 p.15).

On the contrary, in African countries, rural development remains a serious problem. In Africa, the population growth rate is more than 3%, much higher than that of most of developing countries.

3- Because 1. informal enterprises being small-sized, there can be no an effect of the economy of scale for the formal financial organizations; 2. the informal financial organizations being near to their debtors, their costs of information are relatively low; 3. in general the informal financial organizations benefit from a trust link with their debtors, so the risk of their credits is lower. For more complete analysis, cf. Ghaté (1992).

(Cf. the World Bank 1989 introduction). In Sub-Saharan Africa, agricultural growth for the period 1973-84 in real terms was only 0,7% per year, or -1,9% per year, per inhabitant. (Serageldin 1989 p.12)

Furthermore, Asian rural development is characterized by the expansion of non-farm activity, which may reduce immigration into towns. In Thailand, in 1960, the share of agriculture in total GDP was estimated at about 39,8%. This share was reduced to 17,5% in 1985. However, the reduction of rural population's share in total population was not as same speed falling from 82,4% to 68,4% in the same period (Krongkaew 1988 pp.73-75). Its explanation seems to be the rapid development of non-farm activity in the rural regions. In Thailand, by 1984, 34,7% of total income of farm households was derived from non-farm activities. In Korea, in 1979, non-farm employment accounted for nearly 65% of total employment in rural areas. In Malaysia in 1978, rural non-farm activity provided about 32% of primary employment in rural areas. In the Philippines, rural non-farm activity accounted for about 55% of total income for rural households in 1971 (Cf. Mukhopadhyay and Lim (1985) p.7, p.386).

Nevertheless this is not the case for the African countries. For example, according to Livingstone (1991), Kenya's informal sector is heavily concentrated in towns. For the period 1978-85, Kenya's elasticity of informal sector employment with respect to GDP was 2,87, while it was only 0,49 for private formal sector World Bank (1987). To Livingstone (1991), in Kenya, informal sector employment has grown at 11,1% per year over the period 1985-88, while this growth rate was only 2,7% in private formal sector. In manufacture, these rates are respectively 15% and 2,3%.

These observations support the judgment of Chaponnière and Judet (1992): "the good health of agriculture is perhaps one of the most important factors of Asian industrial success in the past, while the difficulties in African agriculture constitute a further handicap for their industries."

2.2 Market Size and Exportation

In our analysis of the product market, we have shown how the growth of the informal enterprises is conditioned by the specific and nonspecific demands for the informal sector's products. This demand condition is also markedly different between Asian and African countries.

Clapham (1985 p.21) affirmed that the size of consumer goods markets in developing countries is limited by low average incomes, inadequate transport possibilities and by the specificity of demand. Consequently there exist many small submarkets which are limited in volume and are frequently found at the local level.

This description seems more relevant to the informal sector in African countries. Based on some observations in Transkei in South Africa, Nattrass (1987) concluded that it is absurd to think that street traders could become the "giants of tomorrow's economy". The failure to succeed is the result of structural limitations, that is, the size and the nature of the lower-income market. According to Livingstone (1991), in African countries, the dichotomy between the formal and informal sectors arises out of a corresponding income dichotomy between the mass of consumers making use of informal

sector goods and services and a wealthy class largely patronizing the formal sector. However in many Asian countries there is more of a spectrum than a dichotomy⁴.

What the African countries should learn from Asian countries is how their informal enterprises have utilized their comparative advantages to conquer the domestic markets and export markets. As Berry and Mazumdar (1991) affirmed, small-sized firms play a significant role in exportation because their products are labor-intensive and they have the capacity to respond quickly to changing market conditions. A "representative" survey undertaken in the early 1970s indicates that in Singapore, the share of output exported was 19,3% for firms with fewer than 10 workers. Chou (1988) has shown that the market structure in Taiwan is characterized by the fact that in the domestic market, there were relatively large-scale manufacturers with numerous small-scale distributors; in the export market, there were relatively small-scale firms with an enormous number of small-scale trading companies. According to Régnier & Kirchbach (1992), the share of the exportation in total production of the small and middle enterprises account for 65% in Taiwan, 35% in Korea and 17% (direct exportation only) for Hong Kong.

Following such examples is necessary for the formalization of informal enterprises in African countries. Based on a survey undertaken in six African countries, Marsden (1990) has concluded that informal enterprises in Africa can be transformed into modern enterprises. But nearly all African enterprises he has taken as examples are exportation-oriented.

Another point is that the complementary between small and large-sized firms is one important reason for the success of small enterprises in Taiwan and in Korea. (Cf. Ho 1980, pp.17-19) The informal enterprises appear to be efficient only in those industrial sectors where they don't face competition from modern large-size firms (Cf. Bruch & Hiemenz 1984 pp.44-52). Often the small enterprises are exploited by the large ones in developing countries (Cf. Schmitz 1982 pp.433-7). However as Amsden (1991) has argued, in Taiwan, the large firms constitute an important support for small firms in the domain of credit and of technology transfers.

2.3 Financial Conditions

In our analysis of the financial market, we have shown that the growth of informal enterprises is conditioned on the expansion of the informal financial market because the formal financial organizations, based on credit cost evaluation, prefer the formal enterprises.

In most Asian countries where small-size firms are very dynamic, large-size firms are always enjoy better access to credit and raw materials (Cf. Berry and Mazumdar 1991). In Taiwan, small-size firms have been discriminated against under the financial system. Three-quarters or more of what financial institutions lend must be secured by collateral. This discrimination appears to be related to risk and transaction cost minimization (Cf. Amsden 1991).

4- The difference between rural population densities in African and Asian countries also plays a significant role. In the Island of Java, an informal entrepreneur can reach a market of 1,2 million consumers within a 20 Km radius, whereas in many African countries, he would have to travel more than 100 km to meet the same population.

In the case of the informal sector, most of financial needs of firms are met by the informal financial markets. (For an estimate of the size of the informal financial markets in 10 Asian countries, cf. Ghate 1992) Several scholars (McLeod 1984, Yotopoulos and Floro 1991), using Indonesia and the Philippines as examples, have even concluded that in Asia, the informal financial system runs so well that the financial constraints of the informal sector no longer represent a serious problem to its development.

However, if we consider the African countries, such as Nigeria, Ghana, Tanzania, and Uganda, we can observe the same tendency (Cf. Page 1979 p.21). The uses of the systems of tontine and other forms of share associations in saving and in credit are very extensive⁵. In Kenya, the resources coming from personal savings and from families finance 92% of small-size enterprise investments. In Zaire, this proportion reaches 99% (The World Bank 1989 chapter 6).

Therefore it is not the intensive use of informal financial markets, but the absolute size of their informal financial markets which makes the difference between Asian and African countries. The informal financial market size is tightly linked with the level of domestic savings. The latter is, in turn, conditioned by the general economic performance of the country. In Sub-Saharan Africa, the gross domestic saving represents 19,6% of GDP during 1975-80, it was 13,9% during 1981-85 and 11,8% during 1986-87 (the World Bank 1989 chapter 8), while this rate was on average 17,2% during 1961-70 and 23,7% during 1971-80 for the Philippines, Malaysia, Indonesia and Thailand. It was 17,2% during 1961-70 and 26% during 1971-80 for Taiwan, South Korea, Singapore and Hong Kong. (Kim 1982 p.15) If one takes into account the absolute levels of GDP, the difference in the credit abilities of the informal financial markets between Asian and African countries should be more significant.

3. Implications for Government Policies

Governments of developing countries are often asked to encourage the growth of informal enterprises. While this is a positive approach, the question is how to help them? The experiences of Asian countries are instructive.

Ho (1980 p.88) has argued that during the stage of industrialization, neither the governments of Korea nor Taiwan actively promoted the development of small firms. Rather small firms were left largely to fend for themselves. However, government policies did help determine the economic environment in which small firms operated.

On the contrary, in India, the economic policy of the government has favored small-size firms, not because they are more efficient, but because they are small. The results are naturally disappointing. The best example is the government's use of fiscal measures to encourage the development of handloom weavers and to slow the development of powerlooms. In spite of this policy, three-quarters of the growth in cotton production came from those firms using powerlooms (Cf. Little, Mazumdar & Page 1985, Kashyap 1988).

5- For several studies about this subject, cf. Hénault and M'Rabet (1990 Part 2).

The lack of human capital in informal enterprises is often an argument in favor of government intervention. However, certain estimates show that this is not a very serious obstacle to the growth of informal enterprises. According to Vijverberg's calculation (1991) about the informal sector in Côte d'Ivoire, there is only weak evidence of returns to human capital. Even those for education are statistically insignificant. An empirical study undertaken by Nee and Young (1991) of some Chinese villages showed that the level of village education has no significant effect on the development of peasant entrepreneurship across villages.

In most Sub-Saharan African countries, government interventions seem inadequate. For example, the exchange rate may be over-evaluated, leading to a loss of export market shares. (The World Bank & UNDP 1989). According to Balassa (1990) in these countries, a 1% change in the exchange rate is negatively associated with a 0,8-1% change in the ratio of exports to output.

Another example is price discrimination against agriculture. According to Cleaver (1985), countries in Sub-Saharan Africa with a high degree of price discrimination against agriculture had an average agriculture growth rate of 0,8% in the 1970-81 period. In contrast, corresponding growth rates were 1,8% to 2,9% in countries with medium and low price discrimination against agriculture.

Excessive bureaucratic interventions can also have a negative effect on the growth of informal enterprises. De Soto (1989) argued that the excessive regulation imposed by the enormous bureaucratic state was effectively excluding Peru's informal workers from full participation in the country's economic life. According to Nee and Young (1991), in Chinese villages, the most important negative determinant to the development of the peasant household firms is bureaucratic mobilization. Based on a survey in Tanzania, Levy (1991) concluded that small firms bear punitive formal tax and licensing requirements. Furthermore, these requirements provide opportunities to bureaucrats to extract side payments.

Given these arguments, we can agree with Little (1988), who states: a policy of supply-side interventions in favor of small-scale enterprises will not promote an efficient labor-intensive development. The elements of a sound policy include the following: 1). Trade and protectionism policies should be changed to make exporting as profitable as domestic sales. 2). Interest rates, including those to small enterprises, should not be subsidized. 3). High wages in the formal sector encouraged either directly or indirectly by governments should be abandoned or at least modified. 4). Any supply-side industrial promotion measures should disregard and, so far as possible, be neutral between firm or establishment sizes.

This does not mean that the government has nothing to do in the informal entrepreneurship promotion. As Chickring and Salahdine (1991) have suggested, governments should eliminate institutions and policies that discriminate against the informal sector, such as difficult procedures to register or operate a business, to establish title to land, or to obtain a permit to build; burdensome regulations on economic activity; and policies that indirectly discriminate against the informal sector such as promotion of large enterprises, strict interest rate regulations, and trade restrictions.

The policy reform seems to be the most important for most African countries. According to the World Bank and UNDP (1989 chapter 6), among the Sub-Saharan African countries, those that have actively taken part in reforms, including those that address the exchange rate, agricultural products

prices, public expenditure and public enterprises experience an economic performance much better than those that have not been active in these reforms. (See table 2.)

Table 2

Indicator	Period	Countries with a program and active in reforms	Countries without program or weak effort in reforms
Agricultural production	1980-84	1.1%	1.3%
	1985-87	2.6%	1.5%
Growth in volume of exportation	1980-84	-1.3%	-3.1%
	1985-87	4.2%	0.2%

Conclusion

We have used several simple analytical tools to show that (1) in the labor market, the formalization of the informal sector depends on the average income and the quantity of rural labor and on the wage level regulated in the formal sector; (2) in the product market, it depends on the market size; (3) in the financial market, it is linked with the financial ability of the informal financial sector, which is also determined by the size of the product market. We have shown that in these three points, the conditions for the informal sector entrepreneurs are fundamentally different between Asian and African countries.

The implications of our analysis for government policies in developing countries is that government efforts should be directed at developing agriculture, reforming wage policies vis-a-vis the formal sector, reforming fiscal and exchange rate policies to promote exportation, and reducing administrative burdens on informal entrepreneurs. In short, improving economic environment and demand side conditions may be a more efficient way to promote informal sector entrepreneurs.

Annex: Charts

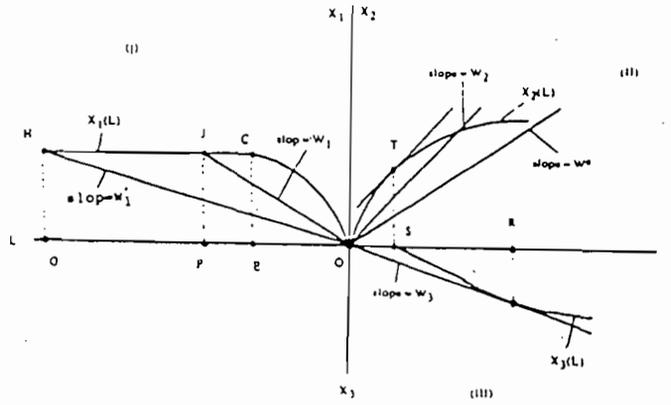


Figure 1

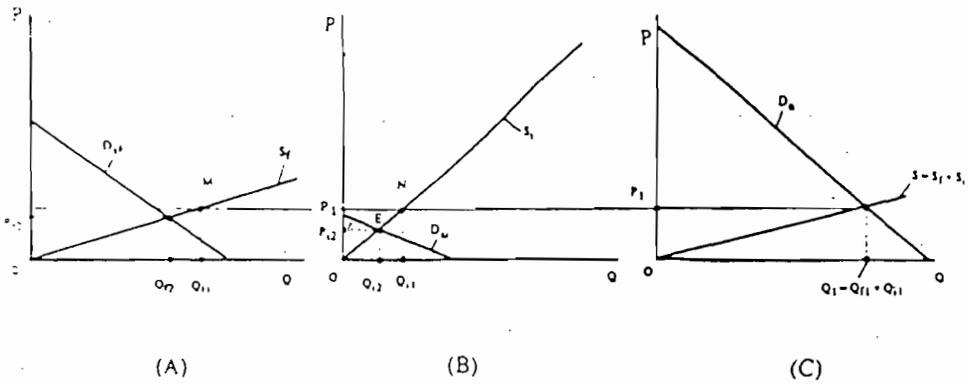


Figure 2

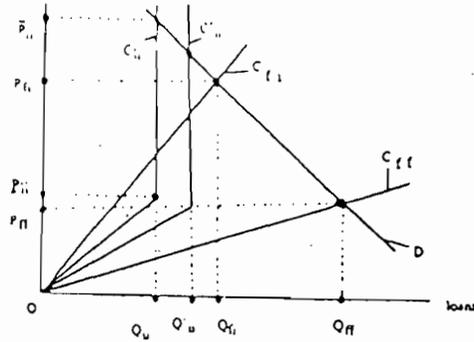


Figure 3

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IV. ENTREPRENEURS IN MODERN INDUSTRIES

Presentation

The dynamics of entrepreneurs in modern industry is painting a bright picture in the Asian region, particularly for the manufacturing sector. Whereas global reports emphasize the new development and diversification of manufacturing activities in Southeast Asia with the quick response of NIC's industries to changing market opportunities and the changing patterns of competitiveness, the economic press highlights the success stories of small traders turned tycoons, of entrepreneurs fighting their way from a small workshop to the establishment of a large manufacturing corporation over a span of two decades. Previously, most comments and academic literature tended to focus on either small traders or large firm and multinational corporations. However, the contemporary picture leads to a reassessment of local entrepreneurial dynamism and the sprouting of the academic debate.

The process of sustained and rapid industrialisation lead us to address the issue of the role of entrepreneurs in sectoral development, their performances, and the relationship with institutions that shape or direct industrial policy. What are the specific characteristics of Asian entrepreneur's current attitudes ? how do their strategies contribute to the construction of modern industries ? How do they cope with a context of rapidly changing national competitive advantages in the world economy and regional arena?

The present chapter is an attempt to reflect upon these issues, going beyond some conventional wisdom about the dynamics of entrepreneurship in Asia, and to cast new light upon three major themes: the role of private initiative in modern industries, the strategies to maintain competitiveness, the business networks and lobbying powers of modern entrepreneurs, and particularly the relationship between entrepreneurs and the State.

1. Private Initiative in Modern Industries

In Southeast Asia the pattern of industrial development was based on a large number of small and medium size private ventures, and a relatively small proportion of larger, or even state owned companies: This characteristic accounts for the widespread intervention of entrepreneurs, many of whom have turned their project to success thanks to two elements that differentiate this region relatively to, say Latin America or West Africa:

- 1) a favourable economic context - over a span of thirty years for most countries in the region - with several strong cycles of growth and prosperity, and
- 2) a capacity to shift from one activity to another, or to expand a small, narrowly specialized venture, often based on trading activities geared to the local needs, into a larger, more diversified enterprise targeted to world markets.

Thus in the Asian context, the increasing opportunities to make profit, implied for the entrepreneurs a particular ability to manage changes and the evolution of their activity: over-production

crises have been common (in textile, as well as chemicals) and East Asian Nics are currently restructuring their own "sunset industries" since the mid-80s. D.H Kim, referring to the case of Korea, mentions the economic challenge but also the structural tensions resulting from these adjustment.

This holds true particularly in the case of the textile sector, which was one of the founding stones of industry in most East Asian Nics, and is now a major component of the manufacturing sector in Southeast Asia (paper presented by J-C Simon). Considering its development in Thailand, we see that entrepreneurs concentrated first on the development of upstream and local market activities and gradually shifted their efforts to exports. Since the late 70's the recent boom in garment production has enabled the generation of several thousand small and medium ventures.

The emergence of a modern industry is therefore gradual: there are steps and leaps but maturation is the key to national integration of activities. The presentation of the development of the automobile sector by M. Lautier highlights both the many interactions that preside over the generations of the chain of activities and the various approaches adopted throughout Asia to promote this sector.

When it comes to the so-called "High-Tech" activities, we have to admit that their characteristics put them out of the reach of most entrepreneurs and many developing countries. Several key parameters have to interact for their success; D. Danaraj stresses in his paper the prerequisites for the development of High-Tech activities: long term project, substantial financial commitment, mastering a specific and evolutive manufacturing process.

2. Entrepreneurs' Strategies and Competitiveness

To reach the stage of "modern industry", emerging entrepreneurs have to struggle through the ups and downs of the global economy, learning both the tricks of trade and the state of the art in terms of equipment and management. In a region such as Asia where globalization has transformed the horizon of entrepreneurs, this issue of maturation of industry and the ability to maintain a competitive advantage on world markets is indeed a crucial one.

The three sectoral papers quoted above show that entrepreneurs' strategies differ according to specific sector dynamics but tend to face similar constraints of periodical adjustment and restructuring. At the first stages of company development, entrepreneurs, especially those whose company emerges from a family based business tend to give more attention quantitative expansion, i.e. machinery and physical components of the firm, increased sales, rather than human capital selection and training, or quality improvement in production.

The current rapid growth of companies seems to minimize the need for careful and optimal management of resources. But this is not going to last: tensions on the labour market are already frequent in Southeast Asia (particularly for qualified workers and executives), and increased competition is placing new constraints on firms both to access local natural resource and keep a profitable share of markets. Adapting to the new times requires structural changes in enterprises (e.g. reshaping conglomerates, incorporating or listing family business) and also bringing a vision, a project into emerging companies: this is part of the maturation process that is taking place at the present stage of

development in Asia. Needless to say, not all entrepreneurs will make it throughout all required steps. As a matter of fact we know very little about unsuccessful entrepreneurs, and more research work would be welcome to follow up evolution of companies.

Therefore the present competitive edge of Southeast Asian entrepreneurs seems to be based on two elements:

- the capacity for rational arbitration and adequate selection of strategies to maximize profits which result in take-off of both internationally competitive industries and nationally protected activities.

- the acceptance of risk and the flexibility to reorientate activities threatened by loss of competitiveness: this has resulted in shift of labour intensive activities from East Asia to Southeast Asia, and a general drive of many companies towards high tech activities (higher range of consumer goods, telecommunication, engineering....) which present new challenges for entrepreneurship and industrial management, as Danaraj rightly points out.

3. Entrepreneurs, Business Networks and Cooperation

The papers emphasizes the role of industrial linkages that determine the structuring of sectors and the personal network of entrepreneurs (relationship of cooperation, lobbying power, that help to by-pass or decrease entry barriers in industry).

Informal networks have given way to more formal business association, as Chaponniere convincingly shows in the case of East Asian Nics. Whereas informal networks and cooperative strategies were primarily based on group cohesion, the new network can be more open, and forward looking: business association contribute to the technical data and market knowledge diffusion among of their members, and play the role of effective lobbies to secure State protection, or even for global trade negotiation

In many respects research on modern industry shows a complementarity with small scale and informal sector: it is indeed striking to realize the role played by sub-contracting for the promotion of the garment sector in southeast Asia (a good comparison can be based on the textile industry, see V. Charoenloet, in the previous part, and J-C Simon). Both sectors (formal/modern and informal) have similar strategies and practices, for example evading taxes, or limited registration, beyond the common tapping of temporary migrant labour resources from the countryside.

Therefore the institutional context of industrial growth in which companies operate deserves attention too, especially their relationship with regard to rules and regulations governing economic activity.

State intervention was markedly different throughout the development process in East-Asian Nic's compared to Southeast-Asian experiences. Both J.R. Chaponniere and D.H Kim present the specificity of East Asian cases, and the features that are unlikely to be reproduced in other countries (exemplified by M. Lautier in his paper on the promotion of the car industry in the region). In addition, the request for support by entrepreneurs is frequently a request for assistance and protection, more than an acceptance of the "picking the winner" principle by entrepreneurs.

Conclusion

It would be over-ambitious to reach final conclusions about the characteristics of entrepreneurs in modern manufacturing companies of contemporary Asia. But in a more limited way we could summarize elements from the debate that followed the presentations, in order to highlight some salient features;

Part of the debate is centered on the issue of long term performances of entrepreneurs: it is well recognized that the emergence of modern industries has been widespread throughout Southeast Asia over the past decades, and even more in the recent years, but the long term prospects are to be discussed. A first point was made about the necessary balance between export-led activities and local/regional market growth as the key to the success of many industries.

Another element to be monitored in the future should be the pattern of employment and stability of manpower. One participant mentioned that the number of strikes is not a valid criterion as many conflicts do not end up in strikes but rather affect productivity and quality of production. Dr. Samart Chiasakul, the moderator of the panel, emphasized the ambivalence of Asian entrepreneurs: They have a genius for flexibility, quick response to changes, but that could also weaken the industrialisation process, as many industries show "footloose" characteristics (e.g. many entrepreneurs from Korea and Taiwan have relocated to Thailand).

The discussion about the role of the State stressed the changing relationship between Governments and the private sector: as mentioned above about Korea, the entrepreneurs tend to adopt new attitudes towards the institutions and the State. this is particularly true in Thailand where recent political events have been analyzed as a conflict of generation between traditional politicians and the new economic elite.

Finally, many questions can be raised about entrepreneurship and new regional strategies of modern companies. One aspect is the new perception of regional potential by entrepreneurs - whether we refer to the new "zone of trade" of continental Southeast Asia or to the "Triangle of growth" further South. There are very few modern companies in Southeast Asia that have a truly regional or international dimension - it is expected that the next years will see the emergence of regional conglomerates, that will contribute to the restructuring of manufacturing activities (such as automobile, petrochemical, consumer products...). A final aspect is the strengthening of linkages between entrepreneurs throughout the region despite the different business practices, regulations and habits - one case of such transnational business culture is found among the business communities of Chinese origin, and will be adressed in the next part.

Entrepreneurs, State and Networks

Jean-Raphaël Chaponnière

After a lost decade in Africa as well as in Latin America, the Asian Newly Industrialized Countries (NICs) have become the new references in the field of development economics. However, the lessons drawn from these experiences do not enjoy unanimous acclaim, especially as regards the respective role played by entrepreneurs and the State in the industrialization process. Early analyses¹, emphasized the neutrality of the trade regime put into practice after the economic reforms implemented in the early 1960s in Korea and Taiwan; these reforms are said to have promoted neither export activities nor import substitutions² and to have given a free rein to entrepreneurs who, faced with limited domestic markets, switched to the export of labor intensive products. In doing so, these countries have avoided repeating the errors of other countries who had hastily embarked upon the "second import substitution stage". Korea is an almost classical example of an economy which creates its own advantages of comparison, while reaping the benefits of economic theory." (Westphal 1982). By creating a favorable macro-economic atmosphere, there seemingly emerged several dynamic entrepreneurs, which enabled the NIC's industries to leap forward.

Little by little this "neo-liberal" interpretation has given way to what might be termed more heterodox explanations which commonly stress the importance of enlightened State intervention. Thus, after the "developmentalist" approach of the 1960s and the "dependentist" outlook of the 1970s, the experience of the NICs became a new formula for tackling under-development (Haggard, 1990). From this experience was born a new paradigm carrying different names: Johnson (1986) described a "Capitalist Developmental State"; others spoke of a State model (Clark, 1989; Colclough, 1991); Wade (1990) argued that the State governed the market; and more recently, certain writers evoked the specific features of the "East Asia Developmental State".

That one experience may give rise to such a variety of conclusions is an indication of the complexity of this phenomenon, which will undoubtedly continue to be a topic of research. It is no longer denied that the State has played an important role in industrializing the NICs. Though some authors would claim that these countries would have progressed even more rapidly without the State's intervention, it is generally agreed that their intervention was of a positive nature since, for the most part, it was in harmony with the market (Park, 1990).

1- Writings by Little (1970), Belassa (1971, 1975) and the presentation of the NICs' success in reference manuals, e.g. the "hand book of Development economics" (1991).

2- The elimination of the arbitrary nature of the administration (moving from a "negative" list which specified the only authorized importations to a "positive" list which indicated the products barred from importation; as well as the abrogation of quotas and import monopolies).

However, this consensus has, in turn, raised new questions. What could account for the great success of the NIC State interventions while, in so many other developing countries, similar interventions have led to failures? Which mechanisms have enabled the state to intervene without 'cramping' their entrepreneurs' dynamism?. The answer to these questions lies partially in the existence of various networks linking the State and the entrepreneurs. As it will be described in this paper, one should distinguish between the nature of these networks. While many authors have stressed the informal network (i.e., "Korea Inc."), this paper will emphasize the role of the more formal networks (i.e. the industrial associations). However, before going into those details, a quick description of the State's role in the NICs will be given.

1. The State and the Promotion of Entrepreneurship

The NICs industrialization has relied on private initiatives. Success stories of self-made men abound in Korea, Taiwan and Hong Kong. Several of these founders are still at the head of the businesses they created. These large enterprises - some of them figure in the top 500 enterprises in the world³ - form the tip of an iceberg made of tens of thousands of companies. The dynamism of these entrepreneurs is comparable to that of the "captains of industry" of Europe's nineteenth century. All the same, it is also undeniable that their success can also be attributed to the supportive role played by the State.

The State in the NICs has been, as in Japan, a development "expert". It has been active at each phase of the life of a firm. It sometimes created them, and later on it protected them, then went on to help them to reinforce their technological capacities, and recently it has accompanied them in their delocalization moves.

The State has picked the winners. This practice is similar to industrial targeting policy. It only targeted certain sectors but, at times, also chose the entrepreneurs responsible for carrying out the industrial projects it wished to be realized. In Korea, the setting up of big groups was one of General Park Chung Hee's ambitions; his wish was to promote the growth of a national capitalism and to "enable millionaires to build large factories" (quoted in Amsden, 1988). An alleged meeting between the President and several heads of large firms at the "Blue House" was the origin of a tacit agreement between the State and businessmen (Jung-en Woo, 1991). Following this meeting which, according to some, signaled the birth of Korea Inc., thirteen business heads went abroad in a bid to mobilize capital, and on their return they proposed a series of measures which included the construction of the Ulsan industrial site. These measures were immediately put into effect by the State (Koo Suk-mo, 1989). These entrepreneurs created the Federation of Korean Industries and brought together the largest of the Korean groups. In Taiwan, where State enterprises had dominated the scene during the fifties, the State also had a very decisive role in promoting private enterprise. One such case is that of the textile industry, which, up to 1983, had been the country's major export activity. The State began by

3- Among the most well known examples in Korea are Cho, the chairman-founder of the Hanjin industrial group; Chung, chairman of Hyundai; and Kim Woo Chong, founder of Daewoo. In Taiwan famous examples are Lin of Tatung and Wang of Formosa Plastic.

entrusting some chosen enterprises with the task of transforming the raw material that it sold them and that it bought back from them after being processed. This strategy was quite similar to the "putting out" practiced by English 19th century merchants (Li, 1959). In this way, many Taiwanese spinning and weaving companies were spared the difficulties of buying raw materials, ensuring working capital, or dealing with marketing problems. These enterprises were later able to boast independent management, and it was only much later that they were made to face international competition. In Korea, the same practice, used to promote these large groups, was adopted during the 1980s in an effort to boost the SMBs. In order to reinforce the industrial fabric, the State proceeded to select 3,000 out of the 30,000 existing firms (using management criteria), which were then put forward as potential candidates for transfer of technology operations in collaboration with foreign firms that were able to choose their partners within this subset.

Targeting was not only aimed at domestic entrepreneurs, as is clearly the case in Singapore. This City-State is the only Asian NIC country in which foreign firms play such a decisive role (they account for 80 percent of Singapore's manufacturing production). Multinationals did not settle there spontaneously. The promotion policy of the late 1960s implemented by the "project division" of the Economic Development Board was very instrumental. As from 1968, the EDB, through its external antennae, made direct negotiations with the largest multinational enterprises in order to convince them to settle in Singapore. Requests for the status of "pioneer industries" were analyzed according to the impact such new production would have on industry overall and to the type of industrial integration they offered. In more recent years, Singaporean technocrats have been aiming directly at "start-ups" which are less knowledgeable about Singapore. Sometimes they play the role of venture capital in order to incite these new-comers to set up in the city state (today both of Korea and Taiwan import as much as Africa; Korea and Taiwan together import as much as Latin America) (Chaponniere, 1990).

The evils of protection are often put forward. It offers an opportunity for rent seeking entrepreneurs and encourages non-competitive businesses. The examples of Korea and Taiwan have often been quoted as examples of countries which have fought against this policy. After several years of protectionism, these countries have placed their enterprises in a situation of free exchange. However, it must be remembered that this opening-up only involved exporters and that it has existed along-side an extremely demanding kind of protectionism, which could have rivaled the kind practiced in Latin American countries. As these countries began acquiring strategic commercial importance, their protectionist practices came out into the open (Bagwhati, 1990) and gave rise to pressure on the part of their trading partners, who demanded that they dismantle their tariff and non-tariff barriers. In analyzing the Korean protectionism set-up, Luedde Neurath (1986) pin-pointed numerous administrative measures⁴ the effects of which had not been taken into consideration by previous studies. Analyses carried out on Taiwan's case (Gold, 1986; Wade, 1990) came to similar conclusions: not only was the effective rate of protection not homogenous, but the distribution of the rates measured at a more sensitive level of the nomenclature left nothing to chance, showing up the existence of a targeted industrial policy whose aim was to promote certain well-defined sectors. Besides these protectionist

4- For example, the down payments required for importation as well as the role played by industrial associations in import management (see infra).

measures, it would appear that the State did not hesitate to take such steps as manipulating prices in order to favor investment in sectors thought to be of top priority (the practice of using different interest rates and of linking exportation success to the possibility of importing).

The only original thing about these protectionist practices lay in the fact that by protecting their market, the States did not necessarily favor rent seeking enterprises, as is widely the case in many countries. The firms which were to benefit from these measures were forced to respect a "performance clause" by proving their competitiveness on the international market. In Korea, enterprises benefiting from protection measures at an internal level also had to prove their worth as exporters⁵. The State was in a position to enforce these performance clauses since it was able to exercise a very efficient control over such firms via credit facilities; the nationalization of the banking system gave the State the right to have its say in allocating credits, thus, providing Taiwan and Korea with one of its principal instruments of industrial policy up to 1983. Banks were privatized in 1983. However, this privatization did not seem to have influenced the role of the banks until the last few years, a role which continues, in many ways, to resemble that of State relay. Among the other more "classical" instruments which have been used were: the production license system, price control, and a close surveillance of the exit of capital from the country. These instruments helped the State to mobilize external financing in favor of big firms, but turned out to be detrimental to small and medium businesses. One might observe that the NICs remained faithful to List's initial teaching, namely that the protection of budding industries ought to be looked upon as a preparation for international competition (Judet and Chaponniere, 1992).

The State has also been very active at each technological step taken by these industries. Contrary to what has sometimes been said, neither Korea nor Taiwan had waited until their comparative advantages had worn out to launch the second phase of import substitution. It is interesting to remember that such investments were severely condemned by the World Bank at the time. The State became the promoter of projects in the domain of iron and steel and by doing this, it clearly anticipated the demand. These projects have been realized by State owned enterprises. China Steel and Pohang Steel Co. have been ranked among the most successful iron and steel companies in the world. In Korea's case, what is striking is the variety of laws aiming at industrial modernization; for example, laws promulgated in the early 1970s for the promotion of engineering or laws which gave top priority to the electronics industry and which catered for the production of semi-conductors (and not only for their assembly) as early as the mid- 1970s (Glabi, 1991). At around the same time as Taiwan, the Korean state made similar efforts to convince private entrepreneurs of the strategic importance of the electronics sector; anticipating its evolution they, too, undertook investments ranging from the building up of an industrial and scientific site in Hschinchu in 1978⁶ to the setting up of research centers or of state enterprises in that field (as in the case of telecommunications in Korea). From the

5- Thus, in an effort to reward a given exporter of its first automobiles exports, which had been sold in a counter trade agreement involving bananas, the State offered the possibility to commercialize those bananas, which were being sold at US\$2 each unit at the beginning of the 1980s. This substantial profit was possible because of the protected nature of the market.

6- Where in 1993, over 140 high technology enterprises are operating.

mid-1980s, both the Taiwanese and Singaporean States embarked upon heavy investments in an effort to help firms take new steps in technology⁷.

For the past few years, the NICs have been faced with the problem of the aging of their traditional industries. The rise in salaries and the higher values of their currencies have eroded the competitiveness of their labor intensive industries such as clothing, and shoe and toy manufacture, so much so, that local entrepreneurs have been forced to delocalize their fabrications to South East Asia and China. It is noteworthy that, in this movement, the State in Korea, Taiwan, and Singapore has been playing an active role by softening its policies on the exit of capital as well as accompanying these enterprises and by directly participating in the construction of industrial zones in certain countries where these firms are to be implanted (In China; in the rest of South East Asia; in Central America and also in Ireland).

From this rapid summary, it is clear that the State was not prepared to simply outline "the rules of the game" which allowed entrepreneurs to emerge, but was also present at each stage of the lives of these firms.

2. The Networks

It may be wondered how the State in the NICs managed to intervene in a judicious manner in the industrial development of their countries (i.e. in harmony with markets), whereas in most of the other developing countries its involvement has led to dismal failures or the building up of "white elephants". How waste state able to be so clairvoyant in its choices?

In order to throw light on this paradox, it must be admitted that the boundary between State and the business world is not clear cut. Attention has been focused on the workings of informal networks very close to a caste-like system (e.g. networks formed between the graduates from the same institution). However, the existence of these networks revealed by political economy scientists only partly explain the relationship between the State and the private sector. In addition to these networks, there exist more formal networks (e.g. industrial associations) which play a role just as important as the informal networks and whose power is gradually increased throughout the development process. Whereas the former involved, almost exclusively, big groups of companies; the latter mobilized a greater number of enterprises.

However before going into detail about these networks, mention must be made of the uniqueness of the State in the NICs. A rather "cynical" outlook is often taken when viewing the State's capacities for intervention in developing countries: these interventions in the economy are judged at best as ill adapted, and in most cases they are considered to stand in contradiction to the "smooth" running of the market and to represent a source of corruption. However, paradoxically, the successes as well as the failures in the adjustment processes in developing countries and in socialist economies have shown that the success of a liberalization process calls for a strong state. While on

7- In Taiwan and Singapore, the State collaborated with foreign companies in order to set up silicium foundries; a highly capital intensive industry up-stream to the micro-electronic sector.

this point, it might be timely to recall the contrast between the reforms in China and those in Russia: the latter's difficulties were partly due to the weakness of the State. In Korea and Taiwan, due to their long administrative tradition, the Japanese colonial heritage, and the way in which civil servants are recruited "meritocracy", as described by Vogel (1992), the administration enjoys a privileged status which enables it to have more autonomy than in most other third world countries administrations. For this reason, these States deserve to be called "strong states" (in the sense described by Myrdal (1969): i.e. States which are capable of mobilizing the ways and means of enforcing their decisions.

One early account for the success of interventionism in the NICs lay the accent on the close understanding existing between the State and the business world. Thus, in a capitalist development State, "The principal strength lies in the collaboration between bureaucracy and businesses. Civil servants do not attempt to obtain absolute control over firms, but rather seek to guide the economy by using them as antennae: they learn about the markets by closely observing business experiences". In their view, the freedom of the market is not an aim in itself, but one of the many instruments used in attaining predetermined objectives; objectives which are second only to that of industrial growth". This understanding can be illustrated by the modalities of the workings of informal networks which justify the names of "Korea Inc.", "Taiwan Inc.", and "Singapore Inc.". This concept, which has sometimes been used to criticize the mysterious, even negative character of their decision-making (Wilkinson, 1992), in reality is a symbol of the closeness of the ties between the State and the big groups. Such is the case of the "alma-mater" networks: these could range from retired top civil servants to past-students of prestige universities, as well as networks formed along the political party line (as in the case of Taiwan in particular where several of the enterprises promoted by the State during the 1950s had been founded by businessmen from continental China or who were close to the KMT party). Inspired by the Japanese custom of "descending from heaven", some Korean retired top civil servants continue their careers in a *jaebud* where, as vice-presidents, they make use of their past relationships (Steers, 1989). Another factor favoring the creation of networks is the fact that these top civil servants and directors of important firms have had the same academic background, often from secondary school level and continuing on to university⁸. Thus, the existence of these kinds of networks, which function in a caste or clannish manner, gives a preliminary account for the deep understanding between the State and huge groups. Such networks, with their informal manner of functioning contribute to blur the boundary which is supposed to exist between the administration and the business world. Such networks are not specific to Asia but exist in all western countries. This system can be found in France, under the name of "grands corps", or in Britain, where one speaks of the "establishment"⁹.

8- Kyunggi High School in Seoul, Kyunbok in Taegu, and in Pusan until the secondary school reform, as well as several big universities. One chairman out of three (from the 490 biggest firms on the stock market) holds a degree from the SNU, the most prestigious State university where most top civil servants are trained. The chairpersons of the big *jaebuls*, or large business conglomerates, follow different training orientations: a great many of them have been Japanese or U.S trained (which is logical because of their age), and only two of them are graduates of the SNU and five have no university training at all.

9 - An article from the review, "The Economist" (December 1992) gave one an idea of the permanent nature of this structure in the U.K.

Apart from these informal networks, which almost exclusively concern relations between the State and big businesses, there are also networks of a much more formal nature. These were set up through meeting, "forums", and associations, and have been reinforced over the years and now form "institutional" networks, thus providing the State and the ever-increasing number of entrepreneurs with multiple occasions for contact and dialogue.

In Korea's case, the decision to set up a weekly exporters' meeting has been considered as a significant institutional innovation (Shinohara, 1983). It is at such meetings, presided over by the President of the Republic, that dialogue has occurred between the executive powers and business people. These meetings have been instrumental in settling a number of matters concerning administrative functioning and have helped to create a massive mobilization of the participants in export objectives. During the 1980s, these weekly meetings, not only dealt with exportation, but also involved matters concerning technology, an indication of the evolution of their industrialization strategy. In Korea, the Joint Export Development Committee, established in 1965, bringing together administrative and industrial representatives, has had the task of managing the system for encouraging export: they participated in defining the industrial objectives on a sectorial level and in return, were given the power to allot export quotas to their members (Yung Whee Rhee, 1984). Such encounters are important for a better circulation of information. An opportunity for explaining policies is offered and any measures taken can be properly coordinated. Such a level of organization of relations between the State and the business world is not specific to Korea and Taiwan. In Singapore, where foreign companies ensure the essential part of industrial production, the Singapore International Association maintains close relations with the government while local firms get together in different chambers of commerce with definite ethnic leanings. In Hong-Kong, the private sector is organized into more than 200 associations which bring together 7,000 firms: the Hong-Kong General Chamber of Commerce, in itself, makes up a small government.

The smooth functioning of such meetings requires that businesses be represented by associations which have an adequate structure in order to be able to pass on their expectations from one to another; which leads us to emphasize the way in which industrial associations function. The role played by intermediate structures has been neglected by economists who prefer to focus either on firms or on the State; but this role seems to be an important one. The mentioned associations have become privileged channels between the State and businesses.

As early as the beginning of the 1960s, the Korean government had demanded that all "incorporated" enterprises belong to an industrial association and these associations were created at level 4 of the classification of activities¹⁰: in the case of the textile industry, the creation of different associations (spinning, weaving, synthetic fibers, etc.) followed the progressive construction of that branch. Other organizations were later set up at a more cohesive level. Thus, the KOFOTI, set up in 1967, brought together the different specialized industrial associations who were to become the textile division's negotiator with the Ministry of Industry. In Taiwan, as from the 1950s, the government

10- In the case of the automobile industry, the State was in favour of dividing the federation into two separate sub-units during the early 1980s; the Kama which consisted of constructors and the Kaica which brought together equipment manufacturers. These federations sometimes have diverging problems and interests.

encouraged firms to get together into industrial associations in order to regulate production and promote exportation (Alam, 1989). Any sector consisting of more than five firms were to be registered. However, most of these associations carried very little weight, except the noteworthy Taiwan Textile Federation, which brought together 18 associations.

Even though the Korean or Taiwanese industrial associations have been less influential than their Japanese counter parts, it is clear that their recommendations are often adopted by the administration. Koo Suk Mo (1989) has pointed out that in 1974 three quarters of the recommendations made by the KOTRA have been retained not implemented into public policies.

In Korea, as in Taiwan, industrial associations served as filters for importation during the 1970s. Depending on the availability of currency allotted by the administration, certain import objectives were fixed by these industrial associations after consulting their members and later distributed the importation quotas among themselves. Through this system which remained in place up to the end of the 1970s, these industrial associations were able to deal with the "non-tariff barriers" to importation. These barriers, being totally informal, were totally ignored. In this way, the KOSAMI (Korean Society for the Advancement of Machine Industry), an industrial association bringing together entrepreneurs in the machine and engineering sector, had the power to approve or reject licenses to import equipment for industry. In the course of foreign investments, and during negotiations dealing with the imposing of informal performance clauses, it was clear that the administration became a virtual representative of these professional associations (Chaponniere, 1991).

Industrial associations also served as important go-betweens when these countries had launched their modernization plan. In the textile industry in Taiwan (Wade, 1990), it was the Textile Industry Association which drew attention to the fact that, in that sector, there was little or no activity (a similar fate had befallen the dyeing branch) and in return the Industrial Development Bureau sought to find an entrepreneur who would accept to invest in that sector in order to fill the void. In the case of the petro-chemical industry, the associations organize quarterly meetings between the up-stream and down-stream businessmen of that sector. Another object of State - association relations has been quality control (for which a program between State and industrial associations has been created). In Korea, the law for the modernization of the textile industry, promulgated at the end of the 1970s, put KOFOTI (an industrial association bringing together 18 associations) in charge of that program in addition to giving them the power to control production capacities (Moskowitz, 1984). Elsewhere, the KOSAMI, having been set up to represent the Korean equipment industry, was given the responsibility (by the State) to manage the fund for the promotion of the machine industry and to offer guarantees in order to promote the purchase of Korean equipment by local businessmen. The sudden emergence of the NICs in the high tech industries is partly due to the experience amassed by the research institutes created by these governments and which used to function in a symbiotic manner with industry. They worked together towards the diffusion of technology and helped industries upgrading their technology as in the case of the Electronic Research Scientific organization, (ERSO) in Taiwan.

The associations, created partly through the State's initiative, have created sophisticated information systems which offer their members detailed knowledge of their sectors¹¹ and which have enabled the State to better "adjust" its industrial policy. At the same time, a pooling of these bits of information has reinforced their capacities to carry out studies, and consequently to make proposals, a situation which provides them with a means of negotiation with the State. In order for constructive dialogue to take place between the State and business people, their representatives must be in a position, not only to criticize the impact of a given reform, but also to propose constructive solutions. The reinforcement of these professional associations is, no doubt, a process which cannot be disassociated from the democratization of economic life.

The existence of these networks have been a motivating force in establishing dialogue between the State and entrepreneurs. They have the added merit of not being limited to big groups of companies but seem, a posteriori, to be one of the explanations for these companies' successes. These countries have built up a "rhenan" style capitalism (Albert, 1991), a category which comprises Germany where industrial associations count numerous members and play an important role, but also with Japan where, according to one observer's hypothesis, "the Ministry of Industry and Commerce's concrete mode of intervention consists in encouraging the creation of associations which together would form an intermediate body, within which, at one and the same time, and in a not dissociable manner, all industrial strategies will be set up"¹².

The lessons to be learned from the NIC model are not to be limited to a few macro-economic recipes which were put into practice, but should extend to the modalities of cooperation between the State and businessmen. These relations have upset traditional ideas and can be linked to Perroux' notion of a mixed "oligopoly": "this mixed entity (private and public), this composite ensemble is quite a monstrous thing when stood up against the sublime nature of the market economy logic of the usual models of international exchange " (Perroux, 1982). The functioning of this ensemble requires the existence of multiple bridges, the increase in consultation organs and the reinforcement of industrial associations. The State in the NICs has favored the emergence of intermediate negotiators. This lesson is important for the countries which have embarked upon the NIC's trail¹³.

11- Example: the textile associations, also the KOSAMI, the KAMA (automobile), or the EIAK (Electronics Industry Association of Korea) which, apart from their commercial functions, have at their disposition different means of documentation and important research, and publish statistical bulletins (weekly in the case of EIAK) which offer extremely detailed data concerning their sector.

12- A hypothesis which confirms sectorial studies; hence, Friedman (1989): The misunderstood miracle Cornell University Press dealing with the strategic machine tool industry in Japan.

13- As in the case of Thailand where, since the beginning of the 1980s (Anek Lao thamatas 1992), the NESDB has created the Joint Public Private Development Committee which has served as a very important junction.

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The Role of Industrial Policy in the Formation of the Firms Strategies in the Process of Korean Industrialization

Do Hoon Kim

Introduction

Korea is experiencing a hard time these days. While her industries suffer from decline in international competitiveness and her position in the international markets is threatened by new rivals such as the ASEAN countries and China, the Korean government and business sectors are proposing different strategy to develop Korean industries. This is quite revolutionary reflecting upon past Korean industrial development history. In the past, their interests coincided with each other and the two parties remained in perfect harmony in the process of industrialization. However recently, when the government proposes a particular plan, private business suspects an ulterior motive; when private business plans to invest in certain areas, the government refuses to approve it. Why do these differences in stands occur? What changes in the economic environment are causing these disharmonies? What are the future strategies of Korean firms? What will and must be the direction for the Korean industrial policy in the future?

1. Evolution of Relations between the Korean Government and the Business Sectors in the Process of Industrialization

In the 1960s and 70s, the government and private business sectors were the two wheels heading in the same direction for rapid industrialization. The government led the business sector to invest in desirable industries, and doing so utilized different policy tools at different times. During the 1960s, the Korean government faithfully adopted market predictions. It prompted export industries which enjoyed a comparative advantage in factor supplies, i.e. light industries or labor intensive industries such as textile, footwear, clothing etc. In other words, the government tried to intensify the market conditions by subsidizing the industries with comparative advantages. During the 1970s, it tried to advance market predictions with industrial targeting policies. The government prompted the so-called "heavy & chemical industries" (or HCI), which had not yet acquired a comparative advantage but would gain one in the near future according to the government's rosy vision. The business sector followed these government directives with sincerity and contributed in the industrialization process of the nation.

During these two decades, the Korean government ignored the impacts of these types of policies "to upgrade the industrial structure" upon the market structure of the industries concerned. On the contrary, the so-called "picking the winner" policies fostered monopolistic or oligopolistic conditions in many domestic industries. Meanwhile, some entrepreneurs diversified their business-lines to form "Chaebols": large private companies that control many sectors of manufacturing activities and basic industries in Korea, by taking advantage of these policies. The diversification strategy (either in related industries or in completely new ones) was and still is the main growth path of "Chaebols" because diversification by increasing their economic power gives them the monopolistic power to access scarce resources such as bank credit, land and human capital etc. In sum, Korean business, following the industrial policies of the government who controlled all information on the international markets and dynamic evolution of comparative advantage at that time (or at least claimed to do so), chose the "diversification" route to obtain economic power.

However, during the 1980s, this close relation between the government and Chaebols began to face two serious problems. The first problem was "excess investment" in some heavy & chemical industries and the second one was the issue of restructuring "sunset industries". Chaebols were very reluctant to follow the "rationalization directives", since they opposed the Chaebols' unsuitable urge for diversification. Moreover, Chaebols concerned were afraid that following these directives would only provide an advantage to a rival chaebol. Nevertheless, the government succeeded in arbitrating complicated interests amongst the Chaebols, using persuasion or the threat of cutting off bank credit. This rationalization would not have been possible without the general business success of Korean industries at the time.

Table 1 : History of Relations between Government and Business
Concerning Industrial Policies

Period	Firms' strategy	Government policy	Major industries
60s-mid 70s	Take advantage of cheap labor Search for economies of scale Export	Export-promotion Pick-the-winner	Textile, footwear clothing, electronics
mid 70s-70s	Diversify Export	Incentives on HCI (Heavy and Chemical Industries)	Steel, automobile shipbuilding chemical
80s	Diversify More attention to domestic demand	Adjust HCI Rationalize "sunset industries"	Machinery, hi-tech parts and intermediate products
90s	Reclaim deregulation Independent from government	Specialize Reduce chaebols' economic power	Hi-tech, R & D software

Unfortunately during the 1990s, Korean industries are suffering severely from the recession in the major advanced economies and the threat from new rivals. Chaebols, which now possess their own

think-tanks, are starting to blame the government for mismanaging macro-economic policies and for not having a proper vision for the future. They are developing their own plan to pick the industries, the partners and the locations (even overseas) for their future business. The government, aware of the chaebols' new attitude, still wants to maintain a strong influence on the Korean industrial structure for three main reasons. First, the Korean government wants the Chaebols to participate in its plan to develop hi-tech industries such as semi-conductors, super-computers, HDTVs (High Density Televisions), and bio-industries. Second, public opinion urges the government to reduce the monopolistic power of Chaebols or at least restrain from giving them too much favors. Third, the Korean government is too accustomed to the role of leading business to give up strong influence, which it enjoyed through the industrial policies.

2. Domestic and External Environment in the 1990s

2.1 Domestic Economic Environment Changes

First, the increase in domestic wages is surpassing that of labor productivity while the famous conscientiousness of Korean workers is generally regarded as diminishing. Korean wages in the manufacturing sector are now higher than their Taiwanese and Singaporeans counterparts even though the Korean personal income level still lays far behind that of the two rival countries.

Second, rising incomes are inducing people to pay more attention to issues such as the environment, housing, health, and equity at the expense of economic growth. These changing attitudes are expected to shift priorities from investment to consumption.

Third, the decentralization of administration is making an increase in social welfare and balanced regional development a necessity. There is increasing public pressure to reject policies that may lead to cronyism or favoritism.

Table 2: Wage Rate Comparison (1990)

	(A) Average Wage Rate in the Manufacturing Sector (US \$)	(B) per capita	(A/B)*12 (US \$)
Korean	834.7	5,569	1.8
Taiwan	824.7	7,735	1.28
Singapore	727.7	10,703	0.82
Japan	2,431.2	23,224	1.26

Source: Kim Hee Joo & Kim Do Hoon, Domestic and International Environment and Proposal for the Improvement of Balance of Payments, KIET, Nov. 1991

2.2 External Economic Environment Changes

First, industrial competition in international and domestic markets are expected to become more severe as the signing of the Uruguay Round negotiations will open wide the domestic markets of all countries, and as the former socialist countries participate more actively in the world economy. Therefore, Korean firms must concentrate their business resources in a few business lines that promise a bright future.

Second, regional integration such as the formation of the European Community and the signing of the North American Free Trade Agreement will significantly reduce the market access of non-member country such as Korea. Korean industries will have to make inroads into these markets as early as possible.

Third, environmental restrictions may be used as a new type of trade barrier by the advanced economies, and environmental technologies may prove a bottleneck for the future competitiveness of Korean industries.

Fourth, national competitiveness is expected to depend increasingly on the technology competence and development level of nations. Therefore, industrial countries will compete more intensively in the R & D field and avoid the transfer of technology to countries which may become future rivals, for example, the Asia NIEs (Newly Industrialized Economics).

Fifth, the so-called "next-NIEs", including ASEAN countries and China, will catch up to the NIEs by quickly developing their industries, through their competitive advantage of low wages and the technological and financial assistance of industrial countries. The share of these next-NIEs in some major world markets are beginning to surpass that of NIEs already.

Table 3: Trend of Export Share in the US Market (%)

	NIEs			Next-NIEs		
	Korea	Taiwan	Hong Kong	China	Thailand	Malaysia
1987	4.2	6.1	2.4	1.6	0.5	0.7
1991	3.5	4.7	1.9	3.9	1.3	1.3

Source: GATT Report 1992.

3. Current Status of Korean Industry

Korea now possesses a sophisticated industrial structure, characterized by a fair amount forward and backward linkages. The share of heavy industries in the value-added of the total manufacturing sector rose to 69.5% in 1991 from 44.8% in 1970. The production levels and exports of major industries have increased to within the top ten in the world, with the exception of some high-tech industries.

On the other hand, Korean industry does face some difficulties in developing high quality and high value-added products, because it has low level of industries technology relative to the advanced economies and depends heavily on imported intermediate products. Moreover, most Korean industries are still specialized in processing and assembling based on cheap labor. These industries are mostly dominated by large companies, members of Chaebols. As a result, Korean industry is rapidly losing international competitiveness due to the lack of strong small and medium industries which could specialize in parts and intermediate products.

Table 4: Major Industries' Production Position in the World*

	1986	1990	2001
Electronics: BIL \$	12.1 (6)	29.7 (6)	126.8 (4)
Automobile: 1,000 unit	602 (12)	1,332 (10)	3,789 (5)
Shipbuilding: 10,000 G/T	364 (2)	346 (2)	540 (2)
Machinery: BIL \$	4.2 (14)	13.9	37.7 (6)
Steel: MIL M/T	15 (10)	23 (7)	35 (6)
Petrochemical: MIL M/T	1,944 (17)	4,821 (6)	10,336 (7)
Textiles: 1,000 M/T	825.4 (6)	1,286 (6)	1,650 (6)
Footwear: MIL PAIR	467 (2)	512 (2)	690 (2)

Source: Kim Do Hoon, Industrial Policy Direction in the 21st Century, *The Korea Economic Weekly*, July 20 1992.

* () represents Korean industry's value of production and rank in the world market.

4. Major Changes of Korean Firms' Strategies in the 1990s - with Relation to Industrial Policy of Government

First, Korean firms (especially member firms of Chaebols) are attempting to obtain some independence from government policies so as to make their own decisions on investment project choices. This change is largely due to their increasing ability and advantage in gathering valuable business information in a rapid manner. Most Chaebols, with their own international network connecting the foreign branches of its trading arm and with their own think-tanks (both R & D activities and in economic research activities), have developed their own decision-making systems.

Second, in contrast to past practices, Korean firms are very reluctant to yield to government intervention and arguing for deregulation to a significant degree. In the past, the Korean government issued many regulations and directives either to promote or to restrain certain industries and certain business activities.

Third, Korean firms which who continually searched for exploitation of economies of scale, had been mostly export-oriented due to insufficient domestic demand during the past three decades. However, as national income increased rapidly and domestic markets grew large Korean firms started to pay more attention to domestic markets while the government still wants to promote exports.

Fourth, leading industrialists of the Chaebols are very nervous these days about the government's anti-trust and competitive policies, called as "new industrial policy". They are afraid that the government has a desire to dissolve Chaebols or at least to reduce their monopolistic economic power drastically. These large business groups have made their position clear on the issue: A unanimous "No!".

5. Basic Directions of Industrial Policies in the 1990s

Basically, there seems to be a consensus that future industrial policies should be pursued only for the sake of fostering the vitality of the entrepreneurs, the small and medium industries in the private sector. To this end, government will drastically reduce industrial regulations and provide strict and reasonable rules of the game to the private sector, thereby improving market competition conditions. To promote market competition, government will abolish many industrial entry barriers and permit procedures which claim to regulate industrial activities and prohibit unfairness which results from economic power.

On the other hand, government will play an important part in improving such industrial circumstances as the labor supply, capital market, and location supply. To avoid the negative effects of over- or under-investment as well as unfair activities in the market, government will propose a vision of the future and induce industrial activities to move in the most desirable direction. In the case of industrial policies, it is believed that Korean government will concentrate its efforts on the three points that follows.

1. Improvement of the technological level: The government should play a important role in the process of developing certain strategic technologies, and should give more incentives to companies actively engaged in R & D activities. In cases where it is difficult to develop high technology by domestic firms on their own, strategic alliances with firms of advanced countries should be favored.

2. Improvement of sectors aiding manufacturing: Government should actively engage itself in upgrading sectors which aid the manufacturing sector, such as education, finance, land supply and logistics.

3. Globalization of industry: Overseas investment by Korean industry should be favored in order to take advantage of foreign resources, including natural, financial and human resources. The government should persuade industries to involve themselves in major regional integration such as EC 92 and NAFTA.

Concerning "Chaebol Policy", Korean government is trying to encourage the large conglomerates to specialize their industrial activities in a few selected sectors in order to achieve economies of scale in R & D and production. In this sense, it is argued that the "selective main firm system" introduced to stimulate their specialization should be replaced by the "selective main sector system". In this case, some financial incentives at the domestic or international market level will be given to "specialized firms", while mutual guarantee payments between subsidiaries should be drastically reduced to "non-specialized firms". The government should also recommend that large companies employ specialized managers and prohibit the unregulated use of company resources for the personal benefit of the owner. It is also argued that the family ownership of Chaebols should be decentralized and opened to the public

Table 5: Ownership Structure of 30 Big Chaebols (%)

	1987	1990	1991
Chairman or family (A)	15.8	13.7	13.9
Cross investment (B)	40.4	31.7	33.0
A+B	56.2	45.4	46.9

Source: Yang Wonkeun, *On the Efficiency of Chaebols*, KIET, 1992

Mr. Kim Young Sam, president-elected, seems to have the intention to promote small and medium size industries. It is proposed that a special committee to encourage the SMIs will be operated inside of the President's Office.

The major economic policies that will come for discussion should facilitate the conditions of operation of small companies in the present economic context. They should include stabilization measures for wage and interest rates. Additional efforts will have to be made by government agencies to ease decisively restrictive regulations. It is also vital that specific measures bring additional support to emerging entrepreneurs in small and medium industries. Finally, for an established NIE as Korea, more than ever R&D has to be placed at the core of new industrial policies. It is very likely that intense political debates will preside over the future choices of industrial policies : large groups will resist the restriction of their privileges and monopolies, whereas SMI will demand additional protection rather than incentives for change and adapting to the new world order.

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The Growth of the Automobile Industry in Asia: the State's Role in Promoting Domestic Entrepreneurs

Marc Lautier

The automobile industry has always been considered as a highly industrializing sector for a country to develop. Its expansion, inevitably, goes together with powerful industrial and technical linkage effects, especially in such sectors as production goods, basic products, parts and components¹. These linkages enable it to act as an engine to promote high value added activities.

However, many specialists consider that the industry's oligopolistic structure and the formidable entry barriers, in reality, prevent the emergence of new firms, especially those originating from third world countries².

Table 1: The Growth of Automobile Production in Asia

	1960	1970	1980	1990
Japan	482 (2.9)	5,289 (18.0)	11,043 (28.7)	13,487 (27.9)
South Korea	3 (ns)	29 (0.1)	123 (0.3)	1,322 (2.7)
Taiwan	nd	20 (ns)	132 (0.3)	339 (0.7)
Thailand	0	5 (ns)	43 (0.1)	305 (0.6)
Malaysia	0	31 (ns)	105 (0.3)	192 (0.4)
<i>Total Asia</i>	<i>555 (3.4)</i>	<i>5,488 (18.7)</i>	<i>11,502 (30.0)</i>	<i>15,683 (32.5)</i>

Thousands of units (percentage of world production)

Sources: CCFA, MVMA

Asian breakthroughs (in the automobile industry or otherwise) have, thus, upset these certainties and are sometimes explained by an absence of autonomy on the part of these new entrants and their workshop function linked to the multinationals' delocalisation strategies. After Japan, which was dependent on American capital after the war, Korea and Malaysia are today considered as the "Japans of Japan"³. These "normalizing" analyses present, at the very least, a rigid vision of the world

1- In France, for example, the automobile manufacturing sector employs 210,000 workers while related industrial employment rises to a figure of 607,000, which corresponds to 16% of manufacturing employment as a whole.

2- Thus, Prud'homme (1984) placed the accent on economies of scale and Jenkins (1977) lay the emphasis on the de-nationalization process for developing industries. For a more detailed view of these tendencies, see Doner, 1991, p.9 and the following.

3- In a study carried out on the Japanese automobile industry, the other Asian countries (car manufacturing ones) were presented under this heading (Mory, 1985). See Deyo, 1987, in which these theories of dependence are presented, and Harris, 1986, who revised these theories.

industry and its evolutionary processes. Mr. Humbert's approach, which refuses the autonomy/dependence outlook, seems to be more in-keeping with the realities of industrialization: "The aim of industrialization should be to ensure an active participation on the part of national enterprises in the world-wide industrial system (...). A successful entry into the world-wide industrial system would mean avoiding both sordid independence and pitiful dependence" (Humbert, 1988).

In others words, it means initiating and managing an open-oriented dynamic, which favours impulse and learning processes, as well as minimising the "effects asymétriques" and the "emprises de structures" (Perroux, 1975).

This text examines the modalities through which the East Asian States⁴ have accompanied their national entrepreneurs along the narrow path of "automobile industrialization". This will be illustrated by the Japanese experience (1920-1970) and, more recently, South Korea's, Malaysia's, Thailand's, and Taiwan's.

1. From Passive Protection to Active Dependency

In the absence of targets and specific promotion measures, the first steps of the automobile industry occur in a rather spontaneous manner. During the very early stages, it only benefits from a general trade protectionism context. This first phase⁵, thus, corresponds to passive protection, and its purpose is to limit or forbid the importation of completely built vehicles to the benefit of the local assembly of foreign brands (CKD assembling)⁶. Numerous attempts are made at increasing the localization rates (import substitution) and at developing intré and intré-branch linkages, but such efforts are not always coherent.

However, they have the merit of providing private entrepreneurs and the related industrial sectors with a 'debut' in practical knowledge and experience. The first "Korean" car was manufactured by Shibal in 1955. Seven years later, Saenara was created and became Daewoo Motors in 1972. Then came Kia, a former cycle manufacturer, Hyundai and Asia⁷. In 1953, the Taiwanese Yu-Loong had already gone into car assembly and managed to hold a quasi-monopoly in this activity over a 15-year period. In the early 1930s, an initial concentration movement gave birth, in Japan, to Nissan, which rapidly became the leading mass manufacturer in the Pacific area⁸.

Automobile activity began to be firmly implanted within the national industry via its purchases of manufacturing equipment, tools, parts, and components. The localization rate had reached the 70% mark in Korea by 1974 and the 40% mark in Malaysia by the early 1980s. Toyota, before the war, had

4- In order to limit any digression in this text, only the most ambitious strategies issuing from this zone will be studied: Thailand, South Korea, Japan, Malaysia, and Taiwan.

5- 1930s and 1940s in Japan, 1950s and 1960s in Korea and Taiwan, up to the early 1980s in Malaysia and .

6- CKD : Completely Knocked Down

7- CKD assembly of Toyota Corona by Shinjin (ex Saenara and future Daewoo Motors) in 1962, of Ford Cortina by Hyundai in 1968 and of Fiat 124 by Asia in 1970.

8- By 1941, Nissan's annual vehicle production reached 20,000 units.

designed its first flexible manufacturing equipment and placed orders with Komatsu. Hitachi Seiki and Toshiba rapidly began furnishing Nissan with transfer machines. Later, the density of the Japanese small and medium sized industry made it easy to localize the production of components for foreign cars locally assembled under licence⁹.

In Thailand, the automobile parts industry went from strength to strength: Yuasa Battery, Sa-Nga Damrong (windows), Siam Group, etc. (Nawadhinsukh, 1983) and by 1980, the localization rate was estimated at 35%. With the exception of Japan (in the 1960s), whose "automobile industry is young only in terms of exports" (Cusumano, 1985, p.6.), the results in terms of quality as well as quantity were quite modest.

Large technology transfers are needed in order to catch-up with the industrial "state of the art". One essential part of this mechanism is the opening up of the sector to the MNF, which is used as a lever for upgrading the national industry's competitiveness. Whenever the system of dependence is put into practice, there is strict management and control, very often taking on a "predatory" aspect.

In 1925, Japan accepted a Ford assembly factory and later a General Motors production unit (1927), but forced them, by means of high customs duties on parts imports, to increase their orders from national producers. At the beginning of the 1950s, in order to rapidly reorient a war-oriented industry, the MITI encouraged Japanese firms to negotiate licensing agreements with foreign manufacturers. Four of the six projects presented were accepted¹⁰.

Twenty years later, under a Korean programme called "citizen car" (1974), Kia embarked upon the production under licence of a Mazda vehicle, Saehan upon a similar cooperation deal with Isuzu, while Hyundai, even at that stage, was half-way through opening "the technological package". Hyundai manufactured a "national" car built from an Italian design (Ital) and mainly Japanese components (Mitsubishi) with English engineers (ex British-Leyland).

Malaysia, in 1983, allowed Mitsubishi to take a predominant position in this sector in order to create a "national car manufacturer". Whereas the technical performance and the competitiveness of the industry are still quite unsatisfactory, cooperation with foreign firms has made leaps and bounds. The heavy losses between 1986 and 1988 forced Hicom to hand over its management of Proton to Mitsubishi (Machado, 1990). In an effort to rationalize the sector, the Taiwanese government invited Toyota in 1982 to invest in a joint-venture, namely the "Big Auto Plant", which should become the national automobile leader. The lack of quality of Korean vehicles¹¹ turned out to be the cause of the strengthening of ties, especially financial ties, between Hyundai/Mitsubishi and Kia/Mazda.

Whenever the catching-up objective is achieved, or whenever the foreign presence slows down, instead of reinforcing, national industries, separation is often the final result.

9- An agreement between Austin and Nissan (December 1952) envisaged a progressive local manufacturing process, which would attain the 100% mark under a 3 year period; an objective achieved 6 months before schedule.

10- Isuzu/Hillman, Nissan/Austin, Hino/Renault, Mitsubihl/Jeep.

11- The first Hyundai "Pony" failed the American pollution and security tests.

After making a huge contribution towards the blossoming of the Japanese parts and automobile industry, GM and Ford were forced out of the country at the end of the 1930s. After the war, though, the eviction of foreign firms was more gradual. It, however, proved to be an equally efficient move¹². Similarly, in Korea, GM had to withdraw from its joint-venture owing to its partner's strong desire for independence (Daewoo had created a second automobile subsidiary, independent from the joint-venture)¹³. Michelin also has recently abandoned its joint-venture with Hankook. In Malaysia, locally assembled foreign brands are being threatened by the new localization rates, which will jump from a 30% to a 60% minimum between now and 1996, and the creation of a second national car-maker¹⁴.

2. The State's Three Roles: Initiator, Strategist and Regulator of the Industry's Development

The State accompanies the development of the industry by adapting its forms and scope of intervention and by progressively giving way to the initiative of the private sector.

2.1 An Impulse-Giving Role

After the war, the MITI proceeded to reorient the Japanese automobile industry towards consumer demands. The importation of manufacturing equipment and techniques (technical licensing agreements) was favoured in order to catch up with western car-makers who, at the time, occupied two-thirds of the domestic market (Odaka, 1983, p. 353).

Acting under the 1974 automobile plan, the Korean government selected three firms - Hyundai, Kia, and Saehan/Daewoo - which were to benefit from all the support necessary for the production of a "national car"¹⁵. In Malaysia, the State made direct commitments towards the automobile business via the state company, Hicom¹⁶. The Proton project became one of the main components of Prime Minister Mahatir's policy, on an industrial level, to develop capital-intensive industries, and on a social level, to restore the balance of economic power to the advantage of the bumiputras. In Taiwan and Thailand, impulse followed impulse, to such an extent that they were becoming inconsistent.

2.2 The Strategist Role

The State tries to control the growth path of the industry, with a varying degree of precision according to the country involved. The strategic orientations of firms are overly determined by the directives of industrial policy. For example, the second Taiwanese plan (1958-1961) indicated that: "the government should positively undertake to guide and help private investments so that they do not flow into enterprises which have a surplus productivity and a stagnant market" (see Wade, 1990, p.81).

12- Production under license represented 42% of the Japanese production in 1954 and 0.4% in 1964.

13- Which produced a new vehicle, under Suzuki licencing.

14- In partnership with Daihatsu (cf: Far Eastern Economic Review, 13/2/92).

15- Which should have a localization rate above 95% and a cylinder volume under 1500cc (Kim & Lee, 1980).

16- In a joint-venture in which Mitsubishi held 30% in 1985 and only 17.4% now.

In particular, such an objective was chosen and announced via the Japanese 1956 State-Plan, the Korean one in 1974, and the Malaysian "New Economic Policy" launched by Prime Minister Mahatir. The State allocated vast sums towards the realization of these plans.

In Japan, the automobile policy is defined by the MITI but put into practice more globally (by the 3 Ministries - Construction, Transport and Finance)¹⁷. Carmakers benefit from loans at special rates, from subsidies, from special depreciation rights, and from exemptions or reductions in customs duties on the importation of manufacturing equipment and inputs.

Throughout the 1970s, new Asian entrepreneurs were able to benefit from a wide range of similar aids which were sometimes added upon. Korea stands out for its use of very efficient adjustment tactics for prices and interest rates (See Jones and Sakong, Chap. 4, and Amsden, 1989, Chap. 6). In Malaysia, the "domestic carmaker" was able to benefit from an exemption from customs duties on imported parts, as well as from fiscal privileges.

More fundamentally, the State takes on the burden of a large part of private entrepreneurs' investment risks during the first stages of manufacturing, and this by means of public or bank financing. The debt/equity ratios stands at around five. This debt level could only be attained through State financing or guarantees¹⁸. The autonomy of these entrepreneurs, private though often state-financed, is limited by the so-called "socialization" of investment risks. In Korea and Taiwan, "the channeling of high savings through government-controlled banking system has been a key instrument of industrial coordination" (Wade, 1990, p.165).

2.3 The Regulating Role

The management of the industry's growth is almost systematic. This takes place by means of alternating rationalization measures (in order to allow firms to attain a critical size) and liberalization measures (in order to develop competition). However, this type of regulation only meets with partial success because of the determination of the private actors.

Vigorous rationalization measures for the sector were outlined by the Korean government after the 1980 crisis. However, after undergoing pressure from certain firms, notably GM and Hyundai, a wide merger project was canceled. Instead, each of the four carmakers was to have specialized in a particular segment, with personal cars being earmarked for Hyundai (these excluded prestige vehicles). Added to that, there was a ban on all new entries into the industry until 1989.

Malaysian assemblers were firmly requested to limit their business aggressiveness as soon as the project of "national interest", Proton, came to life. In Japan, successive concentration plans made by the MITI ran into difficulties, being faced with the strong firms' desires for independence and with the diversification strategies of the keiretsu. The "people's car" project (1955), which was aimed at concentrating efforts on a standard model, thus maximizing economies of scale, turned out to be a

17- In the 1960s and 1970s, road construction represented more than 40% of public works spending (Komiya, 1988, p.311).

18- The debt/equity ratios were 4.3 for Nissan in 1965, 7.8 for Honda in 1967, 4.5 for Proton in 1986 and 5.0 for Hyundai Motor in 1987.

failure. Later, in the 1960s, the desire to rationalize the sector around the two most important firms created very little impact. Nissan took over Prince in 1966 then partially bought Fuji Heavy in 1968, while the Toyota group incorporated Daihatsu (1966) and Hino (1968). Despite steps taken by the MITI¹⁹, other manufacturers were able to keep their independence, but, being threatened with absorption, they redoubled their efforts. A similar sequence took place in Taiwan between 1982 and 1984 when the government failed to create a "great" automobile firm ("Big Auto Plant"), but, instead, had the effect of spurring on the existing entrepreneurs of that sector.

The management of domestic competition forms the other basis for sectorial regulation. Malaysia is the most recent example: they are now developing a second national carmaker, whereas Proton has only barely attained the age of majority. This process was one which had been previously adopted by Korea, with liberalization measures ("de-specialization") as from 1985. Hyundai's successes, notably in exportation, coupled with pressure from the industrial heads, led the government to authorize the widening of Kia and Daewoo's activities to the whole industry. This new competitive environment contributed towards accelerating the development of the Korean automobile industry, which began increasing its models and technical improvements as from 1987. In Japan, the State is much less capable of choosing the actors, who often rely on group structures (Mitsubishi, Mazda, etc.). In Taiwan and, to a lesser extent, in Thailand, the State was unable to create a clear, coherent and durable automobile industrialization strategy. The diverging pressures of the different national and international lobbies had led to permanent hesitation between a nippo-korean model, based on the support given to a few important firms, as well as on the desire to build up specialization in automobile equipment²⁰. Thus, in Taiwan, customs duties followed a rather fluctuating trend, and the same applied to localization and exportation rate constraints. After the attempts at creating a huge unit in 1982²¹, followed by a "national car" project (the "Feeling" with Nissan), the direction to be followed then seemed to be more clear-cut after the 1985 "compromise" through which sales (including imports) were liberalized (Imports represented 40% of the Taiwanese market in 1990), and by which Taiwan was to become an automobile parts exporter.

In Thailand, the "bureaucratic fragmentation" (Doner, 1988) of the government (six Prime Ministers between 1972 and 1977) was a factor which limited the country's ability to regulate this sector and hold strong against the converging interests of multinationals and their local licensees, supported by huge Thai industrial groups (Siam Cement, Sukosol, Sittipol, etc.). Even though "the Thai automobile policy has always insisted on the need to rationalize the market," (Doner, 1991, p.46) it has never been able to limit the number of firms or to enforce its localization measures. This situation explains the recent decision (1991) to intensify competition by drastically reducing importation taxes (In July, 1991, these fell from 180% to 60% for personal cars and from 120% to 60% for pick-ups).

19- The MITI itself negotiated the Prince/Nissan merger and the latter was rewarded with a loan of 11 million USD (Johnson, 1982, p.268).

20- See Doner, 1988 and Wang, 1989, on the hesitations and wavering in the Thai and Taiwanese automobile policies respectively.

21- The "Big Auto Plant" was to have produced 200,000 cars per annum, mainly for exportation.

3. The Protection and Promotion of Internal Cohesion

Since there is an oligopoly on the world scale, there is a necessity to protect budding industries." No country, whether England or even less the USA., has ever embarked upon economic development without setting up strong customs barriers, in an effort to protect its young industries" (Bairoch, 1992, p.521). Very often in the Asian countries, this protection is of an "aggressive" nature: preparation over a limited period for international competition. Its coherence lies in the fact that simultaneously there is a will to promote internal competitiveness.

Once again, the Japanese example serves as model and has since been widely adopted. National carmakers in that country are protected from importations by numerous taxes aimed particularly at the most competitive kind of cars, namely small types. A bilateral agreement with Italy, world specialists in small-car manufacturing, was even concluded. Official protection came to an end in 1964, an event which coincided with Japan's OCDE entry. However, many constraints continued to bar importations of any great significance. Moreover, a very elaborate form of regulation²² persisted and served as a protector from foreign investments until the implementation of liberalization measures in 1971.

In Korea, despite the apparently low customs duties (17%), Korean carmakers suffered very little from foreign competitiveness. The reason being a cascade-like system of taxes, which doubled the price of imported cars. However, the main import barriers stemmed from non-tariff measures, very often quite original, such as fiscal checks. Foreign investment and technology importations were being filtered by the Economic Planning Board, through which all projects were bound to pass.

Japan and Korea were able to maintain a firm block against foreign entry into their market until external pressure and internal competitiveness reached a certain level. Taiwan, on the other hand, continued to follow its erratic policy, which had a de stabilizing effect on its national entrepreneurs. Customs duties on cars jumped from 50% in 1965 to 75% in 1971, only to fall to 65% in 1985 and progressively decrease before reaching the 30% mark in 1992. A similar pattern befell the importation of parts for local assembly.

The competitiveness of parts and components firms became a determining factor for the carmakers' own competitiveness, thus giving rise to vigorous policies promoting upstream industries.

As early as the 1930s, Japan had forced General Motors and Ford to increase their purchases from local businesses. In 1956, the "Machine Industry Law" pinpointed the automobile parts industry as being one of the 17 sectors to be promoted. The industry was then rationalized and given technological and financial support. Japanese parts manufacturers were able to benefit from more than 40% of the Japan Development Bank loans ear-marked for the machine industry²³. At the same time, the currency allocations for car manufacturers were reduced in order to force them to buy Japanese.

At present, Taiwan has, at its disposal, a competitive base of about 2,000 companies exporting 1 USD in automobile parts per annum. These partmakers allow local assemblers to reach a reasonable

22- Johnson (1982) gave a detailed description of the selectivity and efficiency of these measures (for the automobile industry, see specifically p. 278 and the following).

23- 32% between 1961 and 1965; 54% between 1966 and 1974 (Komiya, 1988, p. 615).

localization rate²⁴. This kind of competitiveness results from the only coherence of Taiwan's automobile policy: the manner in which localization is boosted. In practice, each assembler must buy a determined number of locally made components which appear on a list established by the Ministry of Economic Affairs (MOEA). This list increases regularly, and so does the number of components to be localized. This regulation system incites assemblers to make use of the internal competitive advantages of the industry, by giving their orders to the top-notch producers.

The opposite pattern can be observed in Korea. Following the 1970 industrial concentration process, small and medium businesses were weakened. There was a slowing-down effect on the qualitative evolution of the automobile industry since, in this case, carmakers were made to rely on uncompetitive automobile parts producers. On the one hand, there was a high localization rate, existing for some time (90%), and on the other hand, a great deal of parts importation which, even in 1988, attained 1,300 USD per vehicle (Lautier, 1991). In order to give a boost to SMBs (Small and Medium Business) and to favour a more balanced industrial structure, numerous measures were implemented as from the middle of the 1980s²⁵.

In Thailand, in the face of resistance from assembling companies against the localization constraints, the government decided to aim at the heart of this industry. An engine project was set up in 1985 and implemented as from 1987. Its objective was to attain a localization rate of 80%. In anticipation of these problems, the Malaysian automobile plan envisaged, almost immediately, the creation of a component factory, so as to quickly increase the localization rate. The absence of this second company was compensated for by the dynamism of local entrepreneurs, which enabled Proton to reach a 69% localization rate, as compared to 18% at its inception.

Thus, though practicing protectionism, these countries were able to avoid monopoly behaviors and rents in this industry.

4. A Triple Stance on the Dynamics of Private Capitalism

4.1 Dealings with Private Entrepreneurs

C. Johnson emphasizes that the East Asian developing States, depend to a large extent on public/private cooperation, which takes place between the "State managers" and the "private managers"²⁶. The general tendency is to create close ties between State and private industrialists, but the modalities and, especially, the weight carried by each "partner" differ from country to country in Eastern Asia.

In Japan, the older and more powerful business groups were able to achieve great autonomy. Mitsubishi's strong desire to continue its expansion in the automobile industry has upset the MITI's

24- 60% for Sanfu Motors, licensee of Renault (PEE Taipei's April 1992 Study).

25- The setting up of a sizeable agency for the promotion of SMBs (SMIPC), bank loans reserved for SMBs, Fair Trade Law, Subcontracting Act, etc. See Park, 1989, the reference in this topic.

26- See his comparison between "Capitalism Developing States: Japan, Korea, and Taiwan" in Deyo, 1987.

rationalization plan and its foreign capital opening schedule. In order to escape from the MITI's plan to concentrate the sector around the two biggest carmakers, Mitsubishi began accelerating negotiations with Chrysler. A new subsidiary was created with the American company in 1969 and a financial agreement was signed.

In an effort not to lose face, the MITI was forced to launch its opening programme in advance and announce the liberalization of foreign investment in October 1971 (Johnson, 1982, p.287 and following). During that same month, with Mitsubishi's agreement becoming effective, Chrysler began to sell the former's cars in the USA. Isuzu quickly took advantage of the situation and preserved its independence by concluding a similar agreement with General Motors (1971).

In Malaysia and Taiwan, the opposite tendency has been observed. The State began taking the place of private capitalists (for different reasons) through "great automobile company" projects. Indeed, the ethnic factor in Malaysia would have prevented the driving force behind such a strategic project from being a private concern, for this concern would have been headed by businessmen of Chinese origin. For the same reason, the entrepreneurs' already involved in that sector were headed off.

In Taiwan, the public enterprises traditionally were the ones to become the main tools of the sectorial "big pushes". These public investments induced, downstream, private entrepreneurs' business developments. The choice of China Steel as the local operator of the great 1982 automobile project followed this philosophy. Having been deprived of participation, the Taiwanese automobile firms reacted quite aggressively to this with an exportation plan and the creation of a common design centre. It was this dynamism which enabled the industry to maintain its growth path after the failure of the China Steel/Toyota project (1984). In Thailand, Siam Nawaloha Foundry, along with Siam Cement, were the main beneficiaries of the only automobile targeted project, the "engine plan" (1985/87) (Doner, 1988).

The Korean scheme appears to be the most balanced, but also the most directive one. The State is not a producer, but its industrial policy has served as a direct and strong reinforcing agent for selected entrepreneurs. At the same time, the competitive spirit was developed amongst them.

4.2 Reliance on Foreign Multinationals

The building of a competitive industry implies catching-up with the norms set by the world oligopoly (Humbert, 1988). The transfer of technology is, thus, an inevitable stage in this adopted course. There is a power relationship involved, which relies on the traditional rivalry within the oligopoly.

South Korea has been particularly successful in turning this unbalanced relationship to its advantage. By blocking any direct access to the domestic market, the State has been able to reinforce the bargaining power of Korean companies. Moreover, since all foreign investment and technology transfers must be systematically submitted for government approval, the latter acts as the direct negotiator in all projects involving any foreign firm. Thus, any multinational wishing to operate in Korea must commit itself to cooperation and incorporate the aims of the Korean industrial policies in its own strategies. The Korean carmakers were also able to make use of the US export restrictions on

Japanese firms by obtaining from the latter more advanced products, as well as their aid for exportation²⁷.

Malaysia, with fewer "arms" at its disposal and, therefore, more sensitivity to these "emprises de structure," has placed its automobile policy within the same perspective.

Its commitment to Proton has enabled Mitsubishi to bypass Toyota and Mazda in Malaysia and to incorporate this unit into its pan-ASEAN strategy. The Japanese group has been able to take advantage of the difficulties of the project in 1987/1988 (heavy financial losses and failure in the attempt to export to the USA) to strengthen its hold. However, the present strong/weak relationship is having a detrimental effect on its fortunes. Indeed, Mitsubishi eventually had to go back on its position concerning the localization rate and accept certain ambitious exportation aims. The imminent arrival of a second national carmaker should once again reduce its influence in Malaysia.

On the other hand, the repeated changes (i.e., hesitation) in the Taiwanese automobile policies have not served to increase the nation's degree of liberty. Toyota's free movements are an example of this inability.

This Japanese company entered the local industry in 1967 via a licensing agreement with Liu-Ho. As early as 1974, it withdrew to set up in China. Later, Toyota became a partner of China Steel in the 1982 "Big Auto Plant" project. However, it refused to undergo the localization and exportation constraints and once again pulled out in 1984, which led to the cancellation of the project. This fiasco incited the government to limit the obligations imposed on foreign companies operating in Taiwan. The attraction of a dynamic market is now moving Toyota to reinvest in massive operations in Taiwan. The production capacity of its partner -Kuozui- should attain 200,000 units and, thus, enable it to occupy second place in the sector (China Post, 19/09/92).

These different experiments, all bearing similar objectives - the development of national car manufacturing companies - are reminder that it is preferable to relate with the weaker members of the oligopoly. The successes of Mazda's and Mitsubishi's partners, Kia and Hyundai/Proton respectively, contrast with the difficulties encountered with General Motors (divorce from Daewoo and failure of Taiwan's truck project) and Toyota (failure with the "Big Auto Plant").

4.3 An Instrumental Use of the Market

"The market would tend to disappear if there are interventions acting both on price and quantity" (Perroux, 1981). In Asia, the opposite tendency is the case: the attenuation of control creates the market. "The State, via its intervention, contributes to boost the market and is opposed to monopolies creation" (Judet, 1989). The second phase of the catching-up consists of introducing competitive dynamics so as to give a new impulse to the industry, and this, is achieved by progressively suppressing pre competitive policies.

27- An agreement, voluntarily limiting automobile exportations was concluded in March 1981 between the U.S.A. and Japan. Mitsubishi and Mazda, losers in this quota system used their Korean partners in order to increase their automobile value added exportations (indirectly and without quotas) to the USA. See Rennart, 1992, chap. 5 Section 1.

The market, domestic or, more often, international, is used as means of evaluating (and estimating) strategic choices. This dynamic and pragmatic meso/micro articulation, between the whole industry efficiency and the constraint of the firms' own competitiveness, may account for most of the strategic movements imposed on the industry.

The market becomes deformed and is replaced whenever the fragile nature of the industry calls for defensive measures. The obsolescence of domestic automobile products caused the MITI to promote manufacturing under foreign licensing after the war. Later, in the 1960s, the MITI sought to concentrate the industry in order to increase the economies of scale of Japanese carmakers. A similar problem caused the Korean government, in 1981, to reduce competition between the main producers by getting them to specialize.

Concerning the market, competition becomes more intense as soon as competitiveness seems to be sufficient to carry out more aggressive strategies. The successful exportations of Hyundai cars was a facilitating factor towards a total opening-up of the sector to Kia and Daewoo. A little later, Samsung, the leading Korean business group was, at last, allowed to branch out into the automobile sector.

As soon as Proton was able to make a break-through in exportation, the Malaysian government created a second national car manufacturer and reduced the customs advantages from which that joint venture had previously benefited.

The dynamism of automobile parts industries and the rents earned by local assemblers recently led Thailand to suddenly open its market to importations.

The State accompanies and orients firms on foreign markets. In Japan and Taiwan, companies were "prepared" for exportation by the toughening of national pollution, security and quality standards. Japanese carmakers were, thus, made to recall 2.5 million vehicles in 1969 in order to correct defaults. The State also intervened in an effort to "unblock" foreign markets. Korea, by brandishing an attractive TGV contract, was able to obtain from France the opening (without quotas) of its automobile market. Malaysia made use of similar pressures in an effort to develop Proton sales in the UK.

Car manufacturers were firmly encouraged to seize these external opportunities. Thus, in Korea, vehicle exportations gave the right to obtain attractive loans and to import foreign vehicles, allowing highly remunerative margins on the domestic market.

The constraint of market-finding was relaxed by pragmatic adjustments between the internal and external markets. Faced with a morose Malaysian demand, one which was to have been its main market, Proton embarked upon an exportation campaign. It failed in the USA but later broke through in the UK (11,000 sales in 1990). The misfortunes of Korean companies in North America as from 1989 (a cut-back by half in its exportations) were highly compensated for by a boom in the domestic market, caused by a rapid hike in Korean wages. Meanwhile, Japan continued to enjoy a high growth rate during the 1970s, owing to the development of their exportation.

Conclusion

From dependence to autonomy, it's a non-linear development path. When the State protects and guides the development of the automobile industry, as in Japan, Korea, and Malaysia, it is a "hard State," borrowing a term used by G. Myrdal. Its cohesion, stability and autonomy enable it to efficiently coordinate the activity of private entrepreneurs and to define long term targets. By financing entry costs, the government paves the way for local firms to embark upon automobile activities. Whether the companies involved be State-owned or private, it is of no consequence since the industry is considered as a "public good". The aim of entering the oligopoly is shared by the State and private managers.

In the absence of a coherent enough strategy (the outlining of a goal and the allocations of means), the localization policy for industry has only results the dynamism of the entrepreneurs could construct a specialization pole (already existing in Taiwan, under way in Thailand), but without enough commitment from the State, the national control of the complete sector would appear to be out of reach. In such a case, it is only a specialization "par défaut", limited from the start by the very strong entry barriers to the automobile manufacturing industry. Contrary to Doner's hypothesis, the automobile multinationals' new competitors are not their former suppliers. A determined industrial policy seems to be necessary in order to build up and ensure the development of national carmakers.

Whereas the choices of industrial policy may be decisive for firms, the courses to be taken are neither pre-established nor linear in nature. They often result from compromises involving government factions and industrial lobbies. In Japan, the MITI's desire to protect and boost national industry entered into conflict, between 1949 and 1951, with the liberal positions held by the Bank of Japan. The MITI's position finally won with the help of the automobile firms. The debate within the Taiwanese government concerning the segment of the industry to be aimed at -- i.e., whether to have a mass car manufacturer oriented towards exportation or a competitive automobile parts industry oriented towards specialization -- only came to an end in 1984, when a change of political power occurred. These new politicians set aside the first strategy, a direction which was the best course for industrial interests. In Malaysia, the difficulties encountered by Proton (1986-1988) served as a weapon for Mahatir's political adversaries, thus favouring closer ties with entrepreneurs of Chinese origin. In Thailand, the scope of the investments made by Siam Nawaloha Foundry led the government to give a second start to the engine plan.

Several new automobile producers have made their appearance in Southern Europe (e.g., Portugal and Spain) and in Latin America (e.g., Brazil and Mexico), but these production zones remain exclusively internalized to the activities of the automobile multinationals. The only real new competition comes from Asia. Following the Japanese example, companies such as Hyundai, Daewoo, Kia, Ssangyong, and Proton are now making a forceful entry into the oligopoly. The remaining dependence ties with the latter are only one of the levers of a coherent catching-up strategy aimed at creating autonomous companies. These ties, all the same, impose some "emprises de structure," which are progressively reduced through the conjugated efforts of the State and entrepreneurs. This is a path which is not linear and which is riddled with failures and crises, but which turns out to be coherent in

the long run. Industrialization is a non linear process. One can judge the performances of these new entrants and the industrial policies which have propelled them only within a historical framework.

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Entrepreneurship, Markets and Industrializing Effects: the Case of Textile Industry

Jean-Christophe Simon

Economic analysis generally identifies three strands which define and condition the attitude of entrepreneurs: the search for opportunities to make profit, the capacity for rational arbitration to maximise profit, and the acceptance of risk.

It has been the tendency over the past years to consider the attitudes of entrepreneurs with specific reference to the institutional context in which they operate especially their relationship with regard to rules and regulations governing economic activity, and State intervention. Thus certain liberal economists emphasize the idea of the State as an additional risk factor - which leads to an apology for true competition and liberalisation - although, as we will see, States and markets present complex interactions, that contribute to the success of enterprises, or to the process of rapid industrialisation.

In this paper, we would like to go beyond an approach which views agents as individuals and consider modern industrial entrepreneurs both as a type of economic actor responsible for profitable, productive activities, and as members of a social group whos networks and attitudes are socially determined:

- The first aspect pertains to their role in the process of economic development, the circulation and accumulation of capital and also in the context of our study, to the general process of industrialisation.
- The second aspect takes into account multiple and diverse characteristics inherent in value systems, as well as favourable networks, industrial clans which naturally tend to seek political power (in order to influence economic institutions and regulations).

The intervention of entrepreneurs in the construction of the industrial sector of a developing economy has specific, characteristic features: those related to the sector and those related to national economy, for example. The attitude of entrepreneurs is therefore also indicative of the characteristics of the industrialisation process as a whole.

In this context, our reference to the textile sector is justified for two reasons:

On the one hand, it is a fundamental sector which emerges right from the beginning of most industrialisation processes - taking Europe of the XVI to XIX centuries as a first case. In developing countries, this sector has initiated or given rise posteriorly to most industrialisation strategies - in Latin America as in Africa and Asia. In South-East Asia, the modern textile industry with its forty-year-old history, is both dynamic and instructive, especially in Thailand. This historical depth enables us to trace the stages of the development process and highlight the lasting experiences related to the intervention of entrepreneurs.

On the other hand, it is a sector which lays bare certain bases of the dynamics in newly industrialised economies in Asia. It combines oligopoly forms of organisation (which are politically influential) and dispersed forms which constantly give rise to the emergence of new entrepreneurs. This diversity of structure, the types of markets and actors, are often underestimated: textile is said to be a "low-tech" industry. This might be true to a certain extent with regard to equipment and process, but highly debatable when it comes to entrepreneurial attitudes - in fact it is a skill-intensive industry from the latter point of view.

Last but not least, it is a sector which coincides with World Economy in Braudel's (1985) sense of the term. The textile sector is indeed one of the vectors of the internationalisation of industrial capital. Furthermore, the techniques it employs and its markets are globally structured and globally determined: the products are quasi-commodities compared to the basic raw materials, the techniques can be found from Sao Paulo to Seoul, the patterns travel by fax from Paris, Milan or Munich to Bangkok.

In this paper our presentation focuses on the relationship between entrepreneurs' attitudes and textile sector development in the context of a rapid industrialisation process. We will draw data from both the macro-economic level and firm level analysis. This was collected in particular through interviews with managers/entrepreneurs in order to get a good picture of the context for initiation and development of activities and the competitive strategies (Porter, 1980). We will refer mostly to the context of Thailand, but also to the experience of other Asian countries with similar industrialisation patterns in South East and East Asia.

1. Entrepreneurship and Sectoral Development

1.1 Structuring of the Textile Industry in Thailand

The diversity of entrepreneurs in the textile industry derives from both its construction pattern and its specific structure: Textile as an activity was for a long time limited to small workshops and traditional domestic cottage production. In the early fifties there was hardly a textile industry as such (except for government-owned mills and a couple of private ventures), and imports of material from neighbouring countries were substantial. It can be said that in the 60's, the perception of a growing market, and the national development policy, encouraged both local and foreign entrepreneurs to initiate ventures in Thailand.

Since that period, the expansion of the textile industry has been strong, with cyclical boom and recession periods. Interestingly, this sector has, throughout the past decades of development, maintained a dual pattern of formal and informal enterprises: The revival of traditional handicraft, and the strong growth of the "shop-house" garment producers are noticeable features, as they are well connected to the modern sector (either through sub-contracting or trading arrangements; see Voravidh Charoenlert, 1992). In the modern sector itself, another dual pattern can be identified, with a minority of companies operating as standard incorporated ventures, and others still keeping a fairly family-owned and managed, semi-registered form of operation.

1.1.1 The Foundation of Industry

The first entrepreneurs were indeed locals; they established the core of the textile industry: spinning, weaving operations, with technical assistance and financial participation of members of the Chinese communities in Southeast-Asia . They also benefited from the first set of government promotion rules for industrial activities (Chirayu Isarangkun, 1969).

This phase of import substitution lasted until the beginning of the seventies, and the following policy of export promotion was poorly timed (with the volatile regional situation, and the willingness of most companies to recoup their investment by selling on the local market) Actually exports took off only after 1975 and exporters made full use of the export credit scheme generously granted by the Government - and by the beginning of the seventies there was an excess supply on the local market, as several major Japanese ventures had contributed to doubling the capacity in spinning , weaving and dyeing. In 1973, garments emerged as one of the ten exports of Thailand, but still together with other textile products they were a mere 3% of total exports.

The upstream companies were rapidly established as oligopolistic structures with considerable bargaining power with government officials. In that respect, by 1971, the group of spinning and weaving mill entrepreneurs had successfully affirmed itself as a major industrial lobby, although with about 15 % of manufacturing value added in the 60's, textile and garments were not heavy-weight players with the ministry of Industry.

This position, coupled with an official policy of import substitution, tended to increase the protection of the domestic markets and to raise the entry barriers in industry - promotion of investment for production geared towards the local market was suspended in order to avoid further excess capacity, and regulations were adopted to forbid the expansion of capacity of existing companies.

1.1.2 The Expansion and Diversification Phase

Prosperity came back in the late seventies as export of both woven product and garments took off after 1975. Because of mimetic strategies and poor coordination by public institutions, periodical overproduction crises appeared such as in 1978 and 1983.

Nevertheless, the textile industry was well established by the end of the 70's: it amounted to 18 % of manufacturing value added (a similar share of manufacturing employment), equally divided between upstream and downstream activities (garment). This diversification resulted in a comprehensive industrial structure, that was large, nationally controlled (if not operated) and thriving; Out of a total amount of about 33 Billion Baths total investment (accounted for by Thai Textile Manufacturers Association) only about one third was approved and promoted by the Board of Investment (13 Bn Baths in 1978). This promoted investment was mostly related to upstream plants with 63 firms in spinning, knitting and weaving, and only 15 in the garment sector.

It is very striking indeed to compare the small number of promoted companies to the estimated total number of enterprises in the textile industry: more than five hundred upstream, and over one thousand in the garment sector by 1979-90. This clearly demonstrates the fact that industrial promotion by the government was not responsible for the rapid take off. Rather, similarly to other areas of

industrial policy, the government set a reasonable target for expansion, and went alongside the entrepreneurs' and industrialists own strategies.

1.1.3 The Boom of Entrepreneurship in the Garment Industry

It is the major feature of the 1980's, and naturally the results were more clearly seen on the export structures: by 1984 textile exports reached 10 % of total exports, and they now amount to about 18 %.

The expansion of the garment sector resulted in the doubling of the number of companies, and certainly was a decisive pull-factor to encourage in turn the expansion of weaving and dyeing activities. In 1990 the economic structure of the textile industry was based on about one hundred enterprises at the up-stream level, more than 1,100 engaged in knitting and weaving, and about 1,800 in the garment sector. A noticeable contribution to this trend was made by industrialists from East Asia, and Europe transferring part of their production base to Thailand.

	1965	1970	1975	1980	1985	1990	1992
Manuf value added	18500	24900	40800	63900	81500	156000	199000
Textile share/ m.v.a %	16.1	18.2	23	24	24	20.8	20.9
1.Upstream/m.v.a %	10.6	9	13.2	14.7	14.1	10.5	11.1
Production index	21	24	57	100	121	218	234
2. Garment share/ m.v.a %	5.5	9.2	9.7	9.2	10.1	10.4	10
Production index	17	39	67	100	140	298	339

Source . National Accounts NESDB. M.V.A Mn Baths base 72

1.2 The Entrepreneurs, their Linkages, their Networks

Behind the macro-economic data and intertwined with the historical transformation of the textile industry, we can identify a pattern of entrepreneurship with particular attitudes and dynamism:

- Linkages between companies, are not limited to up-stream and down-stream input-output flows as one would conclude from the superficial analysis of industrial structure. They also extend horizontally, to cover cooperation between enterprises. These cooperation can have several practical purposes: from sourcing raw material to acquisition of second-hand equipment, or arranging sub-contracting to fulfill an unexpected order on time. Most of the time they are informal, i.e. not covered by any contractual arrangement that is known to outsiders (Redding, in Hamilton, 1991).

- Strategies the entrepreneurs have to cover plant/workshop, company management and market appraisal, but they also include the management of a personal relationship network: this is an essential component to provide information, contribute to investment or capital increase , new business opportunity, but also lobbying capacity or corruption/bargaining power with State officials or influential politicians. We will see below how these linkages and networks play a key role at two levels of the firms' activities.

1.2.1 At production level

Many small companies in the garment sector rely on the founder's own savings, and generally family saving's too, to start up and prosper. We came across cases in both trading and manufacturing.

Obviously in the thriving garment business, investments are relatively low, so returns can be quick - in that case, manufacturing requires probably no more capital than land and property development, or even orchard-growing.

However, capital accumulation in the textile industry was greatly facilitated by the transfers of foreign investment and the willingness of local entrepreneurs to establish joint-ventures. This was certainly more relevant in the capital -intensive upstream activities (weaving, spinning), and had some bearing on the mastery of technology too (as for dyeing). Very seldom, the Thai partner will be a "silent-partner" who does not have the ability to manage the modern plant.

Our survey showed that local entrepreneurs in garment production are keen on keeping their financial autonomy, and even to restrict their expansion rather than engage an uncertain joint-venture with a foreign partner. In most cases, some small companies get technical assistance, credit facilities from Japanese or Taiwanese companies keen to secure and control a local supplier (for example in garment or dyeing sectors).

The sub-contracting and licensing relationship has been extensively debated from many points of view: the dependence and passive attitude expected from the company, the lack of incentive for upgrading production.... To add fuel to the debate we would like however to cite elements in favour of sub-contracting and licensing that seem to have played a positive role for companies in Thailand; for example, sub-contracting has enabled some firms to improve their standards by working with partners enjoying a quota of exports from the Ministry of Commerce (i.e. to market in Multi Fiber Agreement countries with import restrictions). Some companies will act as godfather and encourage smaller ones to supply them with improved production. These forms of "solidarity" or collaboration - which give a company easy access to a new market- can act as an effective anti-depression device when some markets tend to shrink temporarily as was the case during the Gulf War.

In the case of sub-contracting and licensing, it is an established practice, particularly for well known brands that the foreign license owner or the contractor will send a team to the recipient country to examine the production facilities and regularly monitor the standard and the production process of, let's say, sportswear or men's suits. It seems to have a very positive influence on quality improvement and mutual trust.

1.2.2 At Market Level

It can be said that the comparative advantage and the profitability of the textile industry is as much a matter of trading as of manufacturing. In that respect, Bangkok has increasingly played the role of a hub in Southeast Asia, notwithstanding the well-established position of East Asian centers still favoured by world buying and sourcing companies.

Local entrepreneurs who have established trading companies are quick to point out that this activity requires different skills from manufacturing. Most of them have acquired prior work experience (as an employee in local trading or abroad) or share the knowledge of market and negotiation with a partner who has complementary skills. In fact, for this activity, experience is all: from giving a good quotation, to keeping a carefully selected network of local manufacturers who will supply on time and according to the expected standard.

It also frequently happens that the contract between local traders and suppliers is not a written one (it is trust that matters), in order to jointly benefit from a profitable order. It also means sometimes a duty for the trader to find ways to assist a supplying company that is going through dire straits, or for a garment manufacturer to sub-contract to other firms or workshops in order to keep his word.

1.2.3 From Networks to Industrial Lobbying

All these elements help shape the dynamics of the industry, the organisation of the entrepreneurs, and also their bargaining and lobbying power. Whereas this power was mostly concentrated upstream in the 1960's and 1970's (Anek Laothamatas, 1992, p111) we can see that nowadays some powerful garment manufacturers have also established a lobby to influence and orientate public policy.

It is a well known - if not well documented - fact that many full-size textile enterprises do not operate as companies, with full registration as manufacturing plants at the Ministry of Industry. Two times throughout the 80's (1981 and 1987) the Government deemed necessary to offer amnesty to illegal firms, largely because of intense lobbying from the private sector. In the mid-eighties the assumption was a 30 % discrepancy in statistics, accounting for unregistered mills and workshop not known to the Ministry of Industry, or the Revenue Department.

From the economist's standpoint this indirect form of subsidy to start up venture is almost desirable: it allows local entrepreneurs (with adequate information and connections with government officials) to start a business with minimal tax burdens and administrative procedures. In fact, at a later stage when the entrepreneur decides to embark directly on an export-oriented strategy, he is forced to be officially registered as a company.

Finally the questions of quota allocation and corruption, or falsified export declaration, are also evidence that manipulating the market conditions is part and parcels of the entrepreneurs' strategies. This leads them beyond the position of a factory manager, to play the role of a social actor, who will occasionally need to bend public rules and muster some political power too.

The same can be said about delays in Value Added Tax implementation, and complaints by industrialists about its "additional cost" - in fact the debate was clearly flawed as on the one hand, loopholes in the tax system were convenient for many companies, on the other, large firms were not encouraged to implement official sub-contracting networks because of the sales tax.

It could therefore be said that these horizontal cooperative linkages between companies and the personal relationship networks of the entrepreneurs are two elements which help explain both the rapid expansion of the industry and the flexibility of the adjustment of entrepreneurs' strategies to recession, new market opportunities, or government policy change.

To put it in a nutshell, personal relationship networks of the entrepreneurs are the key to risk minimizing, they play a decisive part in the identification of business/profit opportunities - and they illustrate the fact that rational arbitration is deeply influenced by the cultural context.

2. Competitiveness and Industrial Strategies: the Art of Survival

2.1 Markets and World Economy

Textile products represent about 25 % of all manufactured exports from developing countries, and they are part of the core group of manufacturing products for which these countries have enjoyed an increasing comparative advantage in competing with more advanced economies over the past two decades (Yeats 1989). From this slowly expanding market (around 1% a year over the past decade) some countries have emerged as winners by considerably increasing their market share over the past twenty years. - As a group, the Asian region (including Japan and China) represents 45% of world exports now against 30 % in 1967. Big exporters like Taiwan or Korea still maintained a large share of textile products in their exports of labour intensive manufactured goods until the late 80's (respectively 15 and 26 % in 1986). Similar figures for China (48%), Indonesia (27 %), Hong-Kong (39%) and Thailand (22 %) are evidence of the strength of the textile industry in the region.

When it comes to Thailand, it is a striking feature indeed that the export rate was minimal until the late 60's: around 10 % for weaving products, and 5 % for garments. Around 1973-75, major changes took place: the total value of exports of textile products became superior to the value of imports, and in the year 1975 the value of garment exports overtook the value of other textile products (yarn, material).

Since that time the sales structure has changed considerably: nowadays it is said that about 50-60 % of garments are manufactured for exports, and about 25 % of material and yarn are sold directly on foreign markets. But the extent to which the exports play a leading role is still debatable (Suphat Suphachalasai, 1991). It must be added that the invisible exports on the regional or distant markets (small quantities bought by individuals or tourists) plus the border trade exports are estimated at 20-30% of local consumption.

When we analyse recent trends of Thai exports, another noticeable feature is the improvement of the balance between quota markets and non-quota markets: the major expansion drive of garments, from 1986, was, to a large extent facilitated by easy access to quota markets. These MFA quota countries were at the same time increasing their restrictions in the late eighties against NIC's garment export.

Since 1990, more than 50 % of exports are directed to non-quota markets - up to 54 % in 1991 - with the following breakdown: Middle East (13% in 1990), Japan (7%) and Asean countries (6%). The remaining 24% deserves additional explanation: Thai exporters have been quick to latch onto new markets such as Eastern Europe - Poland was the fastest growing market over the past two years.

This shows that entrepreneurs in Thailand have demonstrated two major skills over the past decade: one is the flexibility, to adapt their production to a wider range of world customers (children clothes for Europe, Middle east and Japan differ widely!) to explore and conquer new markets, and second, the awareness about the potential benefits of diversification. Actually, entrepreneurs' strategies are determined as much by the perception of constraints as by the identification of opportunities; some garment makers that developed their business in the late seventies declared that they opted for new export markets from the start in order to avoid constraints related to the export quota system.

2.2 Competitiveness and Conditions of Maturation of Enterprises

It is frequently assumed that cheap labour is the key to textile industry development; but the Thai case certainly shows that this is not true. In reality, the historical development of the textile sector is marked by a much more complex series of interrelated factors, each of which in turn plays a decisive role to incite further expansion of industrial activity. Occasional bottlenecks that matter for price or product quality incite the entrepreneurs to seek remedies - whether new sources of raw material or modernized equipment, or even increased government regulation and support.

Indeed when we attempt to discuss production costs, and their impact on competitiveness, the conclusions are far from straightforward in the modern industry (Narongchai Akarasanee, 1980)

The first element discussed, particularly for international comparisons, is the labour unit cost per day in the country. But actually, all firms surveyed pay their production workers by the piece - even in companies with 150-800 employees. Therefore, what really matters, (in addition to the wage that workers can expect by working a reasonable length of time), is the ability of the workers to fit into the production line, and their skill in limiting the waste of material and substandard pieces. Interestingly enough, this seems to hold true for both formal/modern and informal enterprises as well (Voravidh Charoenlert, 1992).

We can certainly agree that many small garment shops and factories have a relatively easy time recruiting temporary urban dwellers who can be conveniently laid off. During the first months of 1991, several factories we visited were half closed due to the Gulf War. But we also know that for some, the rice harvest season depletes the manpower and makes it difficult to fulfill orders on time. The answer of managers about labour turn-over was generally an average 2 years spent in the plant before resigning.

But, as a large factory owner put it last year, "if they get decent pay and work in a clean air-conditioned room, my workers do not want to go back to small factories neither are they keen to help their relatives for harvesting in the fields - they prefer sending money home instead".

Besides labour, the factors most frequently mentioned by the entrepreneurs are raw materials, and equipment. Complaints from garments manufacturers about the low quality of locally produced materials, or delays in getting supplies from local producers are certainly part of normal recriminations in a booming industry, but they are also evidence of additional constraints on productivity, quality and prices, beyond mere wage costs.

Another piece of evidence in support of the new awareness about competitiveness in the textile industry, is the investment in state of the art equipment: 50 % of new looms imported for the weaving industry are shuttleless, and computer assisted manufacturing is catching on with leaders of the garment production.

Several entrepreneurs in garment companies that were surveyed declared starting with between 6-30 machines in the 1980's - they are now thriving with more than ten times more. This should be understood as the result of an exceptional period: 11 % annual growth in the garment sector for 1980-90, and 15.6 % for 1985-90 - 8 % and 11.5 % for upstream textile activities.

This expansion pattern is very unlikely to repeat itself. Actually the textile industry will have to face major adjustments in the coming years:

- * At the global level, textile is unlikely to remain a labour absorbing industry, as was the case in the past;
- * The diversification of companies appears quite limited; textile entrepreneurs are very seldom the initiators of enterprises outside the sector itself.
- * The linkage with equipment manufacturers is poor - much weaker than in Korea for example, where the machine industry followed the expansion of textiles.
- * The forthcoming restructuring is a major challenge; until now the diversity of enterprises and production forms (from shop-houses to large mills) was responsible for the dynamism and competitiveness of the textile industry at the expansion stage.

Recession and emergence of textile activities in neighbouring countries could harm an industrial fabric that is a showcase of rapid industrialisation in developing countries.

Final Remarks on the Future of a Low Tech Industry

Is textile an industry of the past in Thailand, or does it hold promise for the future ?

A glance at the textile activities in the old, European countries shows a wide spectrum of structures and entrepreneurs' strategies in countries like Italy, Germany, France or Switzerland. Their technology (from upstream synthetic fibers to garments) is upgrading, their product diversity ever-expanding: there seems to be no end to maturation, They show convincingly that competitive advantages have to be renewed and conquered periodically (Porter 1990). The experience of East Asia Newly Industrialized Economies also shows that considerable adjustment in productivity and reduction of protection took place in a span of 20 years in their development process (Lall 1990).

Even more than in the 70's at the take off stage, we could say that the answers for Thailand lie in the hands of local entrepreneurs.

One could have anxieties about the local tendency to want to make fast money - it is very seldom that industrial activity can plough back investment in two years - it requires an exceptional period of growth - like the one we have monitored in Thailand over the past decade. The expectation of profitability in the context of a booming economy has spoiled many investors - who tend to treat industrial investment like a game.

To make money in industry, particularly in textile, requires dedication and willingness to adapt through hard times and indeed entrepreneurs may indeed be tempted to put their money elsewhere. In interviews we have met with industrialists who favoured land and property investment rather than expansion of their original activity. As a matter of fact this is true in Korea (and probably Taiwan too) because of the tremendous speculation that is associated with sustained economic growth.

But we can also see several reasons why Thai entrepreneurs - in the textile sector as well as other similar manufacturing activities- may play their cards well in the future: One is the willingness to adapt and improve productive activities. This has been demonstrated in the past.

Secondly, the family business structure of many companies, although it brings with it problems of generation and conservative attitudes, brings stability and commitment. It may also be a strength in terms of creating a climate of emulation with other relatives' businesses.

Finally, the forward looking attitude of many entrepreneurs, is promising for an industry that will have to combine more software orientation with hardware investment. As actors of an industry which is part of a regional hub in Asia, the Thai entrepreneurs will have to demonstrate that textile is not a "high tech" sector but a "high ingenuity" one.

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High Technology Entrepreneurship: Strategies for "Catch-Up" for Newly Industrializing Countries

N. Danaraj

1. High Technology Defined

A rigorous definition of high technology may not be a meaningful exercise as there are considerable variations in its definition. For the purpose of this paper, high technology is defined as advanced technology requiring an intensive research and development (R&D) effort. High technology products are increasingly characterized by short product cycles and decreasing unit costs. Recently, high technology has been conceptualized to be **system oriented**, where individual elements of the technology are combined into a system. In the new generation of high technologies based on microelectronics, new materials, and bio-technology, it is a package of technologies rather than individual technologies that is important.

The classification - industries of whether one is high technology or not - is also subject to controversy. In the US, high technology seems to have been used as a generic term for information and communications technology covering semiconductors, computers, and communications. Often included are a list of industries such as pharmaceuticals, robotics, aircraft, bio technology, space, optical fibre, computers (including hardware and software), and machinery. In Japan, microelectronics and new materials (ceramics, etc) are normally included in high technology.

2. Conceptualizing Entrepreneurship Producer Maximizing Model Versus Profit Maximizing Entrepreneur Model

Conceptualizing the entrepreneur is an equally difficult task. In economic analysis, firms' actions are assumed to be undertaken to maximize profits, and who makes that decision is irrelevant. Hence, entrepreneurs and managers do not enter explicitly into the analysis. Similarly in economics, the profit maximizing firm is derived from the rational utility maximizing individual where more consumption and more leisure are sole elements of higher individual motivation. Every individual's goal is to maximize the net present value of his consumption. The profit maximizing individual or the firm is based on the Anglo-Saxon model.

Lester Thurow of the Massachusetts Institute of Technology (MIT) has suggested an alternative theory of the firm based on producer economics rather than consumer economics. As opposed to

maximizing consumption, the individual is not just a consumption maximizer but a producer or builder. In Thurow's producer economics model, the individual wants to build an empire to which he can belong and from which he can gain esteem (Thurow, 1989). Empire's exist because people want to be part of a group. Viewed from the perspective of producer economics, everyone is an entrepreneur and can become so by tapping universal human desires to build and belong to an empire. Human instincts cannot be completely submerged in the calculus of income and profit maximization alone.

An economy interested in producer economics will organize itself to lower consumption and raise investment beyond maximizing consumption. Entrepreneurs existing in a producer economics environment will still have profit maximization as an objective function for the firm. However, he will devote higher profits to investment in expanding his empire, future productive capacity, and market share.

In the aggregate, the evidence suggests that Japanese entrepreneurs build, to a much greater extent than American entrepreneurs, on the producer maximization model rather than the consumption profit maximizing model. Of course, no entrepreneur is a pure builder or a pure profit maximizer. Profits are important to every entrepreneur, but the role of profits is different. Japanese entrepreneurs have accepted lower profits to buy market share. They have preferred debt to equity, a source of capital that does not depend on immediate profits. Higher investments cannot occur unless entrepreneurs are willing to accept lower rates of return. Many successful Japanese firms in the past two decades have made rates of return that are much lower than they could have made by simply investing in Government bonds. For 15 years, from 1965 to 1980, Honda's rate of return on automobiles was 3 percent compared to 9 percent in manufacturing. Honda did not divert their investments into higher rate of return riskless opportunities. It is estimated that 47 percent of all American firms will not invest unless profits start within the first three years. Only 10 percent of Japanese firms set a similar target (Tsurume and Tsurumi, 1985). Interestingly the Japanese see the American desire for profits as a major cause of America's weakness in international competition (Yamamoto, 1989).

3. Characteristics of High Technology

The characteristics of high technology are such that entrepreneurship based on the producer maximizing model is most suitable, although a variety of hi-tech entrepreneurship does exist. The three phase model of technological development suggested by Abernathy (1978) is still valid in explaining the high technology life cycle.

Table 1: Phase of Technological Development

Technology phase	Innovation is	Innovation is in	Innovation comes from
I	Fluid	Products	Diverse sources
II	Specific	Processes	Competition in production processes
III	Re-Fluidised	Systems	Integration

Source: Abernathy (1978)

At the initial phase (Phase I), the technology (nature of the product) is still fluid and innovations are centered on defining the product. Innovations can appear from diverse sources, such as universities and new firms. In Phase II, the market has been defined by the establishment of standards, either set by a dominant producer or one agreed to by a number of participants (users and makers). At this stage, attention turns to carving out market niches through minor innovations and more importantly to production efficiency (process innovations). In Phase III, the industry matures and the product technology again becomes fluid as innovation again takes place.

In high technology industries, the cycle between Phase I to III is short. Furthermore, because of the higher technological intensity, it will frequently revert to Phase I. In view of this, there is an important role for government to foster high technology industries and to prevent market failures. The immense uncertainties lead to under investment of resources. Left to market forces alone, sufficient amounts of funds will not be invested in such activities, even if R&D activity itself is highly desirable, unless there is a way to shift the risk completely. Furthermore, the minimum optimum scale that characterizes R&D in high-tech industries implies exclusion of firms below a certain minimum size from this activity, resulting in under investment of resources. As the allocation of resources to R&D falls short of the socially optimum level, government support is deemed necessary. This is especially so as R&D in high technology may require a greater amount of basic research as opposed to applied research.

Despite the special government support needed in high technology, government support in R&D for high tech industries is beset with a host of problems. Market failures do not necessarily justify government intervention. Just as a market may fail so a government may also fail. Public R&D with the absence of competition does not ensure results.

4. Dynamics of Competition in High Tech Industries

In analyzing global trends in hi-tech industrialisation, this paper will focus on the experiences of the US and Japan. The US was the birth place of most of the high tech industries such as semiconductors, computers, aerospace, telecommunications, new materials, and bio technology. The US was also the source of most of the radical innovations such as integrated circuit vacuum tube computers, microprocessors, digital switching equipment, fibre optics, nuclear fission, and biotechnology. Only 30 years ago, the Japanese advanced technology industries were almost not in existent. Nearly all computers were imported and Japanese industry was far smaller and more fragmented than that in the US and European. However by 1970, the Japanese had caught up with and overtaken the US in a number of high tech industries. By 1986, Japan had surpassed the US to become the world's largest producer of semiconductors, with 45.5 percent of the world market share compared to the US's 44 percent. (Japan only held 28 percent in 1978.) Of the world's top ten semiconductor companies, six, including the top three, were Japanese. In random excess memory chips (DRAMs), the Japanese had come to command 90 percent of the world market share.

The competitive parameters in high technology differs from mass production assembly industries. Competitiveness in semiconductors, computers and other high tech industries depends on new product innovation, state of the art design, creative software applications, and complex systems

integration. The scope of technological change, the uncertainties, risks, costs of R&D, short product cycles, and close producer-user interaction exist to a greater degree. In older industries, the chances of developing revolutionary products that transform the very nature of competition is low. In high tech industries, major new products, such as the microprocessors that have emerged at fairly regular intervals, alter the basic direction of an industry. Despite this, there can be entry points for small, entrepreneurial firms that can find and exploit a niche market that is opening up.

5. What Market Structure for High Tech Industries?

It is not clear which type of industrial structure is most suitable for high technology industrialisation. In the US, a multi-layered structure of firms has emerged. It consist of giant corporations, like IBM and AT&T, with full down stream capabilities; diversified merchant companies, like Texas Instruments and Motorola, which sell their products to other manufacturers; and non diversified producers such as, Intel, Advanced Micro Devices, and National Semiconductor.

Table 2: Technology and Organization Characteristics of US and Japanese Industries

	United States	Japan
<u>Size and Entrepreneurship</u>		
Small	Many independent entrepreneurs	Few independent entrepreneurs with many small companies semidependent upon suppliers to larger corporations
Large	Large corporations, including some successful intrapreneurs	Many successful intrapreneurial corporations, especially using technology transferred from suppliers and others
<u>Technology</u>		
Product	Innovatively new, occasionally radical	Many enhancements, few breakthroughs
Process	Medium cost, medium quality	High quality, low cost.
<u>Organization</u>		
Type	Mechanic bureaucracy or organic-professional	Mixed mechanistic/organic
Normalization and control	Contractual, with specific centralized authority concentrated at top of hierarchy	Negotiable, flexible, with centralized authority mitigated by participatory influence of lower-ranking personnel
<u>Interorganisational Relationships</u>		
Number	Few	Many, especially suppliers
Type	Contractual, short-term contractual exchange (such as competitive bidding)	Informal and implicit as well as contractual exchanges, as with a trusted family member in long-term relationship

Source: Hull, Slowinski, Wharton and Azumi (1990)

There are also a number of small and specialized niche producers. The multitiered market structure in the US has met the imperatives of innovation in high technology.

The market structure of Japanese high technology industry is in contrast to that of the US (see Table 2) the largest producers are big, vertically integrated systems oriented corporations such as NEC, Toshiba, Sony, Sanyo, and Sharp. Medium size producers do not exist as in the US. Many of the smaller firms are tied through some subcontracting network or equity holdings to large companies. Just as the heterogeneous industrial structure has helped to develop the US high industries, a more vertically integrated structure has met Japan's needs in **catching up**.

6. Strategies for High Tech "Catch-Up"

A number of analytical frameworks can be employed to examine national and corporate strategies for this purpose; Itami's concepts of **resource fit** and **competitive fit** will be used (Itami, 1987). According to this framework, three criteria can be used to evaluate national strategies from the perspective of **resource fit**: the level of resources a country has which can be devoted to developing its strategic sectors, the effectiveness of a country's policy for developing and utilizing its current resources, and finally the adequacy of policies and activities aimed at accumulating resources for the future. From the perspective of **competitive fit** the competitors will be placed in the global market place, as will a country's location. Second, a concrete evaluation of national assets, how to deploy and improve them so as to create a competitive edge, is also necessary. Innovation is a threshold phenomena and it fails when creativity and energy cannot cross the threshold. A key issue for national and corporate strategies is how to cross the threshold and embark on a cumulative process of innovation.

Strategies relating to optimizing a nation's resources to enter high technology industrialisation can be classified into two broad categories. **First**, there are policies that are meant primarily to achieve some other policy objectives but have a far reaching impact on high technology industries. **Second**, there are policies that are targeted at high tech industries and advanced technological progress.

Technological progress demands a suitable environment, and macro policies like fiscal and monetary policies, human resources policy, etc. have an important role in building an environment conducive to technical progress. Although a set of policies can not be examined because of space and other considerations, two important policy issues will be highlighted. The first is related to investment and the second to human resource development.

In high technology development, entrepreneurs must have the ability to invest and borrow cheap capital to clear the initial threshold in commercializing innovations. The Japanese government lightened the burden of high-tech firms by making low cost capital available and high priority industries received favourable capital allocation. The Japanese high savings ratio provided sufficient financial resources for new investments. Long term bank loans by major banks have also been important. In comparison, in the US, the venture capital market has financed high tech industries. This is attributable to a combination of factors: the relative scarcity of capital supply to the business sector,

the relative risk taking attitude of investors, and the tax structure that views capital gain relatively favourably (AOKI).

High technology industries are dependent on the quality and quantity of technical human resources. An international comparison of researchers per 10,000 workers indicates that Japan has the highest number.

The best and brightest from Japan's finest institutions of higher learning have tended to join rapidly growing industries, especially high tech related industries, since the 1970s. The strong foundations in math and science at the high school level have ensured a good supply of quality technicians and production workers. Life time employment as well as job rotation has led to a strong human resource foundation. By contrast, in the United States, the best and brightest are scattered in all sectors, due partly to the mobile labour market.

The experiences of both Japan and US reveal that specific industrial and R&D policies targeted at high tech industries can have a profound effect on industry structure. A number of countries engaged in this practice have had varying degrees of success. Even Japan, regarded as the most successful, has made its share of mistakes.

The orientation of national R&D systems is important. The emphasis in Japan is purely on applied and development research compared to basic research. Furthermore, Japan's purely commercial orientation ensures the cost effective use of R&D resources. Meanwhile, US military oriented R&D has nurtured high technology industries. However, the inefficiencies and rigidities built into the US military R&D system has rendered it less adaptable than Japan's, especially in the commercial realm. The amount spent on industrial R&D is also growing much faster in Japan than in other countries, and many high tech companies invest more in R&D than on plant and development.

National research projects have been initiated in a number of high tech industries in Japan as a means of leapfrogging. Few countries are capable of organizing them effectively. The national projects were able to harness the leading firms and government laboratories through a crash program for catching-up. The focus of all national research projects in Japan was on basic pre-commercial technologies. Thus, Japan has organized a number of national projects from opto electronics to bio electronic engineering. An important element of this initiative is the participation of firms that will commercialize the innovations once they are discovered. These projects have also helped intensify the race to **catch-up** with the US.

The **technopolises** network is based on the notion that there are advantages to be gained from concentrating facilities for R&D, manufacturing, marketing, and service in centres of high technology. Many countries have many such centres: Silicon Valley in the US and Japan's Tsukuba Research Park are two examples. The technology park is geared towards knowledge oriented R&D with the goal of designing new paradigms or making breakthroughs in existing systems. These technology centres give cohesion to technology diffusion policies. However, it is difficult to assess whether the technopolis networks and science cities are enhancing the competitiveness of high technology firms located within them.

Most governments use a variety of policy instruments to stimulate high tech development: direct subsidies to R&D activities, and reductions and exemptions from tax payments for R&D, etc. All advanced industrial countries subsidize their high technology industry in one form or another, only the nature and scope of the subsidization varies.

7. Niche and Overall Cost Leadership Strategy for Newly Industrializing Countries: Some Possibilities for Malaysia

The conclusions of Malaysian Institute of Economic Research (MIER) projections to the year 2020 indicate that the manufacturing sector's share of GDP is expected to be 40 percent while that of services 44 percent. This requires a quantum jump in manufacturing activities from the 27 percent of GDP in 1990. To achieve this, the GDP growth rates are projected to grow at 7.2 percent in this decade, and 8.2 percent and 4 percent in the subsequent two decades respectively. In the next 20 years, manufacturing must grow at double-digit levels, at 13.8 percent and 16.3 percent respectively. Furthermore, the services sector is projected to have a major impact on the other sectors. As expected, agriculture, while declining, will be more integrated with the other sectors as well as diversified more into food production. The electronics and automobile sectors are expected to continue to be vertically-integrated with small- and medium-scale industries more specialized into mass manufacturing of standardized products.

In view of the significant first mover advantages enjoyed by industry leaders, especially in scale economies and the required complimentary assets in the high technology industries, head-on competition may be an unwise strategy for latecomers, such as Malaysia. Hence, the only choice is to employ a niche strategy based primarily on overall cost leadership. The strategic analysis should focus on the choice of product, the targeted market, the point of entry, and the complementary assets required to grow in that market segment. In order to overcome the lack of cumulative know-how, long-term experience and technological strength, technological discontinuities and change provide market opportunities for new start-up firms and followers in general. As Perez (1989) has asserted, the relevant unit considered is not the isolated product but a whole family or system. The entry point should be in selected product families or technological sub-systems that are in an early enough phase of development to allow time for technological learning.

In most of the new high technology industries, the involvement of Malaysian-owned companies is negligible. Hence, in order to enter this market, Malaysia has to adopt factor creating strategies. This, in effect, means aborting the strategy of industrialisation based on the neo-classical economic theory of conforming to factor endowments and getting the prices right. Some of the important factors (i.e., scientific based and supporting industries) needed to enter the new industries do not exist in Malaysia. Having a large pool of labour and raw material resources do not constitute an advantage. However, accepting this disadvantage is a static view of competition. The only possibility for Malaysia to enter new industries based on the microelectronics paradigm is to be particularly good at factor creation by turning disadvantages into advantages.

Table 4: The Electronics and Electrical Sectors in Malaysia

Sectors	Number of Establishment				Gross Value of Output			
	Number		% Share		\$000		% Share	
	1985	1988	1985	1988	1985	1988	1985	1988
Electrical	145	147	58	51.58	1299466	2316182	53.32	16.75
Manufacture of electrical industrial machinery & apparatus	30	21	12	7.37	121394	198964	4.98	1.44
Manufacture of electrical appliances & housewares	18	13	7.2	4.56	152022	173122	6.24	1.25
Manufacture of cables & wires	19	22	7.6	7.72	461560	602756	18.94	4.36
Manufacture of dry cells & storage batteries	14	11	5.6	3.86	98659	129450	4.05	0.94
Manufacture of electric lamps & tubes	5	5	2	1.75	17813	16816	0.73	0.12
Manufacture of miscellaneous electrical apparatus & supplies, n.e.c.	32	32	12.8	11.23	75025	274468	3.08	1.99
Manufacture of refrigerating, exhaust, ventilating & air-conditioning mach.	27	43	10.8	15.09	372993	920606	15.31	6.66
Electronics	105	138	42	48.42	1137418	11508429	46.68	83.25
Radio & television sets, sound reproducing & equipment	24	37	9.6	12.98	702442	2836471	28.83	20.52
Gramophone records & prerecorded magnetic tape	6	5	2.4	1.75	9214	10802	0.38	0.08
Semi-conductors & other electronic components and communication equip.	75	96	30	33.68	425762	8661156	17.47	62.65
Total Electrical and Electronics	250	285	100	100	2436884	13824611	100	100

Sectors	Value Added				Fixed Assets			
	\$000		% Share		\$000		% Share	
	1985	1988	1985	1988	1985	1988	1985	1988
Electrical Sub-sectors	393198	575381	20.17	19.72	594816	814392	30.94	28.22
Manufacture of electrical industrial machinery & apparatus	49108	67376	2.52	2.31	50191	48030	2.61	1.66
Manufacture of electrical appliances & housewares	36566	45324	1.88	1.55	73486	80146	3.82	2.78
Manufactures of cables & wires	113987	133850	5.85	4.59	248886	294910	12.95	10.22
Manufacture of dry cells & storage batteries	42240	43338	2.17	1.49	38720	37822	2.01	1.31
Manufacture of electric lamps & tubes	9157	5761	0.47	0.20	6119	4827	0.32	0.17
Manufacture of miscellaneous electrical apparatus & supplies, n.e.c.	24810	76436	1.27	2.62	22864	126805	1.19	4.39
Manufacture of refrigerating, exhaust, ventilating & air-cond. mach.	117330	203296	6.02	6.97	154550	221852	8.04	7.69
Electronics Sub-sectors	1556601	2342059	79.83	80.28	1327682	2071126	69.06	71.78
Radio & Television sets, sound reproducing & recording equipment	161450	394727	8.28	13.53	179119	394754	9.32	13.68
Gramophone records & prerecorded magnetic tape	3042	2304	0.16	0.08	7762	3407	0.40	0.12
Semi-conductors & other electronic components and comm. equip.	1392109	1945028	71.40	66.67	1140801	1672965	59.34	57.98
Total Electrical and Electronics	1949799	2917440	100.00	100.00	1922498	2885518	100.00	100.00

Source: Malaysia, Department of Statistics, Industrial Survey, Various issues.

Table 5: The Machinery Sector in Malaysia

Sectors	Number of Establishment				Gross Value of Output			
	Number		% Share		\$000		% Share	
	1985	1988	1985	1988	1985	1988	1985	1988
Manufacture of Fabricated Metal Products, except Machinery	493	522	100.00	100.00	1165737	1846280	100	100
Manufacture of cutlery, hand tools and general hardware except tinsmithing	27	29	5.48	5.56	17906	34330	1.54	1.86
Blaksmithing & Tinsmithing			0.00	0.00			0.00	0.00
Manufacture of furniture and fixtures primarily of metal	32	27	6.49	5.17	69366	66418	5.95	3.60
Manufacture of structural metal products	204	194	41.38	37.16	215260	492927	18.47	26.70
Manufacture of tin cans and metal boxes	34	33	6.90	6.32	234977	361339	20.16	19.57
Manufacture of wire and wire products	59	58	11.97	11.11	244977	305500	21.01	16.55
Manufacture of brass, copper, pewter and aluminium products	70	123	14.20	23.56	176693	214949	15.16	11.64
Manufacture of other fabricated metal products, n.e.c.	67	58	13.59	11.11	207087	370817	17.76	20.08
Manufacture of Machinery except Electrical	381	341	100.00	100.00	672098	1616525	100.00	100.00
Manufacture of engines and turbines	6	9	1.57	2.64	4028	17163	0.60	1.06
Manufacture of agricultural machinery and equipment	23	21	6.04	6.16	57034	67333	8.49	4.17
Manufacture of metal and wood working machinery	26	18	6.82	5.28	12000	21862	1.79	1.35
Manufacture of special industrial machinery and equipment except metal	47	30	12.34	8.80		70041	0.00	4.33
Manufacture of refrigerating, exhaust, ventilating and air-conditioning mach	27	43	7.09	12.61	372993	920606	55.50	56.95
Machinery and equipment, n.e.c.	252	220	66.14	64.52	226043	519520	33.63	3

Sectors	Value Added				Fixed Assets			
	\$000		% Share		\$000		% Share	
	1985	1988	1985	1988	1985	1988	1985	1988
Manufacture of Fabricated Metal Products, except Machinery	365201	507161	100.00	100.00	580614	831774	100.00	100.00
Manufacture of cutlery, hand tools and general hardware except tin	8222	17199	2.25	3.39	8560	9779	1.47	1.18
Manufacture of furniture and fixtures primarily of metal	26634	22735	7.29	4.48	28411	32833	4.89	3.95
Manufacture of structural metal products	81155	152238	22.22	30.02	126256	350852	21.75	42.18
Manufacture of tin cans and metal boxes	66068	83421	18.09	16.45	130384	133254	22.46	16.02
Manufacture of wire and wire products	56228	77972	15.40	15.37	132768	125379	22.87	15.07
Manufacture of brass, copper, pewter and aluminium products	60143	75444	16.47	14.88	82803	86748	14.26	10.43
Manufacture of other fabricated metal products, n.e.c.	66752	78152	18.28	15.41	71431	92929	12.30	11.17
Manufacture of Machinery except Electrical	227480	461202	100.00	100.00	316273	547327	100.00	100.00
Manufacture of engines and turbines	2149	5172	0.94	1.12	1661	3094	0.53	0.57
Manufacture of agricultural machinery and equipment	12854	27625	5.65	5.99	20993	17977	6.64	3.28
Manufacture of metal and wood working machinery	5922	9795	2.60	2.12	6879	5376	2.18	0.98
Manufacture of special industrial mach. and equipment except metal		20164	0.00	4.37	20141	28001	6.37	5.12
Manuf. of refrigerating, exhaust, ventilating and air-cond. mach.	117330	203296	51.58	44.08	154550	221852	48.87	40.53
Machinery and equipment, n.e.c.	89225	195150	39.22	42.31	112049	271027	35.43	49.52

Source: Malaysia, Department of Statistics, Industrial Survey, Various issues.

This analysis of new industries of the future for Malaysia uses one of the more recent dynamic models of competition proposed by Porter (1990). According to his model, four attributes define the dynamic of creating competitive advantage. In brief, national prosperity is created and not inherited and firms achieve competitive advantage through acts of innovation. According to him, the answer to the question of why certain firms are based in certain nations capable of consistent innovation lies in four broad attributes of a nation. These include factor conditions; firm strategy, structure and rivalry, demand conditions and related supporting industries. Weakness in any one determinant will constrain an industry's potential, and as a system, constitutes national advantage.

There are numerous new industries of the future for Malaysia. However, this analysis is limited to the electronics and capital goods industries. These two leading industries are critical to propel economic growth to the year 2020. As described an earlier analysis of long waves and technological discontinuities (Danaraj, et. al., 1992), the microelectronics related technical change has transformed the entire economy through industry value-added, inter-industry linkages, and generation of generic technologies. In particular, this has transformed the electronics and capital goods sector.

8. Analysis of Selected High Tech Industries: Entry Strategies for Malaysia

8.1 The Electronics Industry

The electronics sector in Malaysia is positioned to accelerate. MIER's input-output analysis indicates that this sector, together with machinery and transport equipment, will become more efficient with more linkages with other sectors. The indicators already point to this direction. The output structure has shifted away from purely semiconductor and other component manufacturing, with a greater share now taken by consumer electronics and industrial electronics. In 1986, electronics components constituted 81.5 percent of total output while consumer electronics comprised 12.3 percent and industrial electronics only 6.2 percent. However, this has shifted dramatically with shares of 57.6 percent, 23.2 percent and 19.2 percent respectively in 1990. This is against the Industrial Master Plan (IMP) targets of 61 percent, 24 percent and 15 percent respectively. The performance of all sectors has been creditable, especially with consumer electronics, which surpassed the IMP target. As observed from Table 4, the number of new entrants in the non-semiconductor industries is negligible. Industry participation is still heavily focused on semiconductors and audio equipment manufacturing, which together constitute about three-quarters of total output and value-added in the electronics sector. There is, however, still tremendous scope for development of other sub-sectors. In terms of employment, the semiconductor industry still predominates with 70% of the total electronics share. The investment trends are also similarly skewed towards semiconductors. The dominant position of the electronics sector is reflective of its 12 percent of total employment and 47 percent contribution to exports of the manufacturing sector.

Despite its star status, there are several shortcomings that must be addressed at the policy and corporate strategy level. Some of the major shortfalls are:

i) Dominance by foreign direct investment, which is estimated to be over 85 percent in fixed investments. This has implications for indigenous R&D progress and globalisation, as well as inter-industry linkages.

ii) High concentration of production in a few large firms. Most of the large foreign firms have highly vertically-integrated structures and are risk averse in sourcing from local sub-contractors. As such, it is no surprise that 62 percent of \$10.2 billion of total electronic imports comprised of components.

iii) Narrow product base with little R&D and systems integration ability. In the electronics component sector, Malaysia is still only a final assembler of linear and digital IC's memories, micro processors, optoelectronics, discrete devices, hybrids, arrays and wide range of capacitors, relays, switches, quartz, oscillators, connectors, coils, and transformers. Consequently, 53% of electronic exports in 1990 were components. The R&D, as well as product development, is still in the R&D centres of MNCs abroad. Even in consumer electronics, Malaysia is still only the offshore assembly location of MNCs in products such as colour televisions, video cassette recorders and players, audio equipment, telephone sets, personal computers, and peripherals. Similarly, the commercialization of innovation is done abroad.

iv) Domestic demand growing rapidly but still requiring domestic firms' participation. Significant sales volume and market share is required by firms before they can invest in R&D and new products in this sector. The domestic market stood at \$13.6 billion in 1990 and is expected to be \$22 billion in 1995. Domestic demand is expected to grow at 10 percent per annum over the next five years. The domestic computer market was \$2.2 billion in 1989 and is expected to expand by 20-30 percent per annum over the next five years.

With a global market in electronics of US \$626.3 billion in 1989, global competition is extremely intense with high barriers of entry for newcomers such as Malaysia. The electronics sector can be classified into five categories, namely; i) semiconductors and electronic components, ii) communication equipment, iii) office automation and computers, iv) industrial controls and instrumentation and medical electronics, and v) consumer electronics.

Each of the five broad categories can be further segmented into specific product categories. Given the significant diversity in the electronics sector, this paper highlights only the generic entry strategies for Malaysia. The industry is categorized by high entry barriers. In semiconductors, mainframe computer and integrated telecommunication segments would be difficult for Malaysia to enter. In these industries, first mover advantages are significant in a number of areas; in economies of scale in production, R & D, established supplier networks for equipment, and core components and materials. The vertically integrated Japanese firms have been able to develop long-term strategies and, with captive markets, these firms are able to withstand demand fluctuations. With annual sales totaling between US\$ 9 and US\$ 60 billion each, Japanese firms can afford the high development cost of the next generation of technologies in these major electronics market segments.

However, as indicated in Table 5 there are a number of industries and entry strategies for Malaysia. In the industries identified, the barriers of entry are lower; the technology, although mature, offers opportunities for incremental process and product innovation. The leapfrogging in these

products is not in an unknown technology but in technologies where the commercial applications offer the widest possibilities for growth. As an example, microelectronics has provided new markets for digital watches, instamatic cameras, smaller and more efficient consumer electronics, and office automation products. Using Porters conceptual model, Table 6 identifies some of the strategies for creating national competitive advantages in the electronics industry.

8.2 The Capital Goods Industries

The universal historical pattern of economic development is for the capital goods sector to be the prime mover of technological development for other user industries. The capital goods sector has exhibited rapid diffusion of microelectronics technology. This sector consumes as well as replaces new technology as there is considerable feedback within the machine making sector. The machine building sector is extremely important in the initial and ongoing process of industrialisation. This sector exhibits the new fusion type innovation model described earlier. Increasingly, this industry is a product of the fusion of mechanics, electronics, software, new materials, optical, and system integration technologies. The advanced capital goods sector combines discrete equipments like robotics, computer controlled machine tools, automatic guided vehicles, and the appropriate software to form total factory automation.

The barriers of entry are high in advanced factory automated equipment manufacturing especially in robotics, computer numerical controlled machine tools, and general machinery. While still populated by small and medium scale firms, the market share of the top firms in these market segments has increased. The high concentration ratios and the technological complexity of the products precludes Malaysia's entry into these markets.

The capital goods industry in Malaysia is underdeveloped. Unlike the developed economies, Malaysia does not have a strong engineering sector. Hence, there is an absence of support industries as well as related industries such as robots, advanced machining, and other factory automation industries. As analyzed from Table 6 almost half of the value of the industry's output is in the manufacture of refrigeration, exhaust, ventilating and air conditioning machinery. This sector has grown out of the strong presence of air conditioner manufacturers in Malaysia, which have captured a large global share. The other strong sectors are structural metal products, manufacture of tin cans and metal boxes, and wire and wire products. They constituted 27 percent, 20 percent and 17 percent of value of output in the machinery sector respectively in 1988.

There are several structural weaknesses in the capital goods sector in Malaysia, among which are:

- i) Absence of strong engineering firms in supporting and related industries. Most of the metalworking firms and foundries are backyard industries, family-owned with little infusion of new technology. Most grew out of the mining industry and demand for local fabrication of parts. However, there is an emerging engineering and metalworking sector that is linked to the MNCs.
- ii) Lack of integration between engineering and electronics technology. The diffusion of microelectronics technology has revolutionized machinery building and utilisation. Over 50

percent of machinery components are electronic and electrical based. Most of the builders are still in the mechanical era in conventional machine building.

iii) Absence of user-producer interaction. The lack of local demand has inhibited their growth. MNCs still import most of their machinery directly and the preference is still for established manufacturers.

Table 6 : The Dynamic of Creating National Advantage in the Electronic Industry for Malaysia

	Global Market Segments	Possible New Industries
Markets	<ul style="list-style-type: none"> i) Office automation and computers ii) Consumer electronics iii) Electronic components and semi- iv) Industrial controls and instrumentation and medical electronics v) Communication equipment 	<ul style="list-style-type: none"> i) Personal computers, mini computers, electronic typewriters, calculators, cash registers, photocopiers ii) Colour TV, radio, watches, musical instruments and toys iii) Audio components such as microphones, loud speakers, amplifiers, accessories for consumer equipment; passive components such as capacitors, resistors, printed circuits. iv) Measuring instruments, industrial & medical equipments v) Telephones, transmitters, receivers, switch equipment
	Global Position	Strategy
1) Firm strategy and rivalry	<ul style="list-style-type: none"> i) Existence of global oligopoly primarily American and Japanese. ii) Increasing concentration and globalisation, especially in semiconductors, supercomputers. iii) Fragmentation and specialization in American firms but Japanese highly diversified and vertically integrated firms. iv) Existence of niche players. 	<ul style="list-style-type: none"> i) Imitation and niche strategy in products with lower entry barriers with innovation thresholds. ii) Focus lowest segment cost by altering leader's products or process to serve particular segment more efficiently. iii) Identify segments with domestic demand as well as low cost segments of developed markets. iv) Encourage fragmentation and specialisation and over time towards concentration.
2) Demand conditions	<ul style="list-style-type: none"> i) Falling unit prices with short cycles ii) High complimentary assets to compete, i.e., R&D, distribution, after sales, software, etc.. iii) Slow growth in most segments 	<ul style="list-style-type: none"> i) Stimulate domestic demand through government procurement, training equipment purchases ii) Facilitate leasing and financing of locally manufactured products iii) Develop products for international markets segments that are price sensitive.
3) Related and supporting industries	<ul style="list-style-type: none"> i) Except for large computers, manufacturers assemble a variety of components produced by independent vendors. ii) International sourcing required. iii) Core components produced in in-house or through joint development to produce differentiation strategy. iv) Strong software and distribution services. 	<ul style="list-style-type: none"> i) Source semiconductors from domestic chip producing MNC's. ii) Increasing subcontracting with local MNC's. iii) Expand network of international subcontractors. iv) Identify and develop specialized support industries. v) Encourage collaborative R&D between local firms, research institutions and engaged other precommercialization activities.
4) Factor conditions	<ul style="list-style-type: none"> i) High knowledge resources in R&D activities and software. ii) High capital resources to lower cost of capital to invest. iii) Excellent physical infrastructure, especially in telecommunications and air transport. 	<ul style="list-style-type: none"> i) Create specialized factor advantage, especially in specific skill categories. ii) Preferential lending rates to encourage investment in plant and equipment, R&D, etc. (low cost of entry and expansion).

Source: Authors analysis

However, there are a number of machinery segments where barriers of entry are lower and conducive for Malaysia entry. As in the electronics analysis, some new industries and entry strategies are prescribed for the Capital Goods Industry in Table 7.

Table 7 : The Dynamics Of Creating National Advantage in the Capital Goods Industry for Malaysia

	Global	Possible New Industries
Markets Segments	<ul style="list-style-type: none"> i) Plastic processing machines ii) Hydraulic and pneumatic equipment iii) Robots and material handling equipment iv) Machine tools v) Metal forming machines vi) Agricultural machines and forming machines vii) Textile machinery viii) Food processing machinery ix) Wood working machines x) Bearings xi) Precision measuring instruments xii) CAD/CAM systems xiii) FA factory automation related machinery 	<ul style="list-style-type: none"> i) Woodworking machinery ii) Textile machinery iii) Plastic processing machinery iv) Food processing machinery v) Simple NC machine tools and metal
Firms strategy, structure and rivalry	<ul style="list-style-type: none"> i) Mostly specialized small firms with niche market customisation ii) Large vertically integrated Japanese firms with mass production strategy iii) Non price competitive factors, i.e., quality, precision, delivery, after sales service, etc. 	<ul style="list-style-type: none"> i) Focused manufacturer in specialized machinery with domestic demand ii) Compete on price and medium to upper range market segments ii) Encourage technology licensing and OEM manufacturing
Related and supporting	<ul style="list-style-type: none"> i) Information related industries such as computers CAD/CAM systems and electronic control devices, CNCs, PCs, etc. ii) Machinery equipment support industries such as foundries, steel metal processing industries, heat treatment industries, etc. iii) System's builders such engineering companies, trading companies, and major user industries. 	<ul style="list-style-type: none"> i) Source for internationally competitive vendors ii) Subcontracting and component manufacturing of machines iii) Create specialized support especially those with low economies of scale and investment
Demand conditions markets	<ul style="list-style-type: none"> i) Fluctuating demand cycles sensitive to economic trends ii) Customisation and diseconomies of scale iii) Long product life cycles but declining with Japanese competition 	<ul style="list-style-type: none"> i) Stimulate domestic demand in domestic user industries - target as close to the user as possible
Factor conditions	<ul style="list-style-type: none"> i) Availability of mechanical and electronic engineering manpower ii) Low cost of capital to encourage long term investment 	<ul style="list-style-type: none"> i) Create engineering skills infrastructure especially university - industry interaction ii) Development banks to provide low cost capital with appropriate repayment schedules

Source: Authors analysis

8.3 The Steel Industry

Despite Malaysia's aggressive move towards boosting domestic steel production, it is still a huge importer of the metal. Last year, Malaysia imported four million tones of steel products, mainly flat products for the industrial and manufacturing sectors. During the same period, the industry produced 4.3 million tones of steel, of which 3.3 million tones or 76.7 percent were consumed locally and the balance exported. Export demand is expected to remain strong because the international cost

competitiveness of traditional steel suppliers has been eroded by such factors as currency appreciation and escalating labour costs.

At present, there are more than 140 steel manufacturing operations in Malaysia. Most of these are small- and medium-sized, together employing a workforce of 21,300. Due to its capital intensive nature, the steel industry has always been vulnerable to the ups and downs of economic cycles. In times of a recession or drop in demand, the industry usually responds with hefty price cuts rather than lower output. High fixed costs often force firms to produce as much steel as possible, even if they have to slash prices for their entire output to sell the excess.

Malaysia's largest billets producer is the government-owned Perwaja Steel Sdn Bhd. Imports of billets are banned except with special permission from the authorities. Thus, millers who do not produce their own billets are forced to buy them from Perwaja. This 'protection' has put a squeeze on the local steel industry whilst eroding the profit margin of millers, tempting the more established steel makers to produce their own billets.

The reason for increasing capacity, besides meeting increasing domestic demand, has also to do with export. Malaysia, essentially a low-grade steel producer, was able to boost exports in recent years when Japan switched from producing low-grade to higher grade steel as a result of escalating costs from the appreciating yen.

Since steel bars and rods, like steel billets, are government controlled items, prices are little affected by surpluses although analysts believe efficient capacity utilisation is the key to surviving unhealthy competition. During the recession from 1985 to 1987, capacity utilization was about 40 percent and all millers made losses. The situation has, however, changed with the upswing in the economy, and many steel plants are operating at well above the 50 percent level, benefiting from economies of scale. Industry sources estimate that costs can go down by as much as 20 to 30 percent if plant utilization increases to between 50 and 70 percent.

Industrial Niches

Market Niches	Justifications	Strategies to Sustain Niches
1. Steel bars, rods & billets	i) Energy supply & technology needed ii) Possibilities of standardisation and mass production based on low-unit cost	i) Overall cost leadership
2. Seamless steel pipes and tubes	i) Energy supply & technology needed ii) Energy supply & technology needed	i) Overall cost leadership

8.4 The Plastics and Plastic Products Industry

The plastics industry in Malaysia is gearing for an annual growth rate of between 20 and 25 percent over the next five years, given the country's sustained buoyant economic climate and rapidly expanding manufacturing sector. The industry's turnover for 1992 is expected to breach the RM2.0 billion mark, following strong growth in the packaging as well as electrical and electronics sectors. Last year alone, the industry achieved a turnover of RM1.8 billion, contributing 2.1 percent to the country's gross domestic domestic product (GDP).

Malaysia's plastics industry is supported by a well established domestic petrochemical infrastructure. Investment in this sector, which employs 60,000 workers, totaled RM1.2 billion in 1991 with exports for the year amounting to RM400 million. The annual growth rate for exports between 1988 and 1991 exceeded 30 percent with the major export markets for plastics products being the EC, the US, Japan, and Singapore.

Currently, there are about 1,000 establishments involved in plastics fabrication and processing in Malaysia of which more than 600 are members of the Malaysian Plastics Manufacturers Association (MPMA). The industry is generally fragmented and dominated by small-and medium-sized companies. About 45 percent of the 1,000 firms have fixed assets below RM500,000 and only 27 percent over RM2.5 million. The majority of these firms are located in the more developed states along the west coast, including the Klang Valley, Selangor, Penang, and Johore.

Despite the rapid development of the plastics industry, Malaysia still relies heavily on imported raw materials. In 1987, total consumption of raw materials was estimated at 150,000 tones. This increased to 400,000 tones in 1991, reflecting an average annual growth rate of 28 percent. Of the basic raw materials required for the downstream manufacture of plastic products, up to 80 percent were imported last year. Only polystyrene (PS), expandable polystyrene (EPS), and polyvinyl chloride (PVC) are produced locally.

To overcome the shortage of these raw materials or polymers, several petrochemical projects have been scheduled for implementation between now and 1995. Over the next three years, eight projects with a total investment of RM5 billion will be operational to produce raw materials such as polypropylene (PP), polyethylene (PE), and polystyrene (PS) for the plastics industry. Two consortiums, one lead by Petronas, Idemitsu Neste, and British Petroleum and the other by Titan, Himont, Nylex, and Permodalan Nasional Berhad will undertake the projects to produce PP and PE. Together, both projects will make some 180,000 tones of PP and 450,000 tones of PE. With these projects coming on stream, it is anticipated that the industry will have enough raw material even for export by 1995.

Of late, increasing pressure from environmentally conscious groups to limit the use of non-biodegradable materials has posed a new challenge to Malaysia's plastics industry. Issues relating to the control and management of wastes as well as recycling of plastic products are being increasingly addresses even though Malaysia's per capita consumption of plastics is only 20 kg, a quarter of the 80 kg in industrialized countries. Thus, while there is a need for the industry to focus on R&D through improving designs and manufacturing processes to upgrade its competitiveness, new technologies in the manufacturing of plastics should be developed in order to conform to the higher standards of environmental protection and for waste management concerns.

Industrial Niches

Market Niches	Justifications	Strategies to Sustain Niches
1. Engineering plastics for the electronics & telecommunications consumer products industry	Potential availability of raw material due to establishment of large feed-stock petrochemical plants	Focus segment differentiation strategy
2. Household plastic	Labour-cost advantage	Focus cost leadership
3. Industrial plastics	Experience in serving MNCs in Malaysia	Focus segment differentiation strategy

8.5 The Information Technology Industry

The Information Technology (IT) industry is set to grow by more than 20 percent in the coming year. The 1993 budget has lowered the prices of computers and their peripherals; thus, the industry is experiencing a tremendous increase in sales. The reduction on import duties of foreign makes has made the IT industry more lucrative and help promote greater usage of computers in Malaysian businesses. Cheaper prices for imported models will also make competition more intense, hopefully enhancing better quality products and services. The incentives given to R&D for the IT industry will further boost the sector to achieve greater growth and contribute its share to Vision 2020.

The IT industry is currently separated into two segments: hardware and information services. The demand for hardware has risen dramatically over the years. Total imports amounted to RM865 million in 1991 for hardware and RM476 million for information services.

The IT industry is very competitive in both segments and most hardware producers focus on the high end of the market, with special system designs customised according to the needs of their customers. The low end users are monopolised by a few popular software companies that have already been established for some time.

Given the few local manufacturers in the IT industry, the question of production efficiency or scale economies will be an advantageous tool in global competition. The hardware has high cost structure and focuses itself on different segments. This has also contributed to differentiation in terms of service and quality.

Information services strive on a price competition strategy to capture the lower end of the IT market. Hardware producers compete in quality of the whole integrative and capability of the system, as well as in providing better and faster services according to the customer's preferences. Software has copyright problems because of extensive distribution networks and easy access that allows duplication of programmes and contents.

The enforcement of intellectual property rights (IPR) must be strictly observed. Otherwise, it will have an adverse impact on Malaysian products and hamper the flow of trade in this segment. Inadequate patent and copyright protection will prevent better and improved programmes from being marketed, thus losing the competitive edge later. IPR includes patents, trademarks, copyrights and trade secrets. It is difficult to define the extent of IPR coverage, but trade representatives from the world are convening to introduce respective laws regarding this matter.

Hardware depends on reliability and quality of service and maintenance to be able to compete effectively. This includes providing training and upgrading services, in-house programmes, on-time delivery and services, backup and recovery aids, practicality of networking, and integration with telecommunication services. Japan is leading the world in hardware sales and, with a US\$ 10.6 billion market, is also the world's second largest packaged software market, followed by Germany (\$7.1 billion), France (\$6.3 billion), and the United Kingdom (\$5.8 billion).

Several trends will affect the domestic IT industry in the years ahead. Competition among software vendors will be intense as system suppliers are supplementing hardware sales with software and services. Consolidation through mergers and alliances among local and foreign firms will reduce competition and weaken smaller firms. The movement toward standard and open systems has been strongly advocated for better integration purposes. The current trend gearing to the use of smaller computers, especially PCs and laptops, implies that the demand for software for smaller systems will increase. The software market will remain strong as one of the fastest growing segments of the IT industry.

Industry Niches

Market Niches	Justifications	Strategies to Sustain Niches
1. Software specialty programmes	Lower cost in software engineering and closer to regional customers	Focus segments differentiation
2. Consultation on IT	Cheaper cost in professional services	Focus segments differentiation
3. Subcontracts in peripherals of computers	Lower production and component supply cost	Focus segments cost

Conclusion

The high technology industrialisation experience of Japan and the US cannot be easily transplanted into newly industrializing countries. Although profit maximization and return on investments are good indicators of competitiveness, entrepreneurship based on this approach in business may not be compatible with high technology products. Special characteristics of high technology require entrepreneurs with long term goals, market share, and capacity building instincts.

In view of the fluid stage of innovation in high technology products, market signals alone do not provide a guide to investment. The risk averse entrepreneur is not made for high technology. The technologically driven entrepreneur with the desire of creating market demand based on his innovation is most suitable. In this sense, the high tech entrepreneur is pushed by technology and pulled by market demand.

This paper has highlighted a number of strategies that can be employed to stimulate the development of high tech industries. Newly industrializing countries may not possess the required **resource fit** to enter the core high tech industries, such as semiconductors, large Scale computers and telecommunications industries, but the fluid nature of high technology does provide new niche opportunities to enter high tech industries. The investment threshold in high tech industries is significant, as are the human resource capabilities. In each of these areas, preferential targeting for

strategic industries needs to be employed. A range of specific policies directed at high tech industries must also be employed to compliment sound macro-economic policies.

Newly industrializing countries have to direct their R&D systems to develop their own **competitive fits** in the new generation of high tech industries. Observed from the strategies of Japan, applied R&D can be a powerful instrument in establishing competitive advantage in a range of products. Government intervention and subsidy is essential to foster high tech development. However, it must be disciplined by the competitive forces of the market. For government subsidy to be meaningful, it must be done in collaboration with private firms since the commercialization of R&D is critical and only firms have the capacity to engage in market driven R&D. For most developing industries high technology industries are at an embryonic stage of development. They have to be nurtured differently from other industries to succeed.

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V. CULTURAL CONTEXT FOR ENTREPRENEURS

Presentation

The transformation of Thai society from traditional subsistent economy with Buddhistic ideology and world view to capitalistic economy with changing world view and social values is a process taking place during the past two centuries. The papers included in this section attempt to provide descriptions and explanation of the process in different ways. Unfortunately, since papers included in this volume consist of only papers presented at the CUSRI-ORSTOM conference which arrived through open invitation, the editors have no control over the topics submitted for presentation. The papers in this section cover only the role of the Chinese entrepreneurs and the role of the changing Buddhist ideology and world view being viewed as Buddhist entrepreneurs. Other types of entrepreneurial endeavours are lacking.

Amara Pongsapich provides theoretical framework and outline of the transformation process at the national level. She attempts to analyze the status and role of the Chinese entrepreneurs in the Thai setting using ethnic relations theoretical concepts and shows how the Chinese entrepreneurs have been able to penetrate into the Thai social system and become influential to government policies. The middleman minority concept is applicable in the early stage of Chinese immigration. But after World War II, the paper shows how the Chinese have made "rational choices" and have been able to penetrate and integrate into the Thai economic structure. They started as rice exporters and shifted to export other agricultural products as well as operated banking and later real estate enterprises. She shows that at the local levels, around Bangkok, close cooperation and collaboration between Chinese entrepreneurs and Thai government and military officials are recorded in literature on the development of capitalism in Thailand. At present, the government is inviting the private sector including Sino-Thai business entrepreneurs and multinational investors to join in the development planning and implementation activities.

Jean Baffie and Supang Chantavanich in their respective papers provide pictures of the role of the different Chinese families in the Thai society. They both use biographies, cremation volumes, and interviews as their means of collecting information. Jean Baffie describes the Lamsam, Nandhabiwat, Phornprapa, Chokwatana, Chirathivat, and Srifuengfung families while Supang Chantavanich focuses her paper on five families from Chaozhou area covering 9 districts in Guangdong Province of Southern China. They are Wang-lee, Sophonphanit, Techaphai boon, Srifuengfung, and Chiarawanon families. Only one family is discussed by both of them and the total of 10 families are presented in both papers. At least 5 out of 10 families discussed have been directly involved in banking in addition to other businesses. Jean Baffie suggests that Chinese entrepreneurs who became successful usually take two or more generations to establish the families as leaders in the specific commodity sector. They shift from the fathers' investment in banking and import-export to establish leading specialized fields which follow the pattern of national economic development. They are mobile geographically and professionally because they are willing to shift location and profession when rational choices prevail.

Large families provide more relatives to operate the different sections of the business but at the same time can create conflict and factions. Some families have been able to utilize family connections and intermarriages to establish links for business expansion and for political protections while others have not been successful and the Nadhabiwat family lost control of the Laemthong Bank because of family conflicts.

Supang Chantavanich concludes in her paper that the Chaozhou traders/ entrepreneurs used their dialect group as their original trade network and expanded the network to other dialect groups. The network in Thailand is connected with networks in Hong Kong, Singapore, Vietnam, and China. The Chaozhou personal quality is also mentioned as being instrumental to family success. The shift from Gong-si or family business where family expense is to be taken care of by the family budget and all members are expected to contribute to the family business to the establishment of corporate firms by adopting modern management is seen in all cases.

Both Jean Baffie and Supang Chantavanich agree with Amara Pongsapich in concluding that even when they are not interested in playing politics themselves, business families associate themselves with high-ranking army and police officers and professional politicians to obtain government contracts and good connections. However, in present day Thailand, the Sino-Thai business and multinational corporations have become part and parcel of the development policy planning and implementation process. They are invited by the government to become openly and directly involved in Thailand's development activities.

The role of Hokkien and Teochiu Chinese entrepreneurs at local level in Trang Province in Southern Thailand presented by Michael Montesano provides details which also support the thesis presented by Amara in the first paper and provide data on the connection and relationship with Bangkok, Penang, Singapore, and other Malay states. Michael Montesano demonstrates historically how Thap Thieng Subdistrict of Trang Province has shifted from traditional subsistent society to a more commercialized district in the pattern observed by Geertz in Indonesia. The role of Thap Thieng which shifted from pepper production center to become a major center of rubber production and the development of family enterprises to firm-type enterprises follow the pattern observed by Supang in Bangkok areas. Local Hokkien families worked with Hokkiens who were sent from Singapore and Bangkok in establishing para-rubber enterprises while providing strong support of education was evident in the establishment of the Trang Association for the Support of Education. Furthermore, the Teochiu Chinese role in grocery and general stores and the introduction of other modern consumption products lead to a more diversified pattern of trade, again already discussed in the papers by Jean Baffie and Supang Chantavanich. Michael Montesano describes clearly the different pattern of business connections observed in Trang and states "the single most important factor in the lack of sustained success of Thap Thieng-based entrepreneurs and in the truncated growth of their enterprises has been their inability to negotiate links to the national and international economies on favorable terms." It is undeniable that those with connections with Bangkok and larger networks are the ones who are considered successful.

In contrast to the four papers discussed previously; Gerald Fry provide interpretation of Buddhist entrepreneurship derived from earlier Buddhist ideology. While many scholars viewed Buddhist ethics as

inhibiting entrepreneurial spirits and capitalistic concept of development, the authors of this paper succeed in presenting an alternative interpretation.

Major Buddhist concepts relevant to entrepreneurship, leadership, and management include sati (mindfulness), annata (non-self), anicca (impermanence), wabi (contentment) and upekka (tranquility). Buddhist view of work presented in case studies of modern Buddhists shows another pattern of entrepreneurial spirit developed regardless of ethnic identification. The four Thai individuals selected for case studies in this paper demonstrate non-economic leadership and they include Chamlong Srimuang, a politician; Dr. Sippanondha Ketudat, an educator-industrialist; Meechai Veeravaidya, a non-government development worker; and Dr. Prawase Wasi, a medical doctor and social development advocate. The entrepreneurship of the four representatives provide the readers with another dimension of analysis which needed to be investigated further. A more recent phenomena of the non business entrepreneurship is a new pattern of entrepreneurial development which will predominate Thai developmental process in the next decade.

The papers presented in this section, therefore, provide the readers with two categories of entrepreneurship, economic and non-economic. Among the first group, only Chinese entrepreneurs are discussed. The role of non-Chinese investors are not reflected in the presentation mainly because most scholars have not been giving attention to them. Information on the non-Chinese entrepreneurs is certainly lacking. However, the non-Chinese entrepreneurs included in this section represents the group which may be classified as "social entrepreneurship" for lack of a better term.

Some Theoretical Consideration on Chinese Entrepreneurs and Their Dominant Role in Responding to the Thai Development Ideology

Amara Pongsapich

Introduction

Analysis of Thai-Chinese relations within Thailand have been made by many. However, historical analysis shows clearly that the relationship has certainly changed with time. In studying socio-economic change in the Central Region of Thailand up to the present, the author attempts to look at available theoretical analysis to understand the Thai-Chinese relation more fully and finds that there is no one theory which can provide that function. A theory may be applicable for analysis of conditions during certain period and not other. Furthermore the author finds that the present Thai-Chinese relationship advances further and theories which have been used are no longer applicable. While some Chinese have assimilated into the Thai social structure, others have not. It is the status of the unassimilated Chinese which is the question here. Since the Thai government adopted capitalistic development ideology, the Chinese or Thais with Chinese ancestors have been able to respond to the government policy and become prominent and influential mechanism in the economic development process of the country. The status of the Chinese as an "ethnic minority" is no longer appropriate. They are "influential ethnic group" dominating many aspects of the socio-economic and political spheres of decision making in the development of Thailand.

1. Reviews of Some of the Ethnic Relations Theories and the Analysis of the Thai-Chinese Relations

Since it is not possible to separate theories of ethnic relations from theories of race relations, they are viewed as one single set of theories on racial and ethnic relations. In this paper, the readers should assume that the Thai-Chinese relations will be considered in terms of ethnic relations since the phenotypic differences cannot be easily identified.

1.1 Order Model (Structural-Functional Analysis) and Conflict Model

Historical studies of the status of the Chinese in Thailand indicates that the status of the Chinese and the inter-ethnic relations change from period to period depending on government policies

and the ways which the Chinese made adjustment or coped with government policies. During the Phibun Regime when the government adopted nationalism and anti-foreigner policies ethnic conflicts were obvious and order model and conflict model were both appropriate for analysis.

Order theorists see society as an integrated whole in which all the parts are working to maintain some state of balance; therefore any phenomenon that upsets this balance is a problem....

Differential power is one of the key concepts in the conflict model, which views society as a continually contested political struggle between groups with opposing goals and world views. Whereas order theory defines social problems as pathologies, in conflict theory problems result from the failure of the society to meet changing individual needs. Order theory requires that problems be solved by making changes within the system, conflict theory proposes changes of the system (Leggon, 1979: 8,10).

After the Phibun regime, Thai-Chinese relations gradually improved. Later on, since 1980 when the Communist Party of Thailand was officially abolished, the Thai-Chinese inter-ethnic relations have been quite cordial. The tendency then is to view the Thai-Chinese inter-ethnic relations in terms of assimilation. But Leggon warns us against pre-determined analysis and suggests that other relations may be possible. She says: " The ethnic-bases analysis takes assimilation to be the only possible outcome of regularized inter ethnic contact. Yet, assimilation is but one of several possibilities. Other patterns include exclusion, symbiosis, ethnic stratification--a highly probable outcome--and cultural pluralism. Assimilation may be the result in a given society at a given time, but it is not necessarily a universal end-state." (Leggon 1979: 12).

1.2 Middleman Minority Theory

One theory which should be reviewed with regard to the Chinese in Thailand is the theory of Middleman Minorities (Bonacich, 1973). On the outset, it appears that although the theory of middleman minority may be applied in case of the Chinese who first immigrated to Thailand, it cannot be applied to the second and third generation. Even among some of the first generation Chinese, the theory is not totally applicable.

The two prominent themes of middleman minorities theory are that there exist a pattern of hostile reaction of the surrounding society to the cultural distinctiveness which pushed the ethnic group out of desirable occupations and forced the group to marginal lines there exist "status gap" or marked division between the elite and the mass. The argument then is that the resulted marginal groups are able to fill the status gap through their industriousness in middleman trade. In other words middleman minorities are seen to serve the functions because:

First, since they are not involved in the status hang-ups of the surrounding society, they are free to trade or deal with anyone. In contrast, elites may feel that they lose status by dealing with the masses. Second, their foreignness enables them to be "objective" in the market place; they do not have familistic ties with the rest of the society which can intrude on, and destroy business. And third, they act as a buffer for elites, bearing the brunt of mass hostility because they deal directly with the latter. In other word, middleman minorities play the status gap between elites and masses, acting as middlemen between the two (Bonacich, 1979: 584).

It looks as if the middleman minority theory should be able to apply to the situation of the Chinese in Thailand quite well. However, there are some problems. Middleman minorities theory further states that middleman minorities begin as sojourners and have unusual attachment to their homeland and they select occupations which do not tie them to the territory very long. Thus, they adopt "independent profession" and in order to return home, they are known to have tendency toward thrift. The middleman firm is labour intensive but able to cut labour costs drastically through ethnically based paternalism and thrift. Although these characteristics are generally true of the Chinese in Thailand prior to 1970s, they were not applicable totally and not applicable anymore. The hope for sojourning home have been abandoned after the Chinese realized that the situation in China is not what they would like to live in. The Chinese then decided to settle in Thailand. As will be discussed later, when the Thai government adopted national development policy which follows capitalistic model, the Chinese were able to slowly work with the government and hostility with the host country slowly disappeared. Conflicts with clientele (buyers), with competing business groups in the host country and with the labour, were not overtly problematic. Thus the situation of the Chinese in Thailand may fit with the middleman minority theory during the period of 1950s and 1960s, the situation slowly changed and the theory is no longer applicable.

1.3 Dual Labour Market Theory and Split Labour Market Theory

Since most of the Chinese are involved in business one is then tempted to look into Dual Labour Market Theory as well as Split Labour Market Theory. The basic premise of dual labour market theory is that the labour market in the West is segmented into two sectors: the core and periphery, or primary and secondary sectors. These are distinguished by a host of characteristics, including technological advance, product durability, degree of control of the market, size of firm, degree of unionization. Generally, primary or core industries or firms are associated with capital intensity, production of durable commodities, largeness and unionization. Workers in the secondary sector are trapped in poor-paying jobs with no future. For various historical reasons, racial (ethnic) minorities and women have been less stable workers than white males, the primary firm employer makes an actuarial assessment, and prefers white male labour. (Bonacich, 1979: 36).

Split labour market theory, on the other hand, sees the price of labour of different groups of workers as rooted in their historical experiences. For split labour market theory, the "duality" arises out of the dynamics of class struggle, while for dual labour market theory it appears to arise from technology. In dual labour market theory women and ethnic minorities are confined to secondary firms and industries and is explained by efforts of primary workers to protect themselves and form an inclusive group. Furthermore it was argued that ethnic minorities and women, once in the secondary sector find it difficult to shift to the primary sector because they have poor work habits. Bonacich also states that "simple racist practices in the primary sector make the shift difficult even if the worker could overcome the poor habits".

The split labour market theory was conceptualized in developed countries where labour is composed of immigrants from developing countries. Ethnic antagonism expresses class conflict between the higher and lower-paid groups within the labour force and the origin of ethnic antagonism in the development of capitalism. Labour is split based on race, ethnicity and sex.

In case of the Chinese in Thailand, application of the split labour market faces difficulty. The Chinese immigrants arrived in Thailand during feudal or pre-capitalistic state and thus they were lower-paid wage labourers before the ethnic Thai enter the labour market. Now the situation has turned around, the ethnic Thais especially women from the Northeast Region belong to the lower paid groups while the ethnic Chinese belong to the higher paid groups. This theory needs to be re-examined for its application to the Thai situation at present and in the future to actually record whether labour market is split along ethnic lines. The tendency is to hire labour who immigrated into Thailand illegally along the borders. When the situation of migrant labours become wide spread, split labour market theory may be used for analysis. But the ethnic groups involved will be different groups with the Chinese in the top echelon.

1.4 Class Theory and Pluralist Theory

Although the class theory of racial and ethnic relations cannot be applied to the situation of the Chinese in Thailand it needs to be mentioned here briefly. According to Banton (1983) the theory holds that as European capitalism expanded into territories where natural resources were abundant, there were advantages in securing a source of labour power which, being, distinctive could easily be kept in a servile state. Within this unequal relationship beliefs justifying the inequality were developed. These have been built into the structure of capitalist societies, dividing white workers from black. Racial categories exist in the social life of capitalist societies because they serve the interests of the ruling classes and the contradictions in these societies have not yet reached the point at which the true nature of the social system is apparent to the workers.

Class struggle in Thailand and Southeast Asia has not become a phenomena and a more useful concept is "plural society" which was used by the Jamaican social anthropologist, M.G. Smith. According to Banton, Smith harked back to the use by J.S. Furnival of the expression "plural society" to identify the sort of society observable in Southeast Asia where there was a medley of peoples--European, Chinese, Indian and various native groups (Banton, 1983: 91). However, Thailand differs from her neighboring countries in the minor role which European or expatriate community operates. But, with the internationalization process taking place, expatriate community will become more prominent. Banton further describes that some writers such as Kuper think it is possible to deduce a Pluralist Theory as presupposing the Class Theory. It explains the nature of racial categorization in societies in which the chief forms of alignment and conflict derive from the relations of groups to the means of production. Other writers such as M.G. Smith favour pluralism as offering an approach to the analysis of racial and ethnic relations but make little or no use of class explanations. M.G. Smith revitalized the concept of plural society based on his Jamaican experience where there was a continuous gradation of complexion. Phenotype, genealogy, association and culture are all important variables determining ones ethnic identity. This is made especially difficult with the high degree of intermarriage in the society.

1.5 Rational Choice Theory

The last group of theory to be discussed here in relations to the Chinese in Thailand is Rational Choice Theory which according to Hechter is an alternative to normative explanations and structural

explanations. Rational choice considers individual behavior to be a function of the interaction of structural constraints and the sovereign preferences of individuals. Within these constraints, individuals face various feasible courses of action. The course of action ultimately chosen is selected rationally. (Hechter, 1986: 268). Along the same line, Banton sees rational choice theory as including the family of theories in other fields such as exchange theory discussed by Levi-Strauss and others and transactional theory discussed by Barth. Viewed from the study of racial and ethnic relations Banton states: " 1. Individuals utilize physical and cultural difference in order to create groups and categories by the processes of inclusion and exclusion. 2. Ethnic groups result from inclusive and racial categories from exclusive processes. 3. When group interact, processes of change affect their boundaries in ways determined by the form and intensity of competition; and, in particular, when people compete as individuals this tends to dissolve the boundaries that define the groups, whereas when they compete as groups this reinforces those boundaries. (Banton 1983: 104).

The question asked here is whether the Chinese in Thailand make rational choices individually or as groups. Certainly when the Thai-Chinese relations was poor, the Chinese formed clan associations and started to create groups through the process of inclusion and exclusion. But when the Thai-Chinese relations improved decisions were not made as ethnic groups but as individuals, each wanting to become involved in profit-making market economy. Rational choices are then made individually.

As will be evident in the discussion to follow the Chinese have been able to cope with structural constraints and deal with the situation for their own benefit. Competition and cooperation can be seen in the development process whereby the Chinese cooperate with the Thai elites to compete in the economic sphere among themselves and among others in the world market.

With these five groups of theory, the situation of the Chinese in Thailand will be examined.

2. Traditional and Changing Thai Ideology

The discussion of traditional and changing values and ideology is necessary for this paper even though it is a subject not easily tackled due to lack of an agreed upon methodology and the ambiguity of the definition itself. If one were systematically to set out to compare "values" with other related concepts such as "world view" and "ideology" one faces considerable difficulty. While the three words are different they are interrelated: world view is the cognition and perception of the world surrounding a person, while values is the evaluative aspect concerned with judging situational elements in terms of some value standard of the society, and "ideology" is the value standard of the society which has been accepted at the superstructure level to be the guiding principle to be adopted and followed.

The book *Traditional and Changing Thai World View* published by CUSRI and SEASP (South East Asia Study Program of the Institute of South East Asian Studies) identifies Buddhist beliefs and traditions to be the basis for many of the Thai beliefs and practices (Pongsapich et alii, 1985). It discussed the impact of doctrinal Buddhist teaching, on the one hand, and of popular Buddhist beliefs and practices, on the other, on certain aspects of the Thai social order. manifestations of Thai world view are seen in areas such as social hierarchy, merit and demerit, bun khun, etc. Analysis of a popular

writer of the early Bangkok period, Sunthorn Phu, also indicates Buddhist world view dominating through out the writings. The Buddhistic world view revealed in Sunthorn Phu writings was the values shared traditionally by the people of Thailand.

Other writings of more contemporary nature showed that contemporary world view and value systems are reflecting in folk songs, games, movies, and short stories. Furthermore surveys carried out by Suntaree Komin shows that while the more traditional values essential for maintaining the social order are still stable, changes are occurring among the urban Thais. The man-to-man world view seems to be one of harmonious co-existence. It is combined with the pragmatism of adaptability and flexibility.

Traditionally Buddhism has been treated as national religion or ideology of Thailand. In the article "Civic Religion and National Community in Thailand", Frank Reynolds followed the conception of "civil religion" which was coined by Jean Jacques Rousseau in the eighteenth century, and brought to the fore by Robert Bellah when he analyzed civil religion in America.

Reynolds states that in Thailand in the past, the established form of Thai civic religion has proved to be a deeply rooted and highly resilient tradition that has both influenced and adapted to the various crises in the life of the national community. Today the resources and vitality of this tradition are being put to the test in a variety of ways. The nation's success in these areas will depend on the dedication and creativity of those who are responsible for nurturing and adapting the symbols, activities, and institutions that constitute the specifically religious dimension of Thai national life.

What is happening at the superstructural state level, is to find another national ideology which will function as factor unifying people in the country together. What is being observed is the role which the national development plans introduced by the government has been presenting new developmental ideologies, mostly capitalistic in nature. While the poor farmers still have difficulty interpreting and accepting the new ideology, the upper and middle class people consisting of Chinese descendants have been able to make adjustment reasonably well. The question being asked at this point is how the new capitalistic development ideology are replacing the traditional Buddhist ideology still adhered to by most villagers.

3. Thailand National Development Ideology and the Chinese

Thailand adopted export-oriented economy since the signing of the Bowring Treaty in 1855. The national development plans initiated in 1961 further reinforced the adoption of capitalistic development model of the West. Past development strategies of Thailand indicated that the country has gone through many development policies including (1) agricultural, (2) agro-industries, (3) import-substituted industries, and (4) export industries. At the moment, Thailand is in the midst of all four policies. She has been moving forward toward industrial development while a large majority of the rural sector has yet to cope with the rapid changes. The group of people who have been responding to these policies more readily are the Chinese and the Sino-Thai. The role of the Chinese in the economic development process of Thailand may be examined through their role in the industrialization activities at the macro

and micro levels. In this section, at the macro level, the role of the Chinese in rice exports will be examined and at the micro level, their role in local industrial development will be discussed.

3.1 Export Policies: The Connection of the Thai and Chinese Elites in Paddy Commercialization and Rice Exports

The introduction of export activities after the Bowring Treaty in 1855 did not bring about change in production technology. The Thais practiced broadcasting and transplanting as the two methods of production up until after World War II when new varieties, double cropping, and mechanization were introduced. Changes taken place after the Bowring Treaty and before World War II were the commercialization processes. Rice traders set up rice mills with simple machines, invested in the rice trade, and were the first group of entrepreneurs who became millionaire. They composed mostly of Chinese immigrants who were wage labourers or entrepreneurs and formed an entrepreneurial class of Chinese traders. During this period Chinese merchants could enter the noble class of the Thai social system by bidding to become tax-farmers. As tax-farmers they had ranks and titles similar to noblemen who were ethnically Thai composed of Cao nai (members of the royal families) and/or khunnang (government officials).

Before 1932 "rice trade capital" was the investment of the rice merchants who accumulated, expanded and became very influential traders. Activities of these merchants in addition to rice trade include investment in rice mills, saw mills, import-export trades. Rice exporters with multiple economic activities are Chinese ancestors of many leading merchant families in Thailand. They are for example Wangli, Lamsam, Bunkul, families. After 1932 Chinese merchants established trade associations including the Rice Mills Association, Rice Traders Association, Chinese Traders Association. A new rice traders group composing of Chinese immigrants came into the rice trade sphere at this time. This group did not have the early connection with the nobles and princes but established new relationship with civil government officials who came into power after 1932. A form of patron-client relations have been established.

At any rate, when the civil government adopted "nationalistic capitalism" as the economic policy, the intention was to do away with foreign investors and set up "Thai" government enterprises. But in practice, group of Chinese merchants, i.e., those who immigrated earlier and became tax-farmers and nobles, and those who immigrated later and had no titles, established close connections with Thai government officials. Joint investments were then considered "Thai" investment. Other activities carried out by the rice merchant groups include the establishment of other government enterprises as well as companies. They are for example the Thai Insurance Company, the Thai Agricultural Products Company, Bank of Asia, and the Metropolitan Bank of Thailand.

After World War II a shift in economic policy was made by the 1947 coup d' état leaders. "Government Capitalism" was announced as the policy. But in practice, the investment activities did not differ from the practice of the "nationalistic capitalism" very much. However, the "government capitalism" policy enabled government officials to be members of the Board of Trustees of 2 government enterprises each. As members of the Board they were entitled to monthly salaries as well as annual bonuses. As a result, most of the high-ranking officials (both military and civilian) and the

business investors are incorporated into the politico-economic system. Again, another form of patron-client relations is seen. (Piriyarangsana, 1983).

In 1946 when the Thai government paid the war claim in the form of 1.5 million tons of paddy to Great Britain, the government issued order prohibiting private company to export paddy. In effect all rice export must be made through government enterprise called "Rice Organization", or "Rice Office". Rice quota policy was adopted until 1955 as a means which government could collect revenue.

Thus, in exporting, rice farmers in Central Region were the majority rice producers in the country. Rice mills established through out the Central provinces belonged to rice merchants who had close connections with government officials, military and civilian, in Bangkok. There were Chinese rice merchants who were locals and had their residents in the provincial or influential rice merchants living in Bangkok but had their clientele supplying paddy to them. This strong links between Bangkok and the communities had helped made Central Region an extension of Bangkok. The patron-client relations established through the process of exporting rice was the relations somewhat differ from the former two-tiered "patron-client" relations. In the export business multi-level patron-client relations were established.

In addition, during this period, competition in rice trade as well as other economic activities became severe. Coping strategies of Bangkok-based-merchants were seen in the form of establishing links with the politically powerful groups. The competition process evolved and resulted into 2 factions of political powers with their complementary subsidiaries. The Rachakru group who were members of the Phibun Regime and the Sisao Thewet group who were members of the rising Sarit Regime. To survive in this fierce competition and to maintain control of national economy, holding companies and related firms were established. Monetary institutions in the forms of banks and finance companies were instituted and expanded (Bualek, 1985). The fact that the Ministry of Finance became share holders of some banks certainly had helped strengthened the bank tremendously, both economically and politically. In addition to functioning as export agents, the banks also had control over the transfer of remittance to China. (Tantasururuk, 1989).

Coping strategies of Chinese rice merchants at the middle level were seen in the establishment and expansion of holding companies with branch offices in provinces in the Central areas. In 1955 Sun Heng Lee Holding Company set up 3 provincial offices in Nakhon Pathom, Ayutthaya, and Phrakhanong (the suburb of Bangkok). Another coping strategy was to increase capital investment with no change in structure or technological practice. This group of merchants had connections and work with local merchants quite closely.

The national development plan introduced the construction of many infrastructural facilities including dams and road which should greatly benefited the farmers in the Central Plain. Export policy was also included in the first national development plan. Some rice exporters diverted their activities into exporting other products such as cassava, maize, jute, etc. Other rice export activities took the form of Bangkok International Rice Trade which was joint investment of two Thai political elites and one Chinese company, each holding approximately 1/3 of the total shares. Privileged were given to this company to have more quota, and to export inferior quality paddy without being punished.

During this period it was also reported that rice exporters ended up having an upper hand vis-a-vis the government. Rice Trade Union was established in 1959 composed of paddy and steamed paddy exporters. Request was also made to establish a rice subcommittee to look after rice trade with members from rice inspection committee, rice price committee, and rice quota committee. As a result, rice trade had been mostly controlled by merchants with representatives from the Ministry of Commerce performing advisory roles.

In effect, rice trade activities during this period reached its peak. Rice exporters had been able to control the market in the country and concentrated their effort in identifying international markets for export. Simultaneously they expanded their activities to include export of other crops. Another group of rice exporters shifted to banking and other type of non-agricultural investment. New economic investment were explored and shifted to banking and other type of non-agricultural investment.

It is undeniable that rice farmers in the Central Plain areas and elsewhere had been supporting the Chinese merchants.

In 1968, the Ministry of Commerce put qualification on rice exporters. They had to be companies registered with 5 million Baht investment. Many Chinese families then joined together and established trading firm to export rice. These firms concentrated their activities in the rice trade as well as export of other agricultural products. Almost all of the rice trading firms had their bases in provinces in the Central areas. An example is a family in Chachoengsao who started from rice middleman to set up a small rice mills and joined with another family to export rice. A new firm was registered in 1973 with 5 million Baht capital as required by the Ministry of Commerce. Later in 1974 and 1978 two other firms were registered for the same purpose. In 1982 the three firms were the group with highest rice export values. The family in Chachoengsao then expanded their activities and established another Agricultural Product Company exporting rice and other products. Now it has capital registered at 200 million Baht.

3.2 Industrial Development Policies: the Role of the Chinese at Local Level

Development strategies provided in the previous section indicate to the readers that Thailand has gone through export-oriented development strategies since before World War II. Even though the actual National Development Plan was first initiated in 1961, economic development strategies promoting agro-industries, import-substituted industries, and export industrial development have been made. Thailand has been moving forward toward industrial development while a large portion of the rural sector still face problems of unemployment and poverty. The questions to ask are how have the Thai people accept the different policies and what have been the lessons learned.

Review of literature indicates that in case of Thailand the inter-relationship between the political and economic sphere had been very close. Superficial examination of situation before World War II may give a picture of the political sphere being dominated by the royal Thai elites and economic sphere dominated by the Chinese entrepreneurial class. However analysis presented earlier here provides evidence of close relationship between the ruling elite of the 1932 coup d'état and the Chinese of both first and second generation immigrants.

Following Gramsci, Chai-Anan described the state with the government as a concrete structure as an institution which serves the ruling class but presents itself as if it is serving the people of the nation. In effect, class distinction became blurred and the state appears to be operating for the people. The State became a sacred symbol created by and with the integration of certain ideology and political legitimization process. He felt that capitalist ideology together with some political factors had been able to form alliance between the different classes of people (Chai-Anan, 1987).

It is undeniable from earlier discussion that capitalist ideology in one form or another had been used by the government as the development concept for the country.

"Nationalist capitalism" ideology adopted by the government during 1945-1960 encouraged the establishment of government and private enterprises. During this period, rice mills, sugar mills, saw mills, and liquor factories predominated. In 1946, the Ministry of Industry took over the operation of all sugar mills. In spite of all the assistance given by the government, the government-operated sugar factories produced less sugar in 1950 than did the small private factories with their crude equipment operated by the Chinese.

Because of close proximity and access to transport routes about half of government operated industries and enterprises are located in the Central Region. Distilleries located in many provinces in the country were operated by Chinese immigrants whose skills in the trade were indispensable. Thus even though the government control the enterprises, but in fact the operations remained in the hands of local Chinese operators.

Another incidence taken place in 1950 which became important is the fact that ruling elites were able to utilize their connections and accessibility to information to their benefit. The then Deputy Prime Minister and Minister of Interior established an Economic Promotion Company when the World Bank provided 10 million US dollars through Bank of America in Bangkok as aids to promote economic activities of private enterprises in Thailand. The two elites were able to use their influence to have the newly established company borrowed the money with government guarantee. The funds were used to set up Suphanburi Sugar Mill, Saraburi Marble, Bangphra Paper Mill, Chonburi Sugar Mill, and the Northeast Gunny Sack Factory (Sangsit Piriya-rangsan, 1982). One needs to mention here that the operators of these factories were Chinese and/or Sino-Thais.

Because of government policy to control economic activities in the country, many entrepreneurs and economic elites invited political elites to be on the Board of Directors and established close ties between them. This practice became very much evident and may be viewed as a form of government intervention. But in fact, benefits from economic activities were given to the political elites and may also be viewed as "protection" money.

The Investment Promotion Act constituted in 1960 brought about many multi-national investment schemes in the country. Joint-ventures between Sino-Thai and the Japanese or the American firms have been recorded and almost all of them are located in the Central Region. To obtain government support, government employees both at the local and national levels were used as contact points to promote investment. Trade associations and other so-called non-profit organizations were formed to help establish networks among merchants and between merchants and government officers.

At the local level, what has actually happened is the shift and change of social values. Traditionally, a respectful person was a patron who performed the protective role for his client. He appeared to be passive and received income in the forms of goods and services without having to do the actual work. His status was maintained because of his merit and his good deeds. One needed not be greedy and wanted more than what one received. Buddhist ideology predominated in everyday life. When mode of production changed, it was not sufficient to maintain the status quo. In the capitalistic mode of production, there are possibilities for investments, especially when connections with government personnel opens up investment channels which enables those with connection to advance forward ahead of other ordinary people. To advance forward economically and socially, one now has to invest to earn more. A successful person now accumulates wealth through investment, taking opportunities to utilize the available resources to the best of ones ability.

One way to accumulate wealth is through land ownership. Local merchants and government officers as well as Bangkok people became land speculators, intentionally or unintentionally. Sub district headmen and village headmen learned to follow the practice of local merchants and government officers and took the opportunity to buy up land from fellow villagers when they hear of future construction projects or of new highway to be built. Many Chinese descendants are now involved in local politics. They establish themselves as *chao pho*, very influential mafia type leaders and are powerful both economically and politically.

C. Szanton observed in 1974 that at local level the Chinese descendants have adopted a Sino-Thai mode of operation which still preserved many features of their Chineseness, and which allowed them to operate well in the urban middle class settings where they were in large number. At the same time, there were recurring rifts between segments of this middle class, mostly between Sino-Thai, as well as between Thai and Sino-Thai within the petty bourgeoisie segment. Although Christina Szanton indicated signs of intra-ethnic differentiation at the town level, she also stated that the Sino-Thai certainly became new middle bourgeoisie which may lead to ethnic stratification.

Analysis and Synthesis

Even though in reviewing some of the ethnic relations theories and the analysis of the Thai-Chinese relations the message not to adopt the assimilation process of the Chinese into the Thai society too readily was followed, the warning was not to deny that assimilation has indeed taken place among the Chinese in Thailand. However, by not readily accepting assimilation as a given outcome, it is useful to examine how assimilation took place or not in the light of other theories.

Certainly assimilation took place in the same process while many Chinese functioned as middleman minority. Factors leading to assimilation include migration, Thai education, Thai occupation and inter-marriage (Pongsapich, 1976). It is an undeniable fact that before and after World War II, the Chinese still sent back money to their families (Tantasururuk, 1991). As is being reported in the book titled "Two Hundred Years of the Chinese under Royal Patronage" published to celebrate the Bicentennial of Bangkok, many elite families not only sent money to the families, but to help built schools and support other community functions in their home towns (Economic Outlook, 1987). Furthermore, while they were many Chinese men who left their first wives at home, the families in

Thailand either with Thai or Chinese wives are much more important to them. The role of Chinese middleman was important but that was not their only function. As is evident from the earlier discussion of this paper, the role of the Chinese in other economic sphere was much more important to the Thai economy as well as to the Chinese merchants themselves. This is true at both the national macro level as well as at the local level where Chinese merchants in provincial towns played very important role in the industrialization process of the earlier times. Chinese as sojourners existed but did not predominate the total population. Hostility with the host country if existed were also minor hostile feelings which did not result in any mass antagonistic movement. Thus, although the author does not deny the usefulness of the middleman minority theory, she feels that the theory cannot be applied to overall situation of the Chinese in Thailand.

If one were to move further to view the role of the Chinese in industrial development in terms of dual labour market and split labour market theories, one see the reverse of the situation. Instead of the Chinese being ethnic minority being exploited by the Thai host country, the Chinese were the ones controlling the management of the labour market in the primary or core industries of the formal sector. Those in the informal sector are not ethnic Chinese minorities but are the Thai themselves. Since split labour market theory views that ethnic antagonism expresses class conflict between the higher and lower paid groups within the labour force and the origin of ethnic antagonism is the development of capitalism, it is possible to view the situation in reverse direction. Now the Chinese and Sino-Thai are being blamed for controlling the higher paid labour and exploiting the lower labourer group. However, labour disputes in Thailand have not been demonstrated to be along ethnic differences. As Thailand will become industrialized more and more, the tendency for migrants from neighboring to move in and occupy the low pay labour strata is high. When that time comes, split labour market theory will help explain the process of labour exploitation along ethnic lines.

The issue in Thailand at present is the national economic development policy which favours the Sino-Thai population over the poor rural Thai. The Chinese or Sino-Thai have been able to fulfill the demand for industrial development proposed by the government. "Nationalistic capitalism was designed for the Thai but the Chinese have come in and offer their services to make the policy operational. In that process, the Chinese made rational choices and made themselves indispensable for the Thais. Since historical time, Skinner made the following comments:

"The Chinese were simply too useful to the Thai ruling class to be kindred, while at the same time the rulers perceived nothing to fear. Confident in the vitality and invulnerability of their own civilization, the Thai elite did not hesitate to use the Chinese even though they knew the Chinese thought they were using the Thai (Skinner, 1973:406).

And, with the introduction of the national development plans where capitalistic development policy was adopted, the local Thai were not able to cope with this new policy or ideology and turned to work with the Chinese. They were and many still are adhering to the Buddhist values and world view which believe that one should not work for ones own benefit entirely, and accumulation of wealth should not be practiced overtly. Study on coping strategies of people in the Central region of Thailand indicates clearly that when state policies were disseminated at the local levels, those who could not accept the new capitalistic ideology rejected the policy and either moved further into the forest areas to

continue their subsistence way of life or remained poor and helpless. The Chinese or Sino-Thai generally accepted the new ideology and responded readily to the policies such as cultivation of cash crop, tourist and rural industries, new "captured" fishery industry such as deep sea fishing or "cultured" fishery using technology and modern management techniques, etc. (CUSRI, 1991).

It is undeniable that the Chinese have social values which are more compatible with capitalistic values. The rational choice theory seems to help explain the behavior of the Chinese in different context quite well. Although the theory may be criticized as "loose" and not very concrete, it is a useful theory in this case.

The questions remained to be asked is whether the more advantageous status and role of Sino-Thai at present will create antagonistic feelings among the Thai and cause class differentiation as well as ethnic differentiation to become more distinct. If such is the case, then class and plural society model will have to be re-examined in detail. This point will have to be juxtaposed with the assimilation/acculturation model.

Perhaps the pattern differ between the elite class and the middle class. Among the elitist group, industrialization and internationalization or globalization taking place all over the world pushes the Chinese investors into the global sphere. Their investment activities become multi-national and their Chineseness become more useful. The Chinese connections could be maintained or newly established for the sake of business benefits. In a way, this group of Sino-Thai stop their assimilation process and maintain their Chinese identity together with the Sino-Thai identity. The shift in the globalization process makes the assimilation model less useful than in the past. Now they make rational choices to identify their ethnic identity accordingly.

The middle class group, on the other hand, consist mostly of second or third generation Chinese who have moved up the social strata and constituted a large majority of the middle strata of the Thai social structure. The question whether this is a threatening phenomenon or not remains doubtful. Two possibilities are envisioned here. The first possibility is that assimilation will continue and be completed where the term Chinese or Sino-Thai will become meaningless. The second possibility is for the group to become more conscious of their Chineseness and prefer to maintain the dual identity. This process is likely to happen for the same reason which the elitist group prefers to maintain their Chineseness for future connections. One other factor which will help strengthening this possibility is the ethnic situation in Thailand where there are other ethnic minorities. The degree to which the Chinese have become assimilated into the Thai social structure is phenomenal or even exceptional. It is not possible for other ethnic minorities to assimilate into the Thai society to the same degree. Therefore maintaining ethnic identity will be the trend followed by most ethnic minority groups. The Chinese descendants will then follow other groups and maintain their ethnic identity while living in Thailand and having Thai citizenship. When this pattern takes place, Thailand will become a plural society with different gradation of ethnic identity depending on the degree of assimilation taking place. The Chinese will be the group assimilated to the Thai society the most while the Muslim Malays will be the group least assimilated. At the macro societal level, cultural pluralism is the trend for the future of Thailand. But at the intra-ethnic relations levels, the Chinese will assimilate and maintain their cultural identity if and when appropriate.

Conclusion

From the analysis and synthesis made in the earlier section, the author proposes that the status of the Chinese in Thailand is no longer of ethnic minority but may take the form of assimilation cum pluralization with the Chinese adopting and making rational choice of their status and role. Those who have assimilated became Thai or Sino-Thai. But there is a tendency for a group of Chinese to prefer to have dual ethnic identity. Incidence of multiple ethnic identification have been recorded for hill minority groups in Thailand by Moerman (1965) and Keyes (1979, 1982) depending on the environment which individuals are in a particular moment. Chinese businessmen therefore can make rational choice and identify themselves as Chinese when involved in multi-national enterprises and as Thai when working in Thailand. This dual identification is useful both among the elite investors as well as middle class entrepreneurs or higher-paid industrial employees working in multinational enterprises. If the middle class Sino-Thai maintain their Chinese ethnic identity, class differentiation and ethnic differentiation will certainly be an outcome. However, this outcome need not be destructive and create serious conflict between ethnic groups. The government is recognizing the important role the Chinese played in the national development process of Thailand and will not allow ethnic conflict between Thai and Chinese to hinder or slow down the development process. The middle class are predominantly Sino-Thai and will not create the conflict because they have economic advantage over other groups. The poor rural ethnic Thai on the other hand, are too busy earning their living to make an issue out of the relationship.

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From Rags to Riches: Discussing Achievements of Some Chinese Families in Thailand

Jean Baffie

As an urban sociologist I could not ignore Chinese entrepreneurs who transform Bangkok and other towns in Thailand. So for about 15 years I have collected all the pieces of information available, especially on the most powerful Chinese families of this country. Then, less than two years ago a friend working with a printing house asked me to try to prepare a number of Chinese family histories to be published as a book.

There is not such a book in any western language at the moment. A few American and Japanese scholars have studied some of these Chinese families and have published articles and books, but they either used only English sources or gave only the data necessary to sustain some theoretical construction.

In the English language very few biographies of Chinese entrepreneurs and family histories are available. The monthly *Who's Who in Thailand* is quite useful for basic information, but it was only published between 1973 and 1982. Other kinds of *Who's Who* published in single volumes from time to time are just collections of short biographical notices. A remarkable exception is the publication of *Kiarti Srifuengfung: The Boy who came from Suphanburi* in 1991 by Mr. Kiarti's daughter. Also, Mr. Thaworn Phomprapha had some bilingual (Thai-English) books published in 1991 to commemorate his "75 years of Achievements", but they have been distributed only to his friends and some business relations.

In Thai, of course, sources are more abundant. Biographies and autobiographies even seem to have become fashionable among prominent personalities; similarly towers, real estate or golf projects have received their owner's surname or name or both (U Chu Liang building that used to house *The Bangkok Post* is an old example). Phraya Phromphakdi's autobiography, now published by The Teachers' Council (Khurusapha) is a classical one, even if it is more a diary than a biography. More recent biographies include two of Mr. Thiam Chokwathana (one by Matichon in 1989, the other by *The Manager* in 1990) and one of Mr. Songsak Aolan in 1990. In 1987, a high-ranking civil servant with many business connections, Mr. Kasem Chatikawanit published an autobiography "Super K."

Biographical books generally well illustrated are distributed to friends for an important anniversary. For example, Mr. Thaworn Phomprapha published a very informative book in 1976 for his 60th anniversary, and in 1989 Mr. Chan and Mali Itsara commemorated, at the same time, their sixth cycle and Golden Wedding with the publication of a sumptuous book.

Generally, you have to wait until a businessman dies to read his official biography. Since the custom to distribute cremation books started at the beginning of this century the quantity of information published has been fabulous (many Chinese are buried instead, but still distribute commemorative books during funeral ceremonies). For example, probably more than 20 cremation volumes of members of the Kannasut family have already been published, enough to try to write a fairly complete history of this famous family.

Some families, such as the Kanchanapas or the Chiaravanon, are quite new in Thailand and you will not find any cremation books of their members. Besides, some cremation books have been written partly or almost entirely in Chinese and, due to my present level of knowledge of the Chinese language, I could not read them. For instance the book distributed in July 1976 "In Memory of Mr. U Chuliang" was in 3 languages (Thai, English and Chinese), but Chinese was largely dominant. In fact, most prominent businessmen and founders of wealthy Chinese families are still alive. However, many are now very old and some have already passed away these last few years. After Mr. Chin Sophonpanich, who used to be regarded as the richest man in Thailand, died in 1988 and Mr. Thiam Chokwathana in 1991, the two most luxurious cremation books ever published in Thailand were distributed.

Autobiographies and cremation books are generally uncritical and often incomplete. For example, Mr. Srfuengfung's biography in English fails to mention that, while working as a banker in China, he married his boss' daughter, an event with many important consequences for his future.

Many collected biographies or biographical notices have been published during the last ten years often as special publications by business periodical staffs (*Prachachat Thurakit, Krungthep Thurakit, Matuphum Thurakit, Senthang Setthakit, Phuchatkan, etc.*). On the other hand, monthly and weekly business magazines and newspapers, such as Style, People, GM, Young Executives, Thurakit Phunam and Phuchatkan, are among the most valuable sources of information.

Sometimes very precious, but uneasy to categorize, publications appear, such as the genealogy of the Lamsam family (in 1967) or the Diary "bukkhon wann" (people today) for 1988 that contained 366 biographical notices of high-ranking civil servants, politicians and businessmen.

Only a small part of these sources has been used in this paper since its only ambition is to present a few families as examples. I will use these cases (and a few others I have presented in other publications) to try to answer some questions: how did they start in business? How did they set up their first big company? How do successions take place after the founder's death? To whom did they turn to ask for help when major difficulties arose? This last question poses the particular the problem of the types of solidarity (ethnic group, regional, school or university class) and the relations to national politics.

1. Some Important Families

1.1 The Lamsam Family

The Lamsam family is often considered to be one of the most Thai among Chinese families in Thailand. It is now a very large family and some branches may have remained more Chinese than other ones. For example, the cremation book published in the honour of Mr. Wu Tung Pak Lamsam, who passed away in 1961, contained 131 pages written in Chinese against only 51 pages in Thai (there was also a 14 page English section.) Mr. Wu Tung Pak had been a prominent member of the Chinese Chamber of Commerce, a benefactor of the Hakkas Association of Thailand and even a director of the Chinese Overseas Commission of Taiwan.

The founder of the Lamsam family was Mr. Ung Miao Ngian, a Chinese Hakka who settled down in Thailand at the time of King Chulalongkorn (1868-1910). Mr. Ung Lamsam, as he was also known, worked in the lumber industry. He set up a company of which the trade mark was "Kwang Ngan Long." He had two wives and six children (four sons and two daughters).

The family's most successful branch has been the one founded by the second son of the first wife, Mr. Ung Yuk Long Lamsam (ab. 1880-1939). Like most of the Lamsam family members at that time, M. Ung Yuk Long had forestry and saw-milling businesses in Northern Thailand. At the beginning of this century, this part of Thailand was largely influenced by England and from that period the Lamsam family developed close relationship with some English companies in Thailand. Mr. Ung Yuk Long's sons were sent to Hong Kong then to England for their education.

Mr. Ung Yuk Long had three wives (at the same time) and 12 children (six sons and six daughters). The second wife, Mrs. Thongyu Wanglee (1884-1966), daughter of Mr. Tan Su Huang, the founder of the well-known Wanglee family, gave him the three sons who made the family famous in the banking business. Since two children of Mrs. Thongyu married within the Wanglee family, the bonds between the two families are very strong.

The Wanglee are a taechiw family of the Tan clan name. When they came to Thailand in about 1850 they were already well-to-do because of their large properties in Southern China. They first started businesses in rice-milling and rice-exporting. As early as 1933, they founded a bank (today the Nakhon Thon Bank), which is the least developed of the 16 Thai banks.

In 1945 Mr. Ung Yuk Long's sons founded the Thai Farmers Bank, which is the second bank of the country (after the Bangkok Bank). Mr. Chote managed the bank for three years until his death in 1948. It was then headed by his younger brother, Mr. Kasem Lamsam, until his death in 1963 in an airplane accident. Since 1963, the bank has been headed by Mr. Chot's older son, Mr. Bancha Lamsam, who is 69 years old this year. In 1987, the Thai Farmers Bank's network included 295 domestic branches and 4 overseas offices, and employed 11,364 people. A revenue of 12 billion baht gave it the rank of the 9th company in Thailand. The Lamsam family has also businesses in the manufacturing (canned pineapples), insurance, real estate, dairy, and import sectors.

Mr. Bancha married M.R. Sam-angwan Thewakul, a member of the Thai royal family, and gave his brother-in-law, M.R. Pridiyathorn Thewakul, an important position in the top management team. Another well-known figure from the Lamsam family is Khunying Chatchani Chatikawanit, Mr.

Bancha's younger sister. She married Mr. Kasem Chatikawanich, of Chinese Hokkien ancestry, who was Minister of Industry in 1977, president of Thai Airways and president of the Krung Thai Bank, among many other positions.

Apart from the Wanglee, Thewakul, and Chatikawanich, children of the Lamsam family have married into other well-known business or high-ranking civil servant families (at ministerial level): Sibunruang, Tanthasetthi, Chantrakul, Chutrakul, Amatayakul, Ungphakon, Sirisamphan, Na Lamphun, and Na Pomphet.

1.2 The Nandhabiwat Family

Mr. Yai Nandhabiwat (or Li Hua Heng) was born in September 1899 in Bangkok's Chinatown from Mr. Li Thai Hua and Mrs. Sin (possibly a Thai woman). The family was probably well off already because Mr. Yai went to Suan Kularb College, where study the children of the nobility and rich businessmen studied. His education completed, Mr. Yai Nandhabiwat started working in rice-milling, rice-trading and mining, which were family businesses.

In 1948, a group of rich Chinese traders and industrialists (particularly rice traders and Southern tin miners) joined with some Thai-Chinese politicians (Luang Thamrong Nawasawat) to establish the Laem Thong Bank. M. Yai Nandhabiwat, the most presentable of these businessmen was named director of the bank and kept the position until his death in 1954, when he was only 55 year old.

A very active man, Mr. Yai had cardiac problems very early. It seems that heart attacks were a traditional risk in the Nandhabiwat family. In his cremation book, M.R. Kukrit Pramoj, a future party leader and prime minister, who may already have been a friend of the family or a partner in business, has written a 58 page article on "Commercial Banks."

Mr. Phaisan Nandhabiwat, the first of Mr. Yai's seven sons, was born in 1920. He studied first at St. Peter's School in Siphraja, then at Suan Kularb (it was now a family tradition, the place to meet people who would be important in the future) before going to Thammasat University's Faculty of Accounting. He had to leave Thammasat in 1939 when his father opened a branch in Nakhon Si Thammarat to exploit mines in Sichon district. He was 19 years old and was put in charge of the office.

In 1943, during the war, he married Miss Lek Hongswat, Praniprachachon's daughter. The marriage was presided over by Mr. Khuang Aphaiwong, who would be several times Prime Minister after the war.

Mr. Phaisan joined the Laem Thong Bank when it was founded by his father in 1948. After Mr. Yai Nandhabiwat's death in 1954, Mr. Phaisan was designated to head the bank, a function he kept till his own death in 1975.

The Laem Thong Bank opened in Charoen Krung Road (in a building located in front of the Central Post Office) in December 1948. With a capital of 12 million baht, it figured among the "big banks" of that time. On the board of directors were seated Gen. Sarit Thanarat (Prime Minister from 1958 to 1963), Lieut.-Gen. Chai Prathipasen, Gen. Mangkon Phromyothi and *phraya* Prichanusat. As

late as 1975, the president of the board was Police Maj.-Gen. Torsakdi Yomnak. The Nandhabiwat family then held about 50% of the capital, while the Ministry of Finance had 10%.

In December 1978, other prominent personalities could be found in the 11 member board of directors: Mr. Piya Bhirombhakdi, from Boon Rod brewery; Khunying Lursakdi Sampatisiri, from the Nai Lert group of companies; and Mr. Nukul Prachuabmoh, from the Ministry of Finance (Mr. Nukul later became governor of the Bank of Thailand and minister of Communications).

Laem Thong Bank developed very slowly and is now considered as one of the small Thai banks. It opened its first branch only in 1959, the second one in 1972, then a third one in 1978. The first provincial branch opened in Phuket a few years ago.

Mr. Phaisan was busy with numerous other positions: with the Foremost Dairy company, Dusit Thani Hotel, Sangkasi Thai, G.S. Steel, Sahathanakit Thai, Crown Frost, Thai Tomato and D. W. Utsahakam companies.

Mr. Phaisan Nandhabiwat was also interested in politics. He was a member of the Constituent Assembly named by His Majesty the King at the end of 1973 and joined the Social Action Party the following year, when it was founded by M.R. Kukrit Pramoj, a former banker, member of the Royal Family and long time friend of the Nandhabiwat family.

Mr. Phaisan Nandhabiwat had only two sons and a daughter. Both sons received B.A.s from American universities. The older one, Mr. Phiwat, was considered the heir and started working for Laem Thong Bank.

Mr. Phaisan, a member of Silom Club and Siam Country Club, played tennis and golf which is *the* banker sport. He had a heart attack during a golf contest in Pattaya in November 1975 and passed away. In his cremation book M.R. Kukrit Pramoj published a 186 page historical novel.

The new head of Laem Thong Bank was not Mr. Phiwat Nandhabiwat but Mr. Somboon, Mr. Phaisan's brother. Born in 1922, also educated at Suan Kularb College, then at Chulalongkorn University, where he obtained a B.A. in Mining, Mr. Somboon had been with the bank since its foundation in 1948. Mr. Phiwat, Mr. Phaisan's son passed away a few years later, also during a heart attack.

Familial rivalries and disputes then developed. Mrs. Lek, Mr. Phaisan's widow, always considered as a stranger by members of the Nandhabiwat family, had, according to one version, too much influence in the bank's affairs. In April 1984, Mr. Sura Chansrichawla, a Sikh real estate tycoon who had been Mr. Phiwat's client and friend, took advantage of the family row and bought 10% of Laem Thong Bank. By the end of the following year he controlled 43% or 46% of the shares. Other bankers tried to stop the take-over by Mr. Sura, who was supported by an Indonesian group. A mediation by Mr. Chatri Sophonpanich of Bangkok Bank failed to have durable effects. Then, in August 1986, the *Union Bank of Bangkok* asked Mr. Sura for 1.2 billion baht in debts.

In the end, Mr. Sura, not a Chinese himself but close enough to Mr. Boonchu Rojanasathien, former strongman of the Bangkok Bank, a politician (formerly with the Social Action Party) and former vice-Prime Minister, succeeded in taking over Laem Thong Bank.

1.3 The Phornprapha Family

Mr. Thaworn Phornprapha or Tang Kiang is from the Tang (Chen, Tan) clan, probably the most successful clan in Thailand (see the Sophonpanich, Sombatsiri, Phanomyong, Chan Sue, Wangli, Rattakul, Darakanon, Tanthasethi, and so on). Mr. Thaworn was certainly not a very poor man at birth, but he managed to become a multi-millionaire within 10 or 20 years.

Born in China in 1916, Thaworn was the third of eight children of M. Tang Tai Long, a scrap merchant from Canton, who emigrated to Thailand and opened a shop house in Chinatown. At 10 the young Thaworn had to help his parents at the shop and little time was left for a formal education. Some biographers write that he used to attend a Chinese school (Sun Sai) at night, then another school in Suriwongse Road. However, if he could not go to school more often, it was also because his father took him along during his many business trips by boat to China.

Thaworn was far more ambitious than his father. At 15 he was already an experienced dealer in used articles, that he managed to resell at profits. He was well known by businessmen in Bangkok and some provinces. When he reached 20, in 1936, he went to Japan on a pleasure journey and met several Thai students in Tokyo, such as Mr. Sommai Hoontrakul, who was Finance Minister a few years ago.

Thaworn Phornprapha started very early to do business abroad, in Japan and Singapore. As he could understand, read and write Chinese very well, he was already an international figure. He was also fluent in Thai and later on could even talk in court language.

Then, in the 50's he succeeded in being appointed by Nissan Motor Co. Ltd. as the first agent for Datsun cars, trucks and pickups outside Japan and agent for Yamaha motorcycles and musical instruments in Thailand. Besides, these were only the first of his associations with Japanese businessmen. When it was no longer possible to import Datsun cars into Thailand, "Siam Motors," Mr. Thaworn's Company, started producing them in the country. In 1991, more than 300,000 vehicles were assembled in his factory.

Mr. Thaworn's business empire stretches to many fields: finance, insurance, housing estates (*muuban chatsan* - Samrong), hotels, and so on. It includes over 60 companies.

Mr. Thaworn always tried to have very good relations with high-ranking officials. The name of his new company, Siam Motors, was given by M.L. Yuang Isarasena. During the sixties he was a member of the Ruam Mit Club, where businessmen and government officials met and whose chairman was Police Gen. Prasert Ruchirawong, a very influential man at that time. Another general, Gen. Kris Sivara, the strongman of the Thai army from 1973 to 1976, agreed to be chairman of the "Siam Country Club," an international golf course built by Mr. Thaworn. Being particularly generous when contributing to charitable organizations, Mr. Thaworn seems to be close to the royal family. Siam Motors has received permission to place the Garuda emblem above the company's name.

Mr. Thaworn is a director of Bangkok Bank (controlled by the Sophonpanich family, also from the Tang clan). He is counselor to the Thai-Japanese Association, but also a member of many other societies and foundations. As the young Thaworn was a central figure in the Xiang-Kong neighborhood of Chinatown, Mr. Thaworn occupies a similar position in Pathumwan where stands the main

buildings of Siam Motors Co. He is, for instance, counselor or committee member of various near-by institutions (eg. Pathumwan Technical College and Sri Nakharinwirot University).

Mr. Thaworn Phornprapha celebrated his 75th anniversary in November 1991. He has married four times, the last time with a Japanese woman, and has 13 children. According to the business monthly *Puchatkan* (November 1986) there were 61 members in the Phornprapha family at that time. One of his mottoes is: "Good children and grand-children are treasures of the family. Good employees are treasures of the company. Good citizens are treasures of the nation."

1.4 The Chokwatana Family

The legend tells us that Mr. Li Hok Piao was a poor peasant from a Tae Chiw district in Canton province. He emigrated to Thailand at the beginning of this century and settled down in Bangkok where he did several jobs for a living, such as ice-cream peddler. Then he rented a shop house in Chinatown (Sampheng) and organized a Phoy Kwan network that permits Chinese in Thailand to send money back to their families in China outside the banking system. Mr. Li could get as much as 30 baht a month (equivalent to about 9,000 baht today). To start a Phoy Kwan system, however, M. Li had to be able to read and write Chinese and have good social connections both in Thailand and China. He may not have been the miserable peasant that we are told about.

Mr. Li Hok Piao was also a lucky man. He won 1,300 baht in the official lottery, a large sum equivalent to about 400,000 baht nowadays. As he did not want to renounce his job with the Phoy Kwan network, Mr. Li gave the money to his six younger brothers - then in Thailand - who opened in Chinatown a wholesale trade shop selling rice, sugar, flour, milk, etc.

Mr. Li had two Chinese wives, one in China, the other one in Thailand, both of them gave him four children. Six of these children settled down in Thailand. Heng Thiam, the oldest son, by Mr. Li's Thai Chinese wife was born in 1917. Heng Thiam got a short but good and very useful formal education in two of the best Chinese schools of Bangkok. He had two friends there, Mr. Chalerm Yongbunkoet, who was later to head a department in the Bank of Thailand, and Mr. Prasit Kanchanawat, who became the lawyer of the Chinese, president of the Bangkok Bank (in 1984) and a well-known politician (he was chairman of the National Assembly, minister of Economics, Commerce, Justice, then vice-Prime Minister).

When he was 15 years old, however, the young Heng Thiam (or just Thiam) had to help in the family business. His uncle being the official owner of the shop, Thiam had to work more or less like a coolie while his cousins could attend university. But Thiam was learning to be a good trader, and, being probably more clever than the other family members, he was soon in charge of the whole business.

Mr. Thiam worked in that place for about 10 years. However, there was not enough room for the seven brothers and their families (more than 40 families in all). They quarreled quite frequently and finally separated. Two of the brothers kept the trade shop, while the others opened other businesses elsewhere. Except the one opened by Thiam and his father, they all went bankrupt very soon.

Mr. Thiam's business in Yaowarat was brisk and he opened a second shop only six months after the first one. During the Second World War, Mr. Thiam, who took at that time the Thai family name of Chokwathana, worked closely with large Japanese groups such as Mitsui and Mitsubishi, very powerful when Japanese troops were occupying Thailand. After the war, his best Japanese friend, Mr. Okara, served as a useful bond with Japanese firms. From 1952, Mr. Okara was the manager of a company that Mr. Thiam founded in Osaka to export Japanese goods to Thailand.

Even before that, as early as 1946, Mr. Thiam had sent his brother to Hong Kong to found a company specializing in exporting Chinese goods to Thailand. This brother later became a Hong Kong citizen.

In 1953, Mr. Thiam Chokwathana changed the Chinese name of his company to Saha Pathanapibul.

As early as 1933, when he was only 16 years old, Mr. Thiam married Miss Siwkhim *Sae* Tang (or Saiphin Darakananda), the daughter of a goldsmith in the Pratumnam area. She gave him eight children, six of them being sons.

In 1953, for its first year, the Saha Pathanapibul knew true difficulties, after the baht was devalued (the Hong Kong dollar was worth 4.15 baht instead of 2.75 baht before the devaluation). The Thai government agreed to keep the old rate of exchange for imported goods considered indispensable. Those imported by Saha Pathanapibul (clothes, plastic goods, canned food, electric iron, etc.) were not "of first necessity." With the help of his friend in the Bank of Thailand, Mr. Chalerm Yongbunkoet, and with sound advice by Mr. Chin Sophonpanich of the Bangkok Bank, a member of the Tang clan, like Mr. Thiam's wife and brother-in-law, Mr. Damri Darakanon, who worked for Saha Pathanapibul, he managed to survive the crisis.

From 1962, the group concentrated on setting up companies to manufacture consumer products such as toilet soap, shampoo, detergent, lady's underwear and clothes, cosmetics, sport shoes, instant food, and even mayonnaise. In 1974, Saha Marine Products Co. set up shrimp farms to supply both domestic and overseas markets. Goods are now exported to Asian countries, Europe, the United States, and even to South Africa. The group was so successful that it includes 175 companies today. A holding company was established in 1972.

When Mr. Thiam Chokwathana passed away in June 1991, he was 76 years old.

1.5 The Chirathivat Family

The Chirathivat family belongs to the minority group among Thai Chinese that has its roots in the island of Hainan. However, they are members of the Tae/Choeng clan, which is one of the most powerful in Thailand. King Taksin (Choeng Chao) was a member of this clan that includes today the Techapaibul, Srfuengfung and Chonwichan families.

The founder of the Chirathiwat family was Mr. Choeng Ni Tiang (or Tae Sim Peng in Taechiw) who was born in 1900. A source tells us that he may have worked in the lumber business when he first arrived in Thailand before the Second World War. He went back to China to complete his education and settled down definitively in Thailand only when he was 21 years old. He worked two

years in his father-in-law's rice-shop in Tha Chang Wang Na (Bangkok), and with some 300 baht given by his father-in-law, a rice-miller, he opened a small grocery and coffee-house in Thonburi. Later he bought a little boat from which to sell goods along the canals.

"As he liked to read English books and magazines, and look at beautiful things from abroad," he opened, in 1947, a new shop named Central on New Road near Soi Captain Bush (or on Si Phraya) where he sold imported publications and other goods.

Business increased quickly. In 1951 it had to be relocated further along New Road near Suriwongse Road. A few years later the place was no longer adequate and, in 1957, a larger store was opened in Wang Burapha, a shopping area in Chinatown, where several good book shops are located.

Many other branches of what was then known as Central Department Store have been opened since that time: Ratchaprasong in 1964, Silom in 1968, Chidlom in 1974, Wong Wian Yai (Thonburi) in 1981, Lard Prao in 1983, then other branches on Ramkhamhaeng Road, in Chiang Mai, on Ram-indra, and a second one on Silom. The Chirathiwat family owns the land on which all these branches have been built, except for the Central Plaza Complex in Lard Phrao where the land had to be leased from the State Railways of Thailand.

The family has also diversified its business. From 1987, they have managed the Central Plaza Hotel in Lard Phrao. They now own or control hotels and resorts in Pattaya, Hua Hin, Hat Yai and Mae Sot. In 1978, the license for Mister Donut was acquired from the USA. There were 20 Mister Donut branches in Bangkok/Pattaya ten years later.

The Chirathiwat family is particularly large. Mr. Tiang, the founder, married for the first time in China when 16 years old, had 26 children by three wives (14 sons and 12 daughters). According to *Phuchatkan*, they were already about one hundred persons in Mr. Tiang's lineage in 1986. It is like a company in itself and indeed many work for the Central Group. When Mr. Tiang passed away, Mr. Samrit Chirathiwat, the oldest son from the first wife, took his place. Since Mr. Samrit's death, last year, his brother Suthikiat is the new boss.

The Chirathiwat are the leaders of the Chinese Hainanese who represent about 12% of the Chinese in Thailand (Teochiw 56%, Hakka 16%, Hokkien 7% and Cantonese 7%). They have begun to invest in China, and particularly, of course, in Hainan.

The family seems to have good relations with other Chinese leaders too. When Mr. Tiang died in 1968, the company was largely in debt. Mr. Samrit Chirathiwat met three bankers, Mr. Uthane Techapaibul, president of the Metropolitan Bank but also president of the Tae Clan Association of Thailand, to which the Chirathiwat family belongs, Mr. Chin Sophonpanich and Mr. Boonchu Rojanasathien, also a Hainanese, of the Bangkok Bank. Everything was settled at once. The three bankers even proposed more money to Mr. Samrit.

Mr. Suthikiat Chirathiwat is more interested in politics than other members of the family. His sister-in-law, who worked for Sofitel-Central Hotel in Hua Hin, used to be an MP for the Prachakon Thai party. He said in 1989 that he had wanted to enter politics for a long time and announced that he would run for the Bangkok governorship the following year. For the 1992 parliamentary elections, it

was widely reported that he was about to enter politics. Until now, however, other family members seem to have convinced him that he was more useful in the company.

1.6 The Srfuengfung Family

In a 1979 ranking, Mr. Kiarti Srfuengfung was given as the 16th richest man in Thailand (10 of the 15 men before him were bankers rather than industrialists). Mr. Kiarti considers himself as a third generation Chinese settler in Thailand, but like many other Thai-Chinese businessmen, he is indeed a transnational figure. He has had experiences and relations in China, Hong Kong, Thailand, Japan and USA and knows how to use them to their best.

Mr. Kiarti's biography is a controversial question. Some authors have written that he was born in Canton and received all of his education in China. Another states that he is of noble ancestry. However, since the publication in 1991 of an official biography, written in English by his daughter, many details are now available.

Kiarti was born in 1916 in Song Phi Nong district, Suphanburi province, one of the best rice-growing provinces in Thailand. It is said that his mother was Thai while his father, Mr. Tae Tian Jui, was a Taechiw Chinese whose father came from China in a period of famine and drought. After Mr. Tae Tian Jui had bought a rice-mill in 1927, he was elected to be a village headman and was later know as *Phu Yai Jui*.

In Thailand, the grandfather seems to have succeeded very quickly. From Suphanburi, where he had settled down, he exported rice to Bangkok. His son, Jui, joined him in Thailand when he was 16 years old. Jui was a tailor and his wife had a shop that sold supplies to monks. They had five sons and six daughters.

Kiarti (Tae Liang Im) was the oldest son. He was the leader of a gang of naughty boys around the town marketplace, stealing his mother's money when he wanted to go out with his friends. On the other hand, his grandfather decided to give him a Chinese education and imported a teacher from China. Then, at the age of 12, he was sent to study at two famous Chinese schools in Bangkok. However, he was better at sports than in other subjects.

When he was 16, this paternal grandfather sent him to China to further his education. He had also to learn "how to be a good chinaman." So first he stayed one year in the little ancestral village in Swatow. When he was bored of the village life, he went to St. Stevens College in Hong Kong. But grandfather was not satisfied with his grandson learning English, he came himself to Hong Kong and brought him to Canton to study in a Chinese school. Kiarti liked Canton and, after several years at school, he continued on to Lin Nan University, which was run by Christian missionaries.

When the war with Japan broke out, he could not get money any more from Thailand, so he wanted to join the Chinese army. Being a Thai national, he was sent with the American forces and went to Texas to be trained as an airforce pilot. When he was back in China, he was Captain Tom Cheng of the US Air Force. From his base in Kunming he received many assignments as a bomber pilot or a teacher at the Chinese cadet school.

Mr. Kiarti left the army at the end of war. He was particularly close to Dr. Sun Foo, the son of Dr. Sun Yat Sen. So, when he asked to work in a bank, he was sent to the Canton Provincial Bank. There, very soon, he married Miss Jennie, a daughter of the bank owner, a very wealthy man. At that time, the Canton Provincial Bank was trying to obtain a license to set up a branch in Thailand. Mr. Kiarti was sent, to do the job.

He had to convince Luang Thamrong Navasawat, the minister (he was later named Prime Minister). It was quite easy because Luang Thamrong's father came from the same village in China as Mr. Kiarti's grandfather and also belonged to the same Tae clan. In 1946, Mr. Kiarti became the first manager of the Canton Provincial Branch, as the bank's license had been granted in his name. Two years later, when the communists took over Canton, the bank had to close down. Since Mr. Kiarti still had a bank license under his name he cooperated with two already very rich Chinese businessmen, Mr. Udane Techapaibun (of the same Tae clan) and Mr. U Chu Liang, a leader among Taechiw Chinese in Thailand who had many anti-Japanese activities during the war. The Singkhon Bank (later to become the Bangkok Metropolitan Bank) opened in August 1950 with Mr. Kiarti Srifuengfung as managing director.

However, he was just an employee. So he decided to start an insurance company, Thai Metropole Insurance Co. with not only Mr. Udane Techapaibun and Mr. U Chu Liang as shareholders, but also Maj.-Gen. Pramam Adireksan, Phraya Donavanikmontri (former Finance minister) and Phraya Chindarak (former Interior minister). In 1953, Kiarti set up the E.T.B. Insurance Co. Ltd., with the same Maj.-Gen. Pramam Adireksan, son-in-law of Marshall Pin Choonhavan, one of the strongmen at that time. In 1954, the two friends entered the field of industry by setting up the Thai Textile Industry Co., then Thai Teijin Co., a joint venture with a Japanese company. This friendship was probably useful when Maj.-Gen. Pramam was Communications Minister, Industry Minister (twice) and deputy Prime Minister.

In the fifties, Kiarti opened a movie house in Chinatown and planned a chain of cinemas all over Southeast Asia. When his partner from Singapore accidentally died, he decided to give up.

During the same period, Mr. Kiarti liked to go with his family to Pattaya Beach. There he often noticed that the sand seemed to be of good quality. The idea came that with that sand he could produce glass. So he took samples of sand from Pattaya and Rayong to be tested. That was the beginning of his most successful business and of his partnership with Asahi Glass Co. of Japan. Thus twenty years later his enemies had become his best friends. A 50-50% joint venture with 12 million baht registered capital was set up and production started in November 1965. Three other plants were opened in 1971, 1976 and 1983. But in 1990, Japanese partners held only 39.6% of the shares of Thai-Asahi Glass Co. Ltd. while Mr. Kiarti held personally 11.47% of it, there being 6,369 shareholders in all. The group had 88% of the glass market in Thailand.

Mr. Kiarti could also use his Chinese relations. His Metropole Travel Service Co. was the first agent in Thailand for China Air Travel. It organized tours in Taiwan for Thai Chinese.

When it was permitted, Mr. Kiarti tried to work with communist China. In September 1987 he established - with an American partner - China's first float glass company, the Guangdong Float Glass Co. Ltd. in Shekou Special Economic Zone. He was supported by Major-Gen. Chartichai

Choonhavan, Deputy Prime Minister, president of the Thai-Chinese Friendship Association and brother-in-law of Mr. Kiarti's friend and partner, Maj.-Gen. Pramarn Adireksan. According to his son, Mr. Kiarti built this plant in China because when he was a child, his father and grandfather raised him up to be patriotic about China. This 100 million dollar plant was the largest private investment in China at that time.

In the middle of the 1970's, Mr. Kiarti Srifuengfung sold his shares in the Bangkok Metropolitan Bank. However, he diversified his other investments. From his war-time connections in Texas he forged several joint-venture such as Good year (Thailand), Thai Diamond Shamrock Co. Ltd. and Thai Occidental Chemical Co. Ltd. Lately, he has invested in real estate with Kiarti Thani Golf and Country Club, Kiarti Thani City Mansion, and Pattaya Real Estate, (Japanese Sakata group).

Mr. Kiarti's secret, as told several times in his biography, is to be "honest and sincere and not to take advantage of his friends". On the other hand, Mr. Kiarti does not hesitate to tell that he does not like opposition and wants to have things his way. In the movies he prefers the role of the godfather. He has been associated with the Soi Rachakhru clique for a long time, but never allowed members of his family to play politics.

Mr. Kiarti likes to tell how he could buy from Prince Chakraponse a 2.4 million baht building in Rajawongse Road with a \$100 Parker pen. With this gift (to someone he knew to be a writer) it was agreed that he would have to pay 2.2 million baht in 10 years with annual installments of 220,000 baht without any interest. As he himself collected a yearly rental income of 400,000 baht from other companies, he had every year a 180,000 bonus and free use of the building for his own companies.

Mr. Kiarti and Mrs. Janie, a Chinese from Shang Hai, have three sons and three daughters (a son married a Karnasut, and a daughter a Sophonpanich). All of them had to work for the family businesses, which may be a problem in the future. Mr. Kiarti's eldest son and heir-to-be finds only one thing to say to conclude a contribution to his father's biography: "I can never compare to my Father" (with a capital letter as for a King or a God(father)).

2. Some Considerations Suggested by these Cases and a Few Other Ones

Few start very poor. Their big challenge was to change the family line of business. Many fathers and grandfathers were in lumbering, tin mining and rice-milling. Usually a family member continues to manage these businesses, but the founder of the new prosperity tried other fields (banking, import-export, manufacturing, etc.).

Leading fields change with the development of the economy, international relations and new opportunities given by scientific and technological progress. A book on millionaires (*setthi*) published in 1963 mentioned only Phraya Phiomphakdi (Boonrod Brewery), Phraya Phakdinoraset (urban mass transportation), Mr. Sahat Mahakhun (whisky), Mr. Prayong Tangtrongchit (drugs) and Prince Suphasawatwongsanit Sawatdiwat (land, gardens). The seventies were the decade of the bankers and the contractors. Besides, the eighties were more the decade of the real estate developers and agro-

businessmen. If Mr. Chin Sophonpanich, Mr. Udane Techapaibul and Mr. Bancha Lamsam were regarded as the richest persons in Thailand in the seventies, now we are told that the richest are the Kanchanapas and the Chiaravanont families.

These Chinese businessmen are very mobile, professionally speaking. If the largest part of the Thai are born as farmers' children and die as farmers, Chinese change profession a number of times during their life. They are sons of rice-millers, gardeners, miners, or shopkeepers; they started as shopkeepers, had the opportunity to be bankers, then industrialists and spend today most of their time working in the real estate business. Their sons sell computers or cable TV. One field, a single line of business, is never enough. M. Kiarti Srifuengfung's father was a rice trader and a rice-miller; he became first a banker, then an insurer, a travel agent, an importer, a movie producer, an industrialist, and now a developer.

However, these businessmen (or entrepreneurs) are also very mobile geographically. Many from the older generation were probably born in China, even when their father lived in Thailand, because it seems it was a common practice for wives to go back to the ancestral village in China to give birth. On the other hand, many well-to-do Chinese from Thailand had at least two wives, one of them living in China. Their China-born sons joined them in Thailand when they were 10 or 12. Even those born in Thailand traveled quite frequently. Mr. Kiarti Srifuengfung, the "boy from Suphanburi," left that Thai province at 12 to go to Chinese schools in Bangkok, then he went to Canton in China, then to Hong Kong, then he was sent to Texas, he came back to Kunming in China, and returned to Bangkok when about 30 years old. As a businessman he had also many opportunities for travels when he organized tours to Taiwan or engaged in joint ventures with companies in Singapore, Japan or the USA. Some cremation or commemorative books published in honour of Thai-Chinese businessmen look like travel catalogues. Mr. Thaworn Phomprapha from Siam Motors traveled around the world. Photographies published in a commemorative book for his 60th anniversary show him in at least 22 countries in four continents. As businessmen they quickly developed international visions. Mr. Thiam Chokwathana established a regional commercial network when he sent his brother to Hong Kong and his brother-in-law to Japan. The Kanchanapas family used to have more businesses in Hong Kong or Singapore than in Thailand. Quite often they have wives, sons or brothers as citizens of another country (eg. Hong Kong or Singapore).

They have large families. The first generations, in particular, (for the present generation rumors of "minor wives" are not easy to verify) had many wives and children. Three wives seem to be the rule, one of them in China. Mr. Thaworn Pomprapha's third wife is a Japanese. When you have several wives you have generally quite a number of children. Mr. Thien Sieng Karnasuta, who set up the Karnasuta Corporation in 1955, had 24 children, 11 of whom were sons. Mr. Tiang Chirathiwat had 26 children by three wives, while Mr. Thaworn Pomprapha's wives gave him only 13 children. Mr. Chin Sophonpanich had seven children by two wives, Mr. Chok Wathana had eight children by his only wife, and Mr. Siang Chinawat 12 by his. All three of them had six sons. Sons are of course important. Dr. Chaiyut Kannasut had five children but only two sons; it was a tragedy when the heir-to-be died in a traffic accident in 1979. Occasionally a daughter may have the strongest personality among the children and be the true heir: see Khunying Phornthip (Pomprapha) Narongdet and Khunying Chachani (Lamsam) Chatikavanit.

Large families present the risk of family rows. Not all 24 or 26 children can be close enough to remain united when a major crisis breaks. There is quite often rumors of disputes and internal conflicts in business families such as the Chirathivat or the Sophonpanich. More seriously, the Nandhabiwat lost control of the Laem Thong Bank a few years ago because of a long-lasting family row. Marriage which introduces strangers into a family may be at the origin of conflicts so the selection of the spouses is essential.

Too large families are also an obstacle to internal promotion in a big company since executives who are not members of the family will never occupy the top positions always reserved for sons, daughters, sons-in-law, etc.

Ethnic community cooperation may be important among first generations. When a Sikh tried to take over a Chinese bank the bankers opposed the move. However, they failed and the Nandhabiwat family had to give up control of the Laem Thong Bank. On the other hand, members of large and powerful clans, such as Tang (84,829 persons in Thailand), Lim (74,719 persons), Li (49,291 persons) or Ung (44,291 persons), have real advantages when they need help. Mr. Udane Techapaibul of the Bangkok Metropolitan Bank is president of the Association of the Tae Clansmen. When Mr. Kiarti Srifuengfung had to contact Luang Thamrong Nawasawat in 1946 to ask for a license to open a bank, he knew he and the minister were from the same clan (Tae) and the same village. He got all that he asked for and this was probably the most decisive victory in his successful life.

The first generations were probably more interested in Chinese than in Thai politics. They had little formal education and often could not speak fluent Thai and were too busy building their groups of companies. Besides, during ultra-nationalistic periods, a Chinese trader or businessman - although a Thai national - could not openly be active in politics. Second and third generations seem much more interested. Mr. Phaisan Nandhabiwat joined the Social Action Party of M.R. Kukrit Pramoj in 1974. Mr. Suthikiart Chirathivat is close to the Thai Citizen Party of Mr. Samark Suntharavej and Mr. Thaksin Chinawat may be a candidate in next legislative elections. Mr. Akon Hoontrakun from the Imperial group was elected Bangkok MP in the September 1992 poll. The largest part of the National Assembly consists already of businessmen, but they generally manage only middle-level companies in the provinces.

Conclusion

Everybody who has been in Thailand for a few years can tell the various psychological traits that characterize a Chinese compared to a Thai. They cannot explain everything but give a frame and help to understand how things are possible. For instance Chinese children like to talk and express themselves, they dare to oppose their parents and their teachers. At home, speaking loudly is encouraged as a value. On the contrary, Thai children have been taught to be *riap roi* (quiet and respectful), they are not supposed to ask questions or talk much at home and should never interrupt grown-ups or their elders. Thais may develop secondary and introverted personalities while Chinese are more likely to become extrovert. The entrepreneur must be a risk taker (*kla siang*) according to the *Entrepreneur Handbook* published in 1986 by Thammasat University and *Thansetthakit*; he must first venture to speak his mind.

Both Thais and Chinese have some sense of family, but while Chinese work hard for their children and grandchildren, Thais seem to work to be able to take care of their parents and their young brothers and sisters. Chinese look at the future and try to anticipate and improve it while Thais time may seem more cyclic, Thai people just hope their children will do the same they do now for their parents and will take care of them when they become too old to earn a living.

Of course, Thai people like to sing, dance and enjoy themselves while Chinese are said to think only of working. That is the traditional view. But change may be occurring as the fast development of Karaoke clubs seems to indicate. Formerly, the businessman who had really made it had his own golf-course built (usually near the seaside just, like a Chinese cemetery). Dying while playing golf in Pattaya, as happened to Mr. Phaisan Nandhabiwat in 1975, may have been the sign of a successful life. New Chinese generations may not be willing to wait so late before enjoying themselves.

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From Gonsi to Business Corporatism: Socio-cultural and Political Conditions of Ethnic Chinese Big Business Families' Success

Supang Chantavanich

Since the Eighteenth Century, the Chinese junk trade between Siam and the South China Sea (Nanyang) has given the ethnic Chinese businessmen a source of wealth and economic power. The Chaozhou (Teochiu) Chinese who constituted the biggest dialect group became big business families in the Pre- and Post-Second World War periods. In this article, the author will discuss the conditions of the Chaozhou migration into Thailand, present the life history of five Chaozhou families in Thailand and finally, attempt to explain how they became big business corporations¹.

1. Migration and Integration of the Chaozhou Chinese into Thai Society

The Chaozhou represent the largest group of Chinese settlers who came to Thailand in the second half of the Eighteenth Century. The Chaozhou resided in Chaozhou, an area which comprises of nine districts covering the delta of the Han River in the Guangdong Province. The area is located next to Fujian Province (Chantavanich, 1991)

Due to geographic conditions, the Chaozhou people became experts in the fishing and junk trades. However, natural disasters which occurred every year and brought about famine, floods and epidemics forced the Chaozhou people to seek for shelter in other countries. Consequently, they decided to embarked onto their red-head junks and sailed southwards (Zhang Inqui, 1992). Chang Lin Port in the Chenghai District was the centre of trade and migration between 1767 to 1850. It was calculated that 80 percent of the Chaozhou people in this area had decided to migrate despite the fact that the Ching kings initially forbade them to do so. Later, when the Royal Court learned that Thailand possessed an abundant supply of rice and other consuming goods which were rare in China due to natural disasters, they changed their policy to one which gave more support to the junk trade. An illustration of this new favourable approach by the Chinese Court was the 1772 announcement of

1- The data in this paper is derived from the research project "Sino-Thai Businessmen in Thailand: Case Studies of Five Families", Institute of Asian Studies, Chulalongkorn University. The author would like to thank Mr. Ukrit Patamanond, Mr. Vorasak Mahatonobon and Ms. Suchada Tamsurarik who conducted the research on the Techaphaiboon, Sophonphanit, and Chiarawanon families respectively. Thanks are also extended to Ms. Pornphan Terrutgissakul who kindly compiled information for the end notes.

rewards to Chinese junk traders who were able to bring Siamese rice to China (Xu Zhaolin, 1992). Subsequently, the relationship between Chaozhou and Siam was strengthened which in turn encouraged further migrations in the Nineteenth and early Twentieth Centuries.

In the Bangkok Period, there had been a shortage of manpower for the production of agricultural commodities, especially in exports following the Bowring Treaty in 1855. The Chaozhou arrival in Thailand at that time conveniently reinforced the labour force. Moreover, the Chaozhou people brought with them their expertise and technologies in sugar cane and pepper plantation productions as well as in the fishing trade. They were also skillful junk builders (Walvipha Bhururattanaphan, 1992).

The male Chaozhou migrants usually wedded Thai women after their settlement. In the Thonburi Period, the Chaozhou were privileged and recognized as the "Royal Chinese" partly because they had the same origins as King Taksin's ancestors and partly because they contributed significantly to the affairs of the Thai Court (Duan Liseng, 1992).

The major Thai towns in which the Chaozhou resided were Bangkok, Chonburi, Chachoengsao, and Chanthaburi. In Bangkok, the site of their early settlement is the present location of the Royal Palace. After the establishment of the Royal Palace, they moved to Sampeng or the Bangkok China Town (Sawitree Dabhasuta, 1984). They also lived on houseboats along both sides of the Chao Phraya River. Those who were involved in the rice trade had their mansions and warehouses on the west bank of the river (Supang Chantavanich, 1992).

The Chaozhou Chinese in Thailand represented a productive force and thus evolved as the new middle class in Thai society. They played a very significant role in the rice trade in the South China Sea region and later in this area's financial business.

2. Life History of Five Chaozhou Families

Case studies of some prestigious Chaozhou families can illustrate how the Chaozhou managed to become businessmen and took control over most of the economic activities in Thai society. All the five families under study came from the Shantou area in Guangdong Province, they are:

The Wang-lee or Chen family from Chenghai District The Sophonphanit or Chen family from Chaoyang District The Techaphaiboon or Zheng family from Chaoyang District. The Srifuengfung or Zheng family from Fongsun District The Chiarawanon or Xie family from Chenghai District

2.1 Wang-lee (Chen family)²

The Wang-lee family is a classic example of a five generation Chaozhou family in Thailand. The first generation came from Chenghai to Thailand in 1851, got married to a Thai woman and started the rice trade which expanded in the second generation to cover Thailand, Singapore, Saigon, Hong Kong and Shantou. The second generation also started the financial trade business through the

2- Data on Wang-lee family are from interviews with Mr. Suvit Ang-Lee and Mr. Vuthichai Wang-lee in 1988 and 1990 respectively; and from field investigations in Chenghai, Shantou in 1987 and 1989 and at the Wanglee Mansion at Thonburi, Thailand, in 1988.

establishment of the Wang-lee Bank and the Insurance Company. The financial trade business proved to be so successful that by the time of the fourth generation, Chen Shou Ming, the leader, was elected as the President of the Chinese Chamber of Commerce. Unfortunately, due to political conflicts in 1945 among anti-Japanese Nationalist Chinese traders and other Chinese traders, Chen Shou Ming was assassinated at the age of 42. Chen Shou Ming had been married to his cousin (the daughter of his aunt, a Wang-lee lady who had married a Lumsum man). His brother Chen Shou Zhen took care of all business after his death because his children were too young. At present, the children of both Chen Shou Ming and Chen Shou Zhen, the fifth generation, are in control of the Wang-lee family business in Thailand. Their business still lies in the agro-business of cash crops, banking and insurance and real estate. Members of the fifth generation have maintained progress and stability within the family's enterprises. The success of their family business has been explained by the following factors: the adequate supply of human resources, the possession of investment capital, the maintenance of the family integrity and honesty, and the adoption of a conservative business attitude (i.e., the principle of safety, stability, and security). Two more members of the fifth generation of the Wang-lee family have married ladies from the Lumsum family.

2.2 Sophonphanit (Chen family)³

This family is well-known as a big banking family in Thailand. The ancestors of the family came from Henan and Fujian Provinces respectively. They came to Chaoyang to resume the position of the head of Chaoyang District in the late Seventeenth Century and stayed there for twenty generations. Chin Sophonphanit or Chen Bi Chen is the most prominent member of the family. His father came to Thailand in the early Twentieth Century, due to poverty in Chaozhou, but then returned to China in 1930 after having worked as a clerk in a wood factory for a short while. Chin was born in Thailand from a Chinese mother but grew up in China. He returned to Thailand in 1926 and like his father worked as a labourer in a wood factory. However, he fought his way up until he became the owner of the wood company. After the end of the Second World War, Chin got the opportunity to establish a local bank in Thailand which he based on the modern Western Bank model. In addition, he was one of the founders of the Bangkok Bank which was established in 1944. Further more, as a result of his significant role as the comprador during the Second World War, he was appointed as the General Manager of the Bank in 1952. Chin also became involved in the gold trade after the War. The gold speculation was very profitable and made it possible for him to launch into new investment projects. Like many overseas Chinese in the region, Chin took advantage of the post-War opportunity to become one of the region's leading import-export traders following the arrests and departure of the Europeans traders. This was the genesis of his wealth (Pannee Bualek, 1985). Chin ran the bank successfully until 1958, when as a result of political conflicts among Thai leaders, he was forced to leave for Hong Kong for five years. On his return in 1964, the Bangkok Bank's capabilities became fully operational again. Since Chin's death in 1988, his children who are the third generation have

3- Data on Sophonphanit family are from the cremation volume of Hin Sophonphanit in April, 1988; interview with Khunying Kalaya Sophonphanit in 1990; and field investigation in Chaoyang in 1987 and 1989.

continued the family business. The Sophonphanit family business now lies in finance, insurance and banking as well as other enterprises like commodity trade, import-export, textile, etc.

The Sophonphanit' success can be explained by the calibre of Chin's work. The glory of Chin's business is based on the Chaozhou qualities of perseverance, hard work, care for friends and customers, wisdom, vision, good team work and the ability to take risks. The Sophonphanit family had also learned from its own lesson that personal linkages with political power is a condition for its success. As a Buddhist whose two sons are Christians, Chin was not so influenced by Confucianism like most Chinese. However, Chin's second wife, a well-educated lady, preserved the Chaozhouness in the family. All the children were given Chinese names and were taught to speak and write in Chinese. Chin himself always spoke to his children in the Chaozhou dialect.

2.3 Techaphaiboon (Zheng family)⁴

The Techaphaiboon family originated from Chaoyang. The first generation arrived in Thailand and opened a pawn shop and a public house. The head of the family, Zheng Zi Bin participated in the establishment of the Chaozhou Association and the Hua Kiaw Poh Tek Tung Association which provided social security and welfare to overseas Chinese in Thailand. With a liberal and patriotic ideology, Zheng Zi Bin supported the KMT movement in China and thus remained an enemy of the Japanese troop in Thailand until his death in 1944. Uthen Techaphaiboon or Zhen Wu Lou was the second generation leader. He was born in Thailand and went to Chinese and Jesuit schools in Bangkok. Uthen was also anti-Japanese during the Second World War. He set up an insurance company as well as an import-export and remittance business. After the War, he established a company with his friends to trade medical and chemical products which at the time were in great demand. The business was successful. He continued his father's pawn shop and the Mae Khong distilleries. In 1950, he founded the Sri Nakorn Bank with two other friends. The bank was essentially a Chaozhou investment and no politicians were involved. Later, Uthen learned the way to exploit political power and its monopoly on the factory and the real estate business.

The Techaphaiboon's significance lies in its attachment to the Chaozhou community and their homeland. Uthen has always been the President of the Hua Kiaw Poh Teck Tung Association which later became a Foundation. The Foundation is known among both Chinese and Thai people as a charity-based organization. Although the Techaphaiboon business is not as big as other overseas Chinese's enterprises, its integrity and influence over the Chaozhou is highly recognized. The family has contributed in the rebuilding of a primary and secondary school, the construction of a concrete road and the development of a water network system in the family's hometown in Chiashan subdistrict. At the gate of their home in Chiashan, they wrote down two words: Hai Han (which means: our generosity is endless like the water in the ocean). At present, the Techaphaiboon family is undergoing a difficult transitional phase, changing from the old-fashioned management structure into a modern administrative unit which involves the family's third generation members in the Thai parliamentary system.

4- Most data are from Uthen Techaphaibun's Biography and from an interview with him in 1991. Field investigations were also conducted in Chaoyang in 1987 and 1989.

The family's prestige and recognition is based on Uthen's close links with the charity based foundation. However, the Techaphaiboon family business has to a certain extent been limited by the inadequate adjustment to modern management techniques, the over-dependency on political patronage, and the lack of diversification in economic investment.

2.4 Srifuengfung (Zheng family)⁵

The ancestors of the Srifuengfung family migrated to Thailand and settled down in Suphanburi Province in early Twentieth Century. The family head came from Feng-sun District in Chaozhou. He started as a small trader but then progressed into a successful rice trader. His son, Phuyai Jui or Zheng Jinsui was married to a Thai-Mon woman and became a village headman in Suphanburi. He was also the head of the anti-Japanese group among the Overseas Chinese in the central part of Thailand. Consequently, during the Japanese occupation, he had to flee to Vietnam. The two sons, Kiarti Srifuengfung or Zheng Ming Jie and Boonsong Srifuengfung or Zheng Ming Ru of the third generation, became the leaders of the family. They invested in banking, insurance, goods transportation, and import-export. The Srifuengfung family is well-connected to the Chart Thai political party and certain political leaders. What makes the Srifuengfung well-known and recognized is its involvement with transnational companies in the glass and chemical industries. The Srifuengfung family owns the Thai-Asahi glass Company and the Thai Plastic and Chemical Products Company. The family has a joint venture with the PPG Industry from the U.S. It also has a banking and financial business. The Srifuengfung's success is the result of its well-to-do economic and social background at the beginning, its talented ability in running the business with emphasis on the adoption of new technology, its well-balanced and diversified enterprises which complement each other, and its wisdom to cooperate with Thai politicians.

Kiat Srifuengfung passed away in 1992. He was a member and an honorary consultant of the Association of Thai Industries. Boonsong, his younger brother is the present President of the Thai-Chinese Chamber of Commerce.

The Srifuengfung family is closely related to the Phanitchiva family and there have been at least two marriages between members of the two families.

2.5 Chiarawanon (Xie family)⁶

The two brothers of the family Xie in Chenghai were farmers who sold vegetable seeds. The elder brother Xie I-chu came to Thailand in 1922 and opened a shop to sell vegetable seeds and grains called Chai-Tai or Zheng Da. The younger brother, Xie Shao-Hui also opened a shop in Shantou. The two brother produced high quality seeds through research and development in Chenghai. Their business expanded when their children had grown up and joined the Company after the Second World War. They set up an animal food factory which specialised in the production of fertilizer and the raising of

5- Arunee Sopotpongstorn (1991). Data are also from interview with Mr. Boonsong Srifuengfung in 1989 and with Arunee Sopotpongstorn in 1990.

6- Suchada Tamsurarirk: Chiarawanon family, interview.

chickens and pigs for local consumption as well as for export. The business is now known as CP Group or Zheng Da among Chinese people. In 1971, an American transnational company decided to join the family's chicken industry by introducing new technology. The business expanded to Singapore, Taiwan, Hong Kong and China. During the second generation, the Chiarawanon family became very successful. Their business expanded to carpet, motorcade, plastic and other industries in the Special Economic Zones in China. The decision to move the venture into the newly established agro-industry business has given the CP Group a unique position where there has been little competition. Also, the emphasis on the use of new technology, research and development as well as on human resource development combining with the family leased management were another key factors contribution to their success.

It is evident that the Chiarawanon family has been very attached to their homeland and to the Chinese traditional values as reflected in their way of life and their business conduct. The Taoist philosophy which emphasizes the value of nature and the Confucianist beliefs in the accountability towards subordinates are the principles of the CP Group. Attachment to kinship and the motherland in China can be seen in their contribution in cash and in kind to their homeland in Chenghai as well as in their business expansion in several Special Economic Zones in China. Thanin Chiarawanon, the most prominent member of the family at present is the Vice President of the Thai- Chinese Association. He is the first Thai businessman to receive an Honorary Doctoral Degree from the Beijing University of Agriculture in 1992.

3. Cultural Factors Contributing to Economic Success

The life history of the five families reveals a lot about cultural influence in ethnic Chinese's business management. Evidently, these Chaozhou traders used their dialect group as their original trade network. Then they expanded their business to other dialect groups in Thailand. They also have their Chaozhou network in Hong Kong, Singapore, Vietnam and China. Most of these families recognise the importance of maintaining the Chaozhou identity. Chin Sophonphanit used to play cards with his business friends in China town. He always spoke Chaozhou to his family. Uthen Techaphaiboon always adhered to both the Chaozhou Association in Thailand and the Hua Kiaw Poh Teck Tung Foundation both of which are predominantly Chaozhou in origin and composition. Boonsong Srifeungfung is now the President of the Thai-Chinese Chamber of Commerce, a position which has always been reserved to a prestigious Chaozhou businessman. Only the Wang-lee family set itself apart from the Chaozhou network and became more assimilated into Thai culture.

Included in the Chaozhou qualities are skills in sailing, trading and the risk-taking and hard working characteristics. Most of the five families are engaged in the import-export of agricultural products, a business which requires low technology but high risk, relatively relevant to the Chaozhou expertise and character. Only the Chiarawanon and Srifeungfung families have launched into the more complex technological business, (i.e., in chemical and genetic engineering), but this is only a recent phenomenon.

Marriages among certain Chaozhou or Chinese families has occurred quite often. The Wang-lee is related to the Lumsum, which has a Hakka origin. Members of the Srifeungfung have married

members of the Panitcheva. Likewise, there have been marriages between the Sophonphanit and the Srfuengfung families. The practice of endogamy ensures stability and ramification within the family business. Occasionally, members of Chinese business families have married the children of military heads and political leaders. However, in most cases, these marriages have taken place among the third generation. In addition to intermarriages, the family business has also been strengthened by family management. All the five families place their children into the key positions in business. Some families like the Wang-lee, Sophonphanit and Srfuengfung prepared their children vigorously for future administrative posts, in order to produce skillful young executives who would be ready to take over from their predecessors. However, professional employees have also been employed to ensure modernization and progress.

Like most Chinese, the Chaozhou's inheritance pattern lies heavily on the oldest or the second sons (in case the oldest son is not available) to continue the family business. One unique pattern was found in the Wang-lee, Sophonphanit, and Chiarawanon families, namely, that the second son succeeded the family business. The patrilineal system is also extended to the practice of Gong-si, i.e. the family expense is to be taken care of by the family budget and all members are expected to contribute to the family business. However, the Kong-si tradition has lost its strong influence due to the adoption of modern business management and family members' marriages to Thai wives who do not like the Chinese tradition and prefer to manage separately their own economic and social family lives.

In late 1970s, there were 65 family group holding assets worth from 33 million to 6 billion US\$ in Thailand⁷. This statistic indicates the level of local business dominance by large family corporations. Not unexpectedly, most of these families had Sino-Thai origin.

4. Institutional Contexts of Family Business

For more than 200 years, the Chinese entrepreneurs in Thailand have learned to integrate themselves with the center of political power. In the past, most Chaozhou traders had been given royal titles and had assimilated into the Siamese Court. After the Second World War, Chaozhou businessmen became the clients of political leaders. In the cases of Sophonphanit, Techapaiboon and Srfuengfung, this fact is very well illustrated. Chin and Chatri Sophonphanit, Uthen Techapaiboon and Kiat and Boonsong Srfuengfung cooperated or approached political leaders, royal household members, and military heads, in particular, as their main patrons. The Wang-lee seems to have been less influenced by clientelism while Chiarawanon is paving to obtain patronage within Thai society.

Clientelism, as a functional condition for survival and maintenance of business worked when the Thai bureaucratic policy was powerful. The alliance of ethnic Chinese business and the military finally strengthened the former in their economic and political power. The growing number of local businesses owned by Sino-Thai entrepreneurs gave rise to business associations and other kinds of alliance among businessmen. The Association of Thai Bankers, the Thai Industry Council and other

7- Krikkiat Phipatseritham and Yoshihara Kunio (1982). See also Suehiro Akira (1989).

forms of business coalitions are examples of recent developments in business corporation (Anek Laothamatas, 1992). These business associations started to have some roles in the political arena.

Most leading figures from the five families are members of the main associations like Thai Bankers Association (TBA), Association of Thai Industries (ATI) and Federation of Thai Industries (FTI).

Foreign investment in the form of joint-ventures and multinational corporations is another kind of business alignment which Sino-Thai entrepreneurs are seeking for. Surprisingly, although some families continue to have bad memories of and have been threatened by the Japanese occupation in Thailand during the Second World War, they are now cooperating with Japanese businessmen in many joint-venture projects. The expansion of the multinational corporations enhanced these entrepreneurs into becoming more established. Finally, the Thai public has to recognise the role of the private sector which mainly comprises of Sino-Thai businessmen. The Joint Public and Private Sector Consultative Committee (JPPCC) was founded in 1981 as the banner of the leading business associations especially the TBA, ATI and the Thai Chamber of Commerce (TCC). The JPPCC has become the linking agency between the government and the businessmen and assisted the government in several economic crises. Thus, Sino-Thai businessmen have institutionalized themselves successfully into Thai economic and political development.

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Thap Thieng and the Wider World: Six Decades of Entrepreneurship and Economic Change in Trang Town

Michael J. Montesano¹

Introduction

On Sunday morning, 3 January 1993, a group of Thai laborers and their foremen arrived at Saha Trang Withaya School on the Huey Yod Road in Thap Thieng sub-district, Trang City district. In one corner of the football field that had, until that day, occupied the road-side half of the school's eleven-and-a-half-rai property (0,08 hectare), part of the group set speedily to work on two-by-fours, plywood, and roof-tiles. Within four or five hours they had nearly completed a structure intended, unmistakably, to serve as the on-site office for a long-term construction project. At the same time, the remainder of their group had begun surveying the football field and setting down markers to divide it into smaller parcels.

As all this work progressed, cars and motorcycles continued to move by along the Huey Yod Road, some heading out past the Teck Bee Hang rubber factory as far as Khlong Teng or even across the range of hills that formed the natural border between Trang and Huey Yod. Others moved toward the center of Trang town, as if drawn by some sort of commercial gravity to the coffee shops and retail stores crowded along lower Ratchadamnern Road and the various streets radiating out from the Thap Thieng market, officially Trang's food market. Whether because of the wall separating Saha Trang Withaya from the road or because of their determination to enjoy the remaining hours of the four-day New Year's holiday to the fullest, these vehicles' passengers seemed oblivious to the changes that the morning had set into motion.

But such oblivion was in large part illusory. The same forces that had led those laborers to that site on this morning also confronted each farmer, merchant, and civil servant, street vendor, accountant, and insurance agent, student and factory worker in Trang every day. They marked a particular, sharply defined, but doubtless impermanent crystallization in the patterns and processes that have defined the economic history of Thap Thieng in the last century or so. What follows is a crude outline of the main contours of that history and a preliminary analysis of its salient structural

1- The author gratefully acknowledges the financial support of the Fulbright-Hayes Doctoral Dissertation Abroad program of the United States Department of Education, Washington, and the sponsorship and facilities of the Chulalongkorn University Social Research Institute, Bangkok.

characteristics in the period dating roughly from the end of the absolute monarchy in Siam. Focus falls on the position and activity of local commercial elites which, both in the continuity they have displayed and in the change they have fostered and accommodated, have never failed to exhibit those characteristics commonly associated with the entrepreneur.

Unless otherwise noted, the historical data presented in the pages that follow come from detailed interviews with some forty informants² The author chose these informants on the basis of their own or their families' prominent roles in Thap Thieng commerce at some point in or throughout the period under study, for their positions in Trang's thriving complex of voluntary organizations, or for their reputations as well informed and skilled conversationalists. With the exception of three or four interviews conducted in Bangkok and during a five-day visit to Trang in August 1992, these interviews took place during the author's extended stay in Trang between November 1992 and January 1993³.

In approaching schematically commercial developments in a mid-sized Southeast Asian town, the analysis that follows can benefit from reference to a similar, earlier effort, undertaken in the Indonesian context. Some three decades ago, the anthropologist Clifford Geertz energetically set out to understand the historical and prospective relationship between social and economic change in a Javanese town that he called Modjokuto (Geertz, 1963a, 1963b, 1965⁴).

Above all, Geertz sought to determine the place of local entrepreneurs in laying the foundations for a now rather quaint- sounding Rostovian "take-off" or "transition from stagnancy to sustained growth" (Geertz, 1963, p.1). Describing Indonesia in the late 1950s as "well into that no man's land of transition which lies between a peasant society past and an industrial society future," (ibid. p.140) Geertz wrote that "progress toward more effective patterns of economic activity" in places like Modjokuto depended on "movement ... away from a bazaar-type economy toward a firm-type economy" (ibid. p.29). Entrepreneurs therefore faced no problem greater than the "organizational one" (Ibid., pp. 28 & 74) of establishing and managing firms, both commercial and industrial, which efficiently combined available resources in response to the demands of the market (Ibid., pp. 28 & 140).

Among the Modjokuto merchants to have made promising starts along this path, Geertz identified a number of common characteristics. First, long-standing patterns of supra-village trade constituted the basis for the activities of members of this group, though newer distribution arrangements with firms based in large cities often also played an important role (Ibid., pp. 74, 148, 58). Second, while they might be in business on their own, the entrepreneurs displayed common membership in a proudly "solidary and self- conscious group" (Ibid., pp. 140-141, 147, 150). Third, recent changes in values and tastes in the broader society made possible the sorts of commercial

2- Exceptions to this generalization are three or four instances in the pages which follow in which the author's conclusions reflect his scrutiny of several thousand pages of the files on locally registered limited corporations and limited partnerships maintained by the Trang Provincial Commercial Office.

3- The author anticipates citing his informants by name in future, less tentative and schematic treatments of the commercial and economic history of Trang since 1932.

4- Though these three volumes share many of the same concerns, it is in the second that Geertz addresses himself most directly to understanding the role of entrepreneurs in economic change in the period since the years after the First World War.

activities that they undertook (Ibid., pp. 75-76); increasing numbers of Javanese, including many outside of the entrepreneurial group, were becoming consumers, even in rural areas.

Generalizations drawn from the inflation-torn, socially tense Indonesia of the 1950s may hold little apparent relevance for the booming, tentatively democratic Thailand of the 1990s. Certainly, the Thai economy has, in the last decade, "taken off" into rapid growth. And little room remains for doubt that the country's entrepreneurial elements have worked out stunningly effective solutions to the "organizational problem" identified by Geertz in Modjokuto (Mac Vey, 1992, pp. 7-34)⁵. At the same time, however, neither the historical experiences of other countries nor current uncertainties over such issues as human capital formation and technological dependence leave the contemporary observer much choice besides placing Thailand in that Geertzian "no man's land" between a predominantly agricultural economy and some other kind. Further, little scholarship on entrepreneurs in Thailand reflects the scholarly attention to the historical environment of or setting for entrepreneurship characteristic of Geertz's work, especially at the sub-national level. And yet it is precisely at that level that individual cases display sufficient variance to inform a rigorous conceptualization of the role of entrepreneurship in the Thai economy, past, present, and future.

1. Commerce in Thap Thieng before the Fall of Singapore

The consequences of King Vachiravudh's visit to various of the monthon (region) of southern Siam in 1916 included his approval of the transfer of Trang from modern Kantang to Thap Thieng, in what was then Bang Rak District⁶. At a point in that district directly up the Trang river from the city was a site locally known as Tha Chin, or "Chinese landing." For a period stretching back at least to the first half of the nineteenth century, Tha Chin had served as point of debarkation for a steady stream of new immigrants to the area. Predominantly Hokkien, but including Cantonese, Hakka, and a number of Hainanese, these settlers arrived in Siam by way of Malaya⁷. Most often, they had come from Penang to Trang by sea before traveling up-river. From Tha Chin, they spread out to settle in such nearby locales on the east side of the Trang river as Nam Phut, Thai Phru, Na Taluang, and Thap Thieng.

5- Mac Vey gives an elegant theoretical treatment of this issue. See also Suehiro Akio (1989), for an exhaustive empirical one.

6- Prawatisat mahathai suan phumiphak (Trang: Samnakngan changwat, 1985), p. 57.

7- Hokkien were the most heavily represented speech-group among Chinese arriving in the Straits Settlements through at least the time of the First World War. And, above all to about 1890, onward migration from Malaya to southern Siam proceeded at a significant rate. Skinner specifically notes Trang among the destinations for such migrants. Cf. G. William Skinner, (1957), p. 51. In designating Chinese speech-groups, the author has opted for the familiar Hokkien, Cantonese, Hainanese, Hakka, and Teochiu. The first of these terms remains both current and particularly evocative in the English-language literature on Southeast Asia. But the events of the last half-decade in the coastal provinces of South China mean that one does well to consider the change in perspective that might result from the replacement of Hokkien with Fujienese. As for the fifth term, it is doubtful that many readers would recognize the pin-yin Chaozhou. And the author uses Teochiu rather than Teochew, the spelling most common in Malaysia, both in deference to Skinner and in the belief that it is orthographically preferable.

The years after 1910 had seen the completion of the ninety- three-kilometer-long Thung Song-Trang spur of the southern line of the Siamese State Railway and the construction of a station at Thap Thieng, twenty-one kilometers short of the terminus of the spur at Trang City. Roads from that Trang, from Phatthalung, and from Nakhon Sri Thammarat and Suratthani met there, in what a contemporary observer described as "the most important place on the Trang-Thung Song line, being a centre of a rich agricultural district and well populated." The Thai version of these same observations renders "well populated" (mee phonlamuang nanaen) evidently in contrast with much of the rest of the territory traversed by this section of the railroad. The area was also said to be suitable for the cultivation of para rubber⁸.

At that time, however, tin, timber, luk chang (small elephants), cattle, oxen, pigs, ducks, and chickens still figured more importantly in the exports of the province, sent principally to Penang⁹. And none of these compared in local economic significance to pepper, reported to be "of good quality and favourably known on the London market as Trang pepper"¹⁰. It is, in fact, not at all inappropriate to attribute to the pepper economy the role of "cultural core"¹¹ in the settlements that had grown up within five to eight kilometers to the northeast and northwest of Tha Chin. For example, the prominence on the local landscape of the large wells absolutely necessary for the cultivation of the thirsty pepper vine characterized the area as late as the years just before the Japanese occupation. One informant recalls from her childhood looking on as laborers onerously drew water from those wells and watered the vines belonging to members of the most renowned Cantonese family in the district. And irrigation hardly represented the only such laborious task involved: cutting and placing thick wooden stakes for the vines to climb as they grew and of course picking ripe clusters of pepper also were highly labor-intensive¹².

Labor arrangements and immigration practices served, in part, to complement each other. Early arrivals from China and Malaya took later arrivals on as indentured laborers, often by "buying" their obligation to repay the cost of their passage to Trang City or to Tha Chin. The obligation repaid, these laborers were likely, in their turn, to claim land and undertake pepper cultivation on their own¹³.

8- Thiraluk haeng kanpert thangrotfailuang saitai 2459/Souvenir of the Opening of the Royal Siamese State Railway Southern Line 1917 (Bangkok: Krasuang khamanakhom, 1917), p. 55(E) and pp. 54-55(T). English and Thai editions of this book, both with bilingual titles, appeared simultaneously. While their contents are generally similar, the two editions differ in respect to specific details. Here and below, citations to the Thai and English texts are indicated by (T) and (E), respectively.

9- Ibid., p. 55(E) and p. 53(T).

10- Ibid., p. 55(E); cf., too, p. 53(T).

11- Though this term is Julian Steward's coinage, interested readers are directed to Geertz, *Agricultural Involution*, pp. 6- 11, for background on its use here.

12- Skinner comments that, through at least 1910, pepper cultivation was perhaps the most important single source of agricultural employment for the Chinese in Siam. It was concentrated above all in the provinces of Chanthaburi, Trat, Satun, and Trang. Interestingly, he also notes that rising labor costs, as well as low prices on the London market, may have accounted for its eventual decline. Cf. Skinner, p. 112.

13- "Slaves" (that) and ex-"slaves" also furnished some part of the labor requirements of pepper cultivation.

Pepper small-holdings thus multiplied and local society, the Tha Chin-centered creation of immigrants from and markets to the south, took on the essential characteristics of an economic outpost of British Malaya. King Vachiravudh's decision to move Trang to Thap Thieng during the First World War had no direct effect on these basic characteristics. Still, in physically shifting the center of this local economy from Tha Chin to Thap Thieng, that decision did create a fresh setting for commerce, a new point of concentration for activities that may be fairly termed entrepreneurial. And, by the 1930s, when the trends of concern here began to emerge more clearly, the Hokkien, Cantonese, Hakka, and Hainanese whose backgrounds have been so briefly sketched out above had made Thap Thieng the center of a range of economic activities about which fairly precise information is available.

A number of informants, including especially those from the Hokkien and Cantonese families that would furnish Trang with its socio-economic elite in the middle decades of this century, told the author quite explicitly that their families had moved from Tha Chin to Thap Thieng when "prosperity" (*khwancharoen*) made the same move or when the city came to that latter site. By 1929, that site stretched, southeast to northwest, the better part of a kilometer from the low ground on which what was now called Trang Station stood to the series of low hills, holding various government buildings. As an observer looked back down from the court house, the provincial hall, the police station, or the governor's residence, his most direct lines of sight were down the broad Rama VI Road and the narrower, bent Ratchadamnern Road. It was around and just beyond the bend in that latter avenue, where it changed direction from northeast- southwest to southeast-northwest, that the commercial center of the new Trang lay. Other indications of this prosperity lay in the small Sin Wa Hok Kao Chinese school along the railroad tracks, the electricity generating plant at the base of Rama VI Road, the cinema opposite the court house, the spacious American missionary hospital and church on either side of the first stretch of the road to Huey Yod, and the "Penang-style" homes of several wealthy Cantonese merchants just off the lower end of Ratchadamnern Road¹⁴.

On most days that latter neighborhood, in which many of the residents also conducted their business, must have seemed the busiest place in Thap Thieng. Though Hokkien constituted the dominant group in the area as a whole, some combination of chance and inclination led to an important Cantonese role in what was, in effect, Trang's downtown. The role of chance lay in the circumstance that a single Cantonese family held ownership rights to much of the land that had become the core of the new city. The role of inclination was that, as the recollections of informants make clear, Cantonese were simply more likely to be found primarily engaged in commerce than the more agriculturally oriented Hokkien.

In the case of the land-rich family alluded to in the preceding paragraph, we find a good example of the leading entrepreneurs in Trang in this era before the arrival of the Second World War in Southeast Asia. A small saw-mill, a government sanctioned opium den, and exports of pigs to Penang and imports of Shell kerosene from Singapore illustrate, respectively, the Saingam family's

14- Phaenphang sadaeng kanpaksao phatsaifaifa paitam thanon changwat trang, National Archives (Map Room), P. R. VII P.51 Trang. For the name of the Chinese school, Rongrien thap thieng hua chiaw sia siaw: ruam sailuat khiaw khao lueng trang (Trang: Samakhom bamrung kansuksa trang, 1986).

involvement in the local economy, in the acquisition of economic privileges granted by the Siamese state, and above all in the trade that continued to hold Trang in the economic orbit of Malaya.

When every third day saw the Thap Thieng market open for business and local commercial energy concentrated in and around the big complex of stalls fronting on Ratchadamnern Road and backed by a series of streets running off at odd angles toward Rama VI Road¹⁵, the commercial acumen of the Cantonese was likewise very much in evidence. At the same time, Hokkien and Hakka vendors and merchants played a role both in this market and in the smaller satellite markets held in regular rotation in the outlying district and sub-district of the province.

The broad variety of goods for sale at the Thap Thieng market by the end of the 1930s makes clear both its role as the heart of a retail economy of some sophistication and the scope of the commercial possibilities that it presented to the enterprising. In addition to such bulk goods, staples, and hardware as cloth, rice, coconut oil, betel, lime, timber, and axes, its vendors also offered such fresh goods as fish, meat, fruit, eggs, and sugar cane juice¹⁶. Choice for buyers also meant opportunity for sellers. And such opportunity, enhanced by one Siamese state policy that would come to alter the basic characteristics of commerce in Thap Thieng, drew to Trang the vanguard of a new group of entrepreneurs.

In Trang as in other parts of in Siam to which the state extended rail lines, their construction brought with it local people's exposure to Teochiu laborers often freshly recruited from China (Skinner, 1957, p. 114). Among those in this group who worked on the Thung Song-Trang spur of the southern line of the railroad in the years after 1910, few would seem to have remained in the province after the completion of this work. At most, they appear to have left behind them the memory of unpropertied coolies whose lot in life contrasted starkly with that of the prosperous small-holders and traders of the area. Whether this memory or one of much longer standing accounted for local Hokkien and Cantonese hostility to Teochiu remains unclear. Whatever the case, an informant who calls his own the first Teochiu family to settle in Thap Thieng, in the late 1920s, remembers this hostility as having been potentially murderous¹⁷. Nevertheless, by the 1930s ease of access and magnitude of opportunity had begun to draw Teochiu to Thap Thieng. Rail and rich markets led one informant's mother, a Siam-born Teochiu married to an immigrant from Swatow, to begin to make short-term trips with goods to sell in Trang from her home in Phetchaburi. Before many years had passed, she had moved her family to Trang. And, again in this last decade before the Second World

15- In addition to the map cited in note 22 above, cf. Phaenthi sadaeng tho rabai nam, National Archives, MT. 5.16.7/Box 1/Folder 4. This latter map dates from 1934.

16- Banchi atrakep ngeunkhasingkhong phanpradu talatnat thap thieng (1939), National Archives, MT. 5.16/Box 5/Folder 110.

17- Two informants--one a Hokkien, the other a Teochiu, and both among Chinese Trang's most respected citizens--confirm the virulence of this former hostility. Interestingly, the father of the Teochiu came to Thap Thieng with his family from Penang. He later sent at least one of his sons to complete his education there, as did many local families of some means. This family was, then, much more a part of the Straits-oriented segment of Trang society than other Teochiu discussed or alluded to in this paper; even in 1993, this distinction remains evident in a number of subtle ways.

War, other Teochiu--like the informant who came with her mother from Nakhon Pathom to sell salt, onions, dried peppers, and garlic from a stall in the Thap Thieng market after her father returned to China and remarried--were making similar moves.

Arrival by way of sojourns in other towns along the railway between Bangkok and Trang was not rare; Suratthani, or "Ban Don," came up frequently in conversation with informants. Nor was deciding to come to Thap Thieng in order to join relatives or merely Teochiu of the same surname uncommon. And yet it is following the railroad to Trang and engaging in petty trade in staples or such bulk goods as cloth once there that one must take as the most noteworthy constants in this initial wave of Teochiu migration into the area¹⁸. To contemporary observers the arrival of Teochiu petty traders could hardly have seemed terribly noteworthy relative to another aspect of these same pre-war years. The Trang Hokkien were laying the foundations of a new "cultural core." And at the center of this reorganized economy would be the cultivation of para rubber.

Rubber not only eclipsed but actually replaced pepper as the focus of Hokkien agricultural activity in Thap Thieng proper and in the surrounding sub-district during the 1930s. Perhaps as a result of this crop's lower relative labor requirements, at least some Hokkien planters began to manage holdings of an unprecedented scale, sometimes scattered across a number of widely separated sites. These consequential internal changes worked, however, only to reinforce Thap Thieng's patterns of contact with wider markets. Local traders--Hokkien, Cantonese, and Hakka alike-- remained active in the Penang trade. Now, though, raw rubber comprised an increasing share of that trade's volume. And this shift in the Thap Thieng-to-Penang trade engendered in its turn certain changes in the composition of the flow of goods in the other direction. The local market for kerosene noted above was, for example, to no little degree a function of rubber cultivators' need for a source of light as they worked their trees in the pre-dawn hours¹⁹.

18- Skinner (1957, p. 51) takes earlier difficulties in overland communication between Bangkok and the south of Siam as the prime determinant of the peopling of that latter part of the country by Chinese who arrived by way of Penang, Singapore, and Songkhla. As noted above, this pattern would have had very specific consequences for the resultant speech-group balance. One wonders, however, whether Skinner would today, after devoting several decades of scholarship to the development and elaboration of theories of regional systems, still view matters quite so unproblematically. In a sense, however, he anticipates some of the broadest implications of his later work in viewing, *Chinese Society in Thailand*, p. 255, southern Siam before the Second World War as a zone of high Hokkien prestige and power and Bangkok and most of the rest of the country as basically Teochiu-influenced and -dominated in that same period. All this is fruitfully considered in light of G. William Skinner (1985): 271-292.

19- Skinner relates that the period to the outbreak of the Second World War saw all segments of the rubber industry in Siam in Chinese hands. Production in this period was concentrated on small-holdings, mostly belonging to settlers from Malaya. And the rubber trade in Siam was a largely Hokkien preserve from its very earliest years. Cf. *Skinner* (1957, p. 216). Laurence D. Stifel (1973, p. 108) casts some light on the timing of the emergence of rubber as the leading crop in Trang's agricultural economy in noting that the increases in Siamese rubber production in the 1930 were due to the high prices of the 1920s. These had stimulated a burst of new planting.

The emergence of rubber as a major element in the economy centered on Thap Thieng had come about with remarkable speed. But, as noted just above, Trang rubber relied initially on long-established patterns of trade for access to outside markets. In this earliest phase in the history of the Trang rubber economy, then, the importance of Penang as the market of first instance meant that the dramatic rise of this new commodity required no fundamental re-ordering of commerce. At the same time, the nascent rubber economy offered greatest returns to assets in land on which one could plant para rubber trees rather than to pioneering drive or commercial acumen. It has been noted above that in Thap Thieng these assets lay largely in the hands of Hokkien planters rather than Cantonese merchants. The new "cultural core" thus came to bolster the elite status of a group of Hokkien whose well developed sense of their own identity included sentiments very similar to an aversion to commerce.

2. The Post-War, Pre-NIC Decades

Between economy and society in the Trang of the late 1930s and those of the late 1940s continuity proved far stronger than change. Commerce in Thap Thieng recovered quickly from the inactivity and dislocation that had accompanied war and occupation. A strong rubber market explained much of the pace of that recovery. Still, while basic internal socio-economic configurations remained largely unchanged, their dependence on external markets required a certain process of institutionalization before they were secure. One may view this process as the completion of a sequence of developments arrested by the onset of the Pacific War.

The essentially ad hoc arrangements characteristic of the export of Trang para rubber in the 1930s had sufficed in an era of relatively low volume. Now, however, as large numbers of Thai small-holders joined their Hokkien predecessors in rubber cultivation, the greatly increased volume of the country's production²⁰ of and trade in this commodity called for new, more sophisticated channels of access to the world market. In response, the Singapore-based firms Tai Tong²¹ and Teck Bee Hang had, by the early 1950s, established local facilities to purchase, grade, smoke, and ship rubber. Sin Thai Mining and Rubber, managed from Hat Yai, and Huey Chuan, based in Bangkok, soon followed these first two firms into Trang with operations of their own.

The latter three of these four first big rubber companies to arrive on the Thap Thieng commercial scene still maintained their operations there into the 1990s²². Over the four decades since those operations opened, a series of other firms would establish local presences to purchase and smoke para rubber. In the late 1960s, B. U. Commercial and Far East Rubber shared the market with Krung

20- Stifel (1973, pp. 120-121). On the increased role of ethnic Thai small-holders in rubber cultivation during this period, cf. Skinner (1957, p. 350).

21- Later called "Krung Saeng."

22- Teck Bee Hang in Thailand is now independent of Singapore; it also uses the Thai name "Yang Thai Phak Tai."

Saeng, Teck Bee Hang, Sin Thai, and Huey Chuan²³. By the early 1990s, the Rubber Merchants Association grouping all rubber-exporting companies with facilities in Trang included, in addition to those latter three firms, United Trang Rubber, Thai Union Rubber, Unimac, Thawee Sap Rubber, and Sri Trang Agro- Industry.

The structure of the local para rubber business changed far less in the 1950-1990 period than the above lists might seem to indicate. For one, a single firm, Teck Bee Hang, dominated the market for most of the period. Further, firms often changed names or saw groups of their local employees resign in order to establish competing firms on their own. Most striking, however, is the lack of participation of local entrepreneurs in the establishment and growth of any of these companies.

Early on, a number of prominent local figures operated small rubber-smoking plants of their own, and the Rubber Merchants Association included them as well as the big firms and a number of rubber-buying middlemen among its members. And many well known local Hokkien worked for and even managed the Trang operations of the big rubber companies²⁴. But this sector never saw a local entrepreneur move on from planting or trading rubber--or, for that matter, from any other pursuit--to establishing his own smoking and exporting firm in competition with outside capital. Of the firms active today, United Trang Rubber, Thawee Sap Rubber, Thai Union Rubber, and Unimac are all based in Trang. The latter company is a joint venture between Thai Union Rubber and Japanese interests. Hat Yai-based Sri Trang Agro-Industry, listed on the Securities Exchange of Thailand, is actually run from Trang. Each of these five firms represents a case, however, of the aforementioned pattern of the local personnel of a given rubber company leaving that company and pooling their resources to establish a new firm.

In fact, many local figures have today, as they have had historically, access to resources comparable to those of the local branches of the big rubber exporters operating in the Trang market. But, in 1990 no less than in 1950, relationships with overseas buyers--principally American, European, and Japanese tire manufacturers--have been more essential assets for these firms than capital or even skill in trading. This reality certainly explained the pioneering role of Singapore-based firms in Trang in the years after the Second World War. It also appears more than any other single factor to account for the specific form of the links between Thap Thieng and world para rubber markets in the four ensuing decades.

The Hokkien from Singapore or Bangkok sent out to run the local branches of the firms that embodied those links must have found themselves very much at home in Trang²⁵. And, as noted above, they hired numerous Thap Thieng Hokkien to fill management positions in those branches. But, nothing illustrates the integration of the big rubber companies--fundamental to the local economy

23- Thamnieb rongngan usahakam phaktai (Songkhla: Sun setthakit usahakam phaktai, 2520), p. 49.

24- Skinner (1957, pp. 315 & 351) notes continued Hokkien dominance of the rubber trade, including processing and export, in the post-war period.

25- Skinner (1957, p. 211) confirms, too, that Hokkien comprised the predominant group in Trang town at least through the mid-1950s.

yet not locally owned--into the town's society so clearly as their relationship with the Trang Association for the Support of Education.

Led by Nai Man Sinchai, the central figure in Thap Thieng Chinese society in the post-war era, until his death in 1970²⁶, the association established and ran a system of schools including Thap Thieng Hua Chiaw Sia Siaw School, Trang Withaya School, and Satri Trang Withaya School²⁷. The first of these schools still exists. In 1985, the association merged the latter two into Saha Trang Withaya School; it occupies the site on the Huey Yod Road that Nai Man purchased for 3,000 baht at the time of the establishment of Trang Withaya²⁸. These schools, which initially served principally children whose homes were "in the market," enjoyed the consistent financial support of commercial interests of all kinds in Thap Thieng. But a very special relationship characterized the support extended to the Association for the Support of Education by the Rubber Merchants Association and by its individual members²⁹.

Just as the rubber companies did so much to sustain private education in Thap Thieng, so para rubber itself brought previously unknown prosperity to Trang in the early 1950s. This prosperity intensified a pre-war pattern: the migration to Trang of traders, most notably Teochiu, from Bangkok and other points along the rail line to Trang³⁰. Informants remember the decade after 1945 as a time when Teochiu business first achieved visibility in Trang, when merchants of other speech-groups just could not manage offer goods as cheaply as the Teochiu, and when spoken "Chinese" effectively came to mean Teochiu in the Thap Thieng market.

Significantly, these years were also a time in which Trang saw itself very favorably positioned in the regional transportation system. Local merchants who took delivery of goods by rail could exploit this advantage by engaging in wholesale trade with Phuket, Krabi, and other parts of southern Thailand still neglected by the national transportation grid. Trang was, in regional terms, "a big city."

The four principal grocery and general stores in Thap Thieng during this time exemplified Teochiu commerce in its period of ascendancy. Though their proprietors had in fact come to Trang either before or early in the Second World War, they only really graduated out of the stalls in the market and into the shop-houses surrounding it in the several years after that conflict's end³¹. And the

26- Cf. Anusorn Nai Man Sinchai (Hat Yai, 1970).

27- Established, respectively in 1947, 1951, and 1953. Cf. Rongrien thap thieng hua chiaw sia siaw: ruam sailuat khiaw khao lueng trang (Trang: Samakhom bamrung kansuksa trang, 1986), p. 13.

28- Ibid., pp. 13 and 19.

29- Nai Man was succeeded as chairman of the Association for the Support of Education by Sun-tek Chanlongbutr, a Hokkien from Saraburi who had come to Trang with Sin Thai Mining and Rubber.

30- The experience of Trang, in terms of Teochiu migration, would seem to fit a national pattern. Skinner (1957, pp. 89 and 209) points out that this group spread into sub-regions of Thailand with the development of transportation infrastructure, first rail and then roads.

31- Chia Huey Liak and Tou Nguan Ki first worked for or with Chia Meng Huat and Tou Nguan Thai, respectively, before starting their own businesses. In each case, an earlier migrant to Trang took in and employed a later migrant of the same surname at the time of the latter's arrival.

goods that they handled, which fell into two basic categories, reflected those origins. On the one hand, they engaged in both wholesale and retail trade in such bulk staples as rice, salt, sugar, onions, and various varieties of beans and other field crops. At the same time, they also sold such packaged, brand-name goods as flour, canned milk, matches, cement, canned fish, and detergent.

Common to both these sorts of merchandise, however, was their source: Bangkok³². In the case of the often large quantities of the bulk staples that they handled, these merchants relied on long-term credit relationships with fellow Teochiu brokers in the capital. Access to such reliable sources of goods of this sort facilitated price arbitraging and other forms of commercial speculation. Potential returns were enormous, but so were potential losses. The commerce in branded goods helped stabilize income. Among the branded goods, the proprietors of the four large Teochiu groceries sought and secured exclusive distribution rights, or "agencies," from the Bangkok-based producers or importers of at least flour, canned milk, matches, and detergent. Given their extreme profitability, these agencies were particularly valued and particularly difficult to secure. A merchant had to convince a manufacturer that his store could move a large enough volume of the product in question for the latter to be willing to forego contact with any other distributor in the territory to be covered by the arrangement. Often enough, it appears, Thap Thieng-based Teochiu were sufficiently convincing.

Nor were such arrangements limited to the grocery and general merchandise trade. As the spending power of local consumers increased, other markets displayed a similar pattern of development. By the late 1950s, the son of the Teochiu trader who had moved her family to Thap Thieng from Phetchaburi before the Second World War had secured the Honda motorcycle agency for all of southern Thailand from the Bangkok firm that was the exclusive Thai importer. And this pattern reflected the essential economic role of the newly prominent Trang Teochiu in the long three or four decades after the end of the Second World War. They served above all as local distributors of goods from Bangkok, often obtained through fellow Teochiu based in that city.

The prosperity characteristic of Trang in the first two decades following the conclusion of the Second World War revealed a very sharp commercial contrast. It rested on the production of a commodity whose delivery to wider markets proved beyond the capacity of local entrepreneurs. At the same time, that prosperity created strong demand at both the wholesale and retail levels for goods available only on the national consumer market then emerging in Thailand. And one group of Thap Thieng entrepreneurs seemed to have mastered the channels of access to that national market on the most favorable terms.

3. Entrepreneurial Trends in Contemporary Trang

While their position in national commercial networks brought great prosperity to many Trang Teochiu, the possibility of business failure always remained. The mid-1960s saw a series of financial

32- Skinner's observation (1957, p. 318) that the years after the end of the Second World War saw Teochiu move into what he calls "the sundry-goods trade" at Hakka expense helps put developments in Trang into a broader perspective.

setbacks for the proprietor of one of the groceries discussed above. By the time of Tou Nguan Ki's death toward the end of the decade, his older sons faced the prospect of repaying his debts with the proceeds of a much smaller operation than that run by their father in his prime. And so, while one of them devoted himself to strictly local trade in rice, another accepted employment as a salesman for a Bangkok-based manufacturer of flavor-enhancing seasoning powder. Before long, his travels led to a network of contacts among the rice mills of northern and northeastern Thailand. These contacts in turn assured his Thap Thieng-based brother earlier and cheaper access to large quantities of rice for wholesale not only in Trang but also, before long, in Nakhon Sri Thammarat, Phatthalung, Hat Yai, and even Sungai Golok on the Malaysian border. Of course, as Trang lay far off the rail lines linking many of these markets with the rest of the country, much of the rice so supplied never passed through Thap Thieng at all³³. That Tou Nguan Ki's sons continued to base themselves there in their new, very lucrative role as regional middlemen trading a good neither produced nor for the most part sold in Trang must be attributed to inertia, sentiment, or perhaps some combination of the two.

Among Teochiu merchants who kept their businesses essentially local these years proved far less happy. Infrastructural development reduced Trang's role as a regional commercial center. Honda soon granted distributorships to dealers in other southern provinces. In time, it would supply two or three dealers in Trang alone. The manufacturers of many lines of packaged goods also terminated agency-type relationships with local traders. The response of the families of the other three prominent Teochiu grocers to the changed, more difficult local commercial environment lay, first, in resigning themselves to lower profit rates in the grocery business. Second, two of the three families also diversified into bottled water and ice production, oil palm cultivation and crushing, and the distribution of imported liquor. These undertakings met with considerable success. They represented, however, their owners' acceptance of their status as purely local- or perhaps provincial-level businessmen. Bangkok-based firms had made use of the ability of merchants in Thap Thieng to facilitate market penetration for a period lasting several decades. In the end, however, those firms found that they could market their products without the sorts of relationships with local merchants that an earlier period had required. And so these merchants saw themselves essentially re-absorbed into the great bulk of Teochiu traders in Trang, who had always been primarily engaged in retail commerce³⁴.

In the 1980s, the sons of Tou Nguan Ki continued to resist such re-absorption. Their Trang-based canned fish firm became nationally famous through an intensive advertising campaign conducted by their Bangkok-based marketing arm. Diversifying into other lines of processed foods, they established a distribution system hardly different from those of the firms whose products their father had sold during the age of agencies. In Khlong Teng, on the road to Huey Yod, they established--with technical help from Japan--a modern facility for the production of surimi and frozen sea-food. And, on

33- Skinner (1957, pp. 136 and 315) notes both the long history of Teochiu primacy in rice-milling in Thailand and also continued Teochiu dominance in the rice trade after 1945. Here again, then, Trang Teochiu could draw on a speech-group-based network of commercial ties.

34- The termination of "agent"- or "compradore"-style commercial banking in Trang showed very close parallels to the end of commercial agencies described in the preceding paragraph. Though beyond the scope of this paper, that former story supports many of the conclusions proposed in this section.

the site where their rice business had once stood at the major Thap Thieng intersection of Rama VI Road and the Kantang Road, they built the biggest, finest hotel that Trang had ever seen. Most recently, having paid 120 million baht for the site that Nai Man Sinchai originally bought for Trang Withaya School on the Huey Yod Road, they have undertaken to construct modern commercial space at the front of the property and, at the back, an even larger, grander hotel³⁵. And, from very early on, they courted and won the friendship and even patronage of nationally prominent and well connected business figures. In all of these activities, they were utterly exceptional among the entrepreneurs of Thap Thieng.

Of the basic common characteristics that Clifford Geertz observed among the entrepreneurs of Modjokuto, all three are relevant to the merchants of Thap Thieng whose story this essay has sketched out. First, trade, initially with Malaya and later with Bangkok and other regions of Thailand, has given each of Thap Thieng's economic elites in the last six decades its initial advantage. In the middle third of that period, also, particular relationships with firms in the country's one large urban center were central to success in that trade. Second, in Thap Thieng as in Modjokuto, the commercial elite has shared membership in a cohesive, self-conscious group. Its members were, after all, exclusively Chinese, united for a long time by associational and educational activities. Even in 1993 Thap Thieng--and Trang as a whole--remains an essentially "plural society." Thai and Sino-Thai do meet largely "in the market-place" (Cf. John Sydenham Furnivall, 1948, p. 304). And pride and confidence bordering on feelings of superiority characterize the self-consciousness of local Chinese³⁶. Third, patterns of increased consumption, accompanied by changes in taste, have fueled the economic success of Trang entrepreneurs, above all in the period since the late 1940s.

Yet for all the similarities between patterns of entrepreneurial development in Modjokuto and Thap Thieng, the essential challenge facing entrepreneurs in the two settings is nowise the same. From the early days of Hokkien and Cantonese dominance in the years just following the end of the absolute monarchy and certainly during the ascendancy of dynamic Teochiu entrepreneurs in the period after the end of the Second World War, the economically active in Thap Thieng have never lacked the ability to organize their activities on the basis of the firm. For that "organizational problem," solutions have been readily at hand.

In the event, a different sort of organizational problem has most inhibited the economically active in Thap Thieng since Trang's integration into the Thai national economy and re-integration into the world economy in the late 1940s and early the 1950s. This problem has concerned the relationship between local commerce and wider markets. The single most important factor in the lack of sustained success of Thap Thieng-based entrepreneurs and in the truncated growth of their enterprises has been

35- The Association for the Support of Education has purchased a large new site for Saha Trang Withaya two kilometers out of town on the road to Phatthalung.

36- Though speech-group rivalries can be as strong in Trang as is implied in the contrasts between Teochiu on the one hand and Hokkien and Cantonese on the other repeatedly suggested in this essay, there is at the same time no doubt that, vis-a-vis the Thai majority, the Chinese of Thap Thieng feel cohesion and solidarity.

their inability to negotiate links to the national and international economies on favorable terms. As the cases of the big para rubber concerns and even of the Teochiu grocery stores indicate, one would err on the side of oversimplification to view this problem in terms of a contest between local and outside capital. After all, the rubber firms have never been particularly capital-intensive undertakings. And it is the sons of the least rather than the most successful of the four principal Teochiu grocers who seem to have solved this problem most advantageously. But their "solution" has basically required that they become national-level businessmen, far more in their element in Bangkok than in Trang.

Much of the experience of the merchants of Thap Thieng suggests, in fact, strong parallels with that of their fellow ethnic Chinese on the opposite side of the Malaysian border. The analysis of Heng Peck Koon notes the failure of many Malaysian Chinese businessmen to develop ties to the national economy as re-ordered by the state under the New Economic Policy (Heng Peck Koon, 1992, pp 127-144). This failure has condemned them to just the sort of exclusively local pursuits that characterize much contemporary economic activity in Trang. The present essay has not followed Heng Peck Koon's lead in laying stress on the importance of relationships with politically powerful patrons as the forms which such ties often take. But neither should it be read to deny the importance of that kind of link, especially in more recent decades.

The purpose of the foregoing account has been neither to offer helpful hints to prospective provincial entrepreneurs nor to engage in debates in the comparative political economy of Southeast Asia. This treatment of a number of themes in the commercial history of Thap Thieng has aimed, rather, to make use of a rather drastically unconventional perspective to call attention to a specific structural characteristic of the economy of modern Thailand. Taken as groups, both the early Hokkien and Cantonese *khahabodi* (high ranked officers) and the more recently arrived Teochiu traders stumbled before the specific entrepreneurial problem characterizing the Thap Thieng economy. It is useful to recall that these groups are in a number of important ways more representative proxies for Thai business--both in the provinces and in Bangkok--as a whole than relatively narrow group of large and well connected enterprises that have attracted most scholarly attention. One wonders, then, whether their stumbling does not prefigure the nation's, as it seeks a path out of the economic "no man's land" it currently wanders.

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The Buddhist Entrepreneur

Gerald W. Fry

The Master in the art of living makes little distinction between his work and his play, his labor and his leisure, his mind and his body, his education and his recreation, his love and his religion. He hardly knows which is which. He simply pursues his vision of excellence in whatever he does, leaving others to decide whether he is working or playing. To him he is always doing both.

--Zen Buddhist text (L. Thurow 1992: 113)

He was not well educated, but he loved his work. He brought perfection to even the smallest tasks, down to how he cleaned the ball and the mill when he was mixing ceramics. There was a purity to his actions, a love of working as an end in itself. This man is like a Zen monk, thought Inamori. The art is in the doing, in the making. I watched him day after day and saw the pleasure that even the tiniest detail gave him. Suddenly I realized that the pleasure was in the doing...

"In Japanese, the generic word for 'craftsmanship,' saiku, translates literally as 'delicate workmanship.' In other words, to craft something is to make it much smaller and fashion it delicately. And besides, the prefix ko (small) can be attached to form the word kosaiku, 'small, delicate workmanship.' Conversely, something which is large and ungainly is called busaiku (not delicately crafted). In Japan things that have been reduced in scale and minutely crafted are not mere miniatures. They are more charming and more powerful than their larger counterparts, and there is something of a mysterious aura to them" (David Halberstam, 1992: 91).

"In the 1960s, much of the world looked to the United States as a model of management efficiency" (O- Young Lee, 1982: 19-20). Reflecting this admiration, Servan-Schreiber (1968) wrote *The American Challenge*, urging Europeans to reform their management system by drawing upon America's success (see also Hockel 1967). In the subsequent two decades leading into the 1990s, America's leadership has waned, and there is talk of "the Pacific Century" (see Macrae 1975; Hofheinz and Calder 1982; Linder 1986; Kotkin and Kishimoto 1988; Kovalenko 1988; Gourevitch 1989; Chan 1990; Clark and Chan 1992). Despite initial successes in the microprocessing industry, U.S. productivity has stagnated and its international competitiveness has been challenged even in a number of high technology areas (see Scherer 1992; Thurow 1992). During the 1970s, the U.S. was last among industrial countries in productivity increases. Increasing costs also characterize the public sector (particularly in health services and education), while the quality of public services has frequently deteriorated. The poor performance of American students on standard international tests of science and mathematics mirrors the low productivity gains of industry and the public sector. In an influential new

volume, *Reinventing Government*, David Osborne (1992) makes a call for major reform in the organization and delivery of public services.

The French sociologist, Michael Crozier, long an admirer of America's emphasis on innovation, is alarmed by the situation, as illustrated by these remarks: "I have just spent four months in the United States. I was struck by the extraordinary loss of vitality, which seemed to me to be a serious and worrying phenomenon... Everyone is waiting, while continuing to act as they did in the past. The crisis that is now upon America goes beyond business, the university and the intellectual world. It is a moral problem... The Americans now fear change, and they are bewildered. There is no longer any enthusiasm for undertaking new things." (cited in Servan-Schreiber, 1981: 235-236).

Related to the European reaction is the persistent phenomenon of bureaucratic pathology. Burns and Stalker (1961) first introduced the notion of pathology in discussing resistance to change and technical progress in the electronics industry. They even spoke of organization for resistance to change. Bureaucratic pathology is also characterized by individuals who are indifferent towards their jobs and public or private clients. Pathological organizations resist change, are disabled by excessive conflict, and are unable to deliver quality services to the larger community. Finally, bureaucratic pathology is characterized by rigid and overly hierarchical authority structures. Such pathology appears to a major problem in a number of the former communist societies of Eastern Europe and the former Soviet Union. The Swedish entrepreneur, Percy Barnewick, CEO of ABB Asea Brown Boveri (based in Zurich), is one of the world's most insistent enemies of bureaucracy and has organized his company in a highly decentralized way to minimize bureaucracy (Peters 1992: 44-55).

In response to this malaise, the U.S. electorate went to the polls in record numbers in 1992 and voted for a major political change. Like Thailand, the U.S. elected its first Democratic Party president since 1976. In his December 1992 two-day economic summit ("search conference") Clinton brought together a highly diverse group of intellectuals, business leaders, labor leaders, community activists, and ordinary citizens to address the extremely serious economic and bureaucratic problems facing the U.S. as it approaches the next century.

There have been four other major reactions to America's crisis in management. First, there is a growing interest in industrial democracy and the related experiences of Scandinavia (Carnoy and Shearer 1980). Second, there is a movement towards anarchy and escape from formal organizational life, as exemplified by Richard Cornuelle's (1975) *De-Managing America : The Final Revolution*. Third, among some American organizations there appears to be a growing interest in introducing major changes and innovations (see Peters 1992; Strasser and Becklund 1991). The investment by General Motors in computers and robotics and Ford's new approach to job security are relevant examples. Fourth, related to the above changes at General Motors and Ford and most relevant to this paper is the growth of interest in Asian management practices (Aamo 1985; Everett et al. 1984), particularly those of Japan, as illustrated by the current popularity of studies of Japanese management, industry, and organization (see, e.g., Vogel 1979; Deming 1982: 99-110; Lee 1982; Schonberger 1982; Halberstam 1986; Aoki 1988; Kline 1990; Fujimoto 1991; Kodama 1991; Ziemba and Schwartz 1992). Given Japan's economic problems at this time and dramatic stock market decline, a pessimistic literature on the Japanese economy is also attracting attention currently (see, e.g., Wood 1992 and Reading 1992).

Back in 1970, Anders Richter wrote an intriguing article entitled, "The Existential Executive". Drawing on existential philosophy, he infers implications for executives. Buddhist philosophy also has importance for the applied social sciences as illustrated by Schumacher's (1975; 1979) previous work on the development of Buddhist economics. Similarly Buddhism contains many insights directly relevant to entrepreneurship and leadership. The objective of this paper is to outline major Buddhist concepts relevant to entrepreneurial behavior and performance.

Many of the countries in the dynamic Pacific Basin which have become or are becoming impressive economic success stories are part of the Buddhist cultural area (see Vogel 1991). While the Protestant ethic may have underpinned the Industrial Revolution, the Buddhist ethic may be more relevant to the rapidly changing world of the teletronic revolution. By teletronic revolution, I refer to the rapid changes in both the microprocessing and telecommunications revolutions and their integration. Given the limited carrying capacity of the planet and the impossibility of maximum industrialization, the Buddhist ethic of modest consumption is likely to become increasingly influential.

Reflective of the teletronic revolution is the new Iridium Project recently approved in Spain by the International Telecommunications Union. This project, which involves the launching of 66 satellites, will make possible direct communication between any two people anywhere in the world, without knowledge of their location at the time. Of special interest to the Buddhist entrepreneur are technologies which are both convivial and which encourage intellectual cooperation and collaboration (see Illich 1973; Schrage 1990).

1. Major Buddhist Concepts Relevant to Entrepreneurship, Leadership, and Management

There is an extensive literature on Buddhist thought, philosophy, and practice (see e.g., Buddhadasa 1971, 1979, 1980, 1986; Siri 1965; Phra Rajavaramuni 1987; Suzuki 1973; Dumoulin 1992). The Buddhist concepts introduced here derive primarily from the thinking of Buddhadasa Bhikku, a Theravada Buddhist scholar residing in Chaiya, Thailand (see Jackson 1988; 1989). A major concern of Buddhadasa has been to suggest how Buddhist principles can be applied in secular settings.

The key Buddhist concepts discussed here are as follows:

- Sati (Mindfulness)
- Annata (Non-self)
- Anicca (Impermanence)
- Wabi (Contentment)
- Upekkha (Tranquility)

Also discussed are a Buddhist conception of work and the Buddhist-related *khit-pen* approach to analytical thinking (Kowit 1975).

The profile of the Buddhist entrepreneur presented here is, of course, an ideal type. No actual individual entrepreneur may conform perfectly with the ideals presented. The intention is primarily to stimulate thinking about how Buddhist philosophy may contribute to more effective, happier, and playful entrepreneurship.

Several qualifications are necessary. The conception of the Buddhist leader is not limited to Asian thought. Writers such as Cleveland, Gross, Drucker, Argyris, and even great literati such as Tolstoy echo a number of Buddhist themes in their creative thoughts on leadership. Also other religions such as Islam, Christianity, Hinduism, and Judaism similarly contain valuable insights related to entrepreneurship and leadership (Burki 1986).

1.1 Sati (Mindfulness)

Sati, meaning mindfulness, is an important concept in Buddhism (see Thich 1991). The basic argument is that much human suffering results from a failure to be mindful. A lack of mindfulness is the source of many problems for the entrepreneur. Even if they are ever mindful, leaders will face difficult problems. Many potential problems, however, can be avoided by being mindful, particularly, of time constraints, important deadlines, the effects of actions on diverse groups, and the need for appropriate and inclusive participation. Procrastination is another example of a failure to be mindful. Mindfulness is also a major element in being a foresighted planner who can overcome tempocentrism (that is, an excessive reliance on contemporary perspectives and values) (see Sippanondha 1990). Mindful of the long term, Konosuke Matsushita, the founder of the Japanese Matsushita Corporation, had a 250-year plan for his organization. The Harvard social psychologist, Ellen J. Langer (1989), has written a whole volume devoted to the important concept of mindfulness.

The Korean scholar, O-Young Lee (1982: 57) elegantly describes the mindful attitude in his study of miniaturization in Japan: "The concept of attitude can be found in daily life as well as the arts, and it manifests itself in individual and group behavior. It can be seen in the meticulous planning of responses to possible future occurrences, in the concentration of mental energies, and, in general, in the mental outlook of the Japanese. The word here is *kokorogamae*, which means 'mental attitude' and suggests readiness or preparedness".

For centuries in rural Thai villages, particularly in the north and northeast, there has been a vibrant tradition of silk weaving, the products of which the entrepreneur, Jim Thompson, popularized around the world. The production of silk and other textiles reflects an important aesthetic tradition mirroring that of Buddhism with its elegant temples and exquisite Buddha images. Such artistic and aesthetic talents developed over the centuries in traditional settings ironically prepare individuals for the world of high technology miniaturization. Thailand, for example, is now becoming a major producer of the tiny bearings needed in various electronic goods such as the automatic window openers in automobiles. Thus, Thailand appears to have similar synergies between traditional culture and high technology noted by Lee in his study of miniaturization in Japan.

1.2 Annata (Non - Self)

This is a concept central to Buddhism and refers to the illusionary nature of the ego or self. Preoccupation with ego or self is considered by Buddhists to be the major source of human suffering. Non-self is certainly the most crucial trait for a Buddhist entrepreneur. Non-self, that is, the absence of self, is important for several reasons:

First, effective leaders must encourage criticism and feedback. Leaders with a strong ego orientation fear criticism for it may tarnish their self and public image (cf. Burns 1978: 449, 457). Leaders who are "selfless" should be able to tolerate and even encourage criticism of their actions and performance. They are open to learning from failure. John Kennedy's quick acceptance of his responsibility for the Bay of Pigs failure exemplifies this trait.

Second, effective entrepreneurs choose and select highly capable subordinates. In fact, such leaders try to surround themselves with brighter individuals. In contrast, ego oriented leaders tend to fear competent subordinates and surround themselves with yes-men and cronies.

Third, ego-oriented leaders want everyone to like them, and they seek to please all. Such "affiliative" leaders tend not to be effective (McClelland and Burnham 1976: 100-110). Effective leaders must have the courage to say no and to make decisions which may in fact antagonize or displease specific groups. Selfless leaders without tender egos should be able to make such hard decisions more easily. They realize that it is impossible to be liked by all, if they are to carry out their duties responsibly and creatively.

Fourth, effective leaders give credit to their subordinates and praise their efforts. They share status, power, and rewards. They delegate authority and responsibility. In his new volume on liberation management, Tom Peters (1992: 466) places special stress on the need for entrepreneurs to delegate. In contrast, ego-oriented managers want to claim credit for themselves and use their subordinates' efforts only to enhance their own image and prestige. Being overly concerned with individual achievement, the self-oriented leaders tend to do too many things themselves and, thus, fail to "know the time" (Drucker 1967: 25).

Fifth, self-oriented leaders are interested in personal aggrandizement. They tend to exercise power impulsively and lack self-control. As McClelland and Burnham (1976: 103) put it, "they are more rude to other people, they drink too much, they try to exploit others sexually, and they collect symbols of personal prestige such as fancy cars or big offices". The recent problems of Senator Bob Packwood in Oregon related to sexual abuses and excessive drinking are a vivid example of such faults of leaders.

Sixth, the wise and astute leader is willing to "exchange status for substance" (Cohen and March 1974: 208-209). Again the selfless leader should be more willing to give up some of the pleasures of self-importance. As Cohen and March (p. 209) aptly state: "Since leaders receive credit for many things over which they have little control and to which they contribute little, they should find it possible to accomplish some of the things they want by allowing others to savor the victories, enjoy the pleasures of involvement, and receive the profits of public importance".

Finally, selfless entrepreneurs can devote themselves to the crucial matters that extend beyond the self, that is, the super ordinate goals of the organizations and society, including the effective fulfillment of broader responsibilities. The self-oriented leader, preoccupied with individual concerns, too often neglects the organization and its fundamental purposes.

1.3 Wabi (Contentment)

The Japanese Buddhist writer, Daisetz Suzuki, discusses the important concept of *wabi*, which refers to a type of Buddhist contentment. It is being satisfied with a little hut, a room of two or three *tatami* (mats), like the log cabin of Thoreau, and with a dish of vegetables picked in the neighboring fields and perhaps listening to the pattering of a gentle spring rain (Suzuki 1973: 23).

In both Chinese and Japanese organizational life, there is an emphasis on modesty and self-restraint (Pascale and Athos 1981: 130). Buddhist leaders are content with a modest life style. They recognize a world of limits. They can not persuade their citizens or staff to have more realistic and limited aspirations if they themselves live extravagantly and ostentatiously. California's former governor and recent presidential candidate, Jerry Brown, perhaps best reflects this type of leadership style among Western politicians (Bollens and Williams 1978). The rather discouraging irony is that Brown's emphasis on personal modesty was ridiculed by the American media as being "flaky" and frivolous.

1.4 Annica (Impermanence)

This fundamental Buddhist principle stresses the impermanence of all things and the inevitability of change. The effective entrepreneur recognizes and accepts this principle. The subordinate you step on today may be your superior tomorrow. Buddhist leaders, conscious of impermanence, should be open to constructive change and innovation. They should not cling to old ways of doing things. Since leaders come and go, they should also not be overly attached to their own positions. The more they cling to their jobs, the more likely they are to lose them. The dramatic fall of Richard Nixon is a classic example of excessive attachment to position.

R.G.H. Siu (1975: 637), in discussing Chinese baseball and public administration, notes that "in the ball game of public administration, everything is flux and all systems are open". The importance of impermanence in the private sector is similarly echoed by Masatoshi Naito, chief of design at the well-known Matsushita Corporation: "You in the West think of [consumer electronics] products as consumer *durables*, things which last. For you consumption is an act which you undertake in bursts, periodically. Japanese consumption is a continuous cycle of new products replacing old products, everything is in a process of change, nothing endures. We do not seek permanence.³ (cited in Peters 1992: 3).

1.5 Ubekkhā (Tranquility)

As Kauss (1974) points out, leaders live with crises. Tranquility is one of the cardinal virtues of Buddhism. Individuals respond to crises in different manners. We all know through personal experiences of leaders and athletes who "choked" under stress. They lacked that grace under pressure which reveals the great leader. Leaders with a non-self orientation are likely to display an ability to remain tranquil in crisis. The coolness displayed by both sides in the abortive April 1981 coup attempt in Thailand illustrates Buddhist calm under tension and pressure. The quick return to tranquillity after the king's intervention following the dramatic May 1992 violence in Thailand is another classic example of this principle. In a non-Buddhist culture, it is hard to imagine that such tensions and polarization could have been so quickly dissolved.

2. A Buddhist View of Work

Buddhadasa (1975: 20-26) has described a Buddhist view of work. He categorizes work in four ways:

1. Working for one's own selfish desires.
2. Working for the sake of working.
3. Work that doesn't feel like being work.
4. There is no work; it is not work.

The first category connotes working for extrinsic rewards such as money and prestige. The second category implies work as a form of duty. The third category suggests that work is seen as a natural part of life. In the final conception, life and work are fundamentally integrated so that there is no awareness of work being work. Obviously, this final category is the ideal of Buddhist leaders. They and their subordinates seek to integrate life and work. If an entrepreneur can foster this kind of orientation in an organization, its potential for success and effectiveness is enhanced. Such an atmosphere discourages individuals from viewing their work routinely and not caring about the quality of services rendered to others. It is not surprising that the concept of quality control circles originated in Japan (see Deming 1982: 99-110).

For the true Buddhist entrepreneur and executive, life and work become one. The saying, "to love one's work and to work for the ones we love," would have appeal to the committed Buddhist leader. The integration of work and life is characteristic of much organizational life in Buddhist Asia. The important Japanese concept of *i.e.* emphasizing group consciousness and membership rather than individualism similarly reflects the Japanese capability to integrate work and life (Nakane 1973: 4). The Buddhist concept of work is also well articulated in the poetry of Kowitz Khemananda (1983: 63), a protege of Buddhadasa:

One must work individually, but not for the individual
One must work willingly, but not for one's will
When one lives wholly, one feels with one Be-ing.

Cohen and March (1974) are also sensitive to these kinds of concerns. They stress the need to accept playfulness in social organizations. The arbitrary segmentation of work and play that typifies far too many organizations seriously inhibits overall organizational effectiveness, harmony, and creativity. The new Nike world campus in Beaverton, Oregon, in its design stresses the integration of work and play.

The Buddhist concept of work so lucidly articulated by Buddhadasa is clearly validated by the empirical work of the University of Chicago psychologist, Mihaly Csikszentmihalyi (1989), whose research focuses on *flow* and the nature of optimal human experience. Csikszentmihalyi defines flow as "joy, creativity, and the process of total involvement with life". He is critical of both executives and labor leaders for ignoring the importance of flow and its relationship to efficiency and long-term productivity. Another important finding of such research on flow is that it is most often associated with work rather than leisure, which tends to often be passive and unchallenging. Thus, U.S. criticism of the Japanese, for example, of "overworking" may be unfounded not only economically, but also psychologically.

3. Khit-Pen or Buddhist Analytical Thinking and Buddhist Communication

This concept has been developed by Kowit (1975) and derives from a Buddhist orientation to critical thinking. The Buddha taught that individuals should not accept things uncritically (Chayanon 1977:95-96). But instead people should judge ideas by themselves after seeking relevant real experience to test a notion or thought for its validity. The following quotation of the Buddha illustrates this orientation:

Yes, you may well doubt, you may well be uncertain... Do not accept anything because it is the authoritative tradition, because it is often said, because of rumour or hearsay, because it is found in the scriptures, because it agrees with a theory of which one is already convinced, because of the reputation of an individual, or because a teacher said it is thus and thus... But experience it for yourself. [Kalama Sutta, (Khantipalo 1975)]

Entrepreneur should be analytical and critical, fostering these attitudes among their subordinates. Thus, Buddhist leaders are thinkers who are quick to question ideas and assumptions, and who enthusiastically seek to test out their hunches empirically, ever ready to reject those which turn out to be invalid. Assumption drag (Ascher 1978), that is, continued belief in assumptions which are no longer valid, should not be a problem for the Buddhist entrepreneur. In contrast, ego-oriented leaders cling to ideas because they are personally identified with them, even when their actual merits or effectiveness no longer exist.

The emphasis of Buddhist epistemology on critical thinking and experiential learning makes this philosophical system highly compatible with high technology and modern science. Mori (1981) in his fascinating volume, *The Buddha in the Robot*, discusses these linkages in depth. The Thai entrepreneur, Sippanondha Ketudat, discussed below epitomizes such compatibilities. Sippanondha, who has a doctorate in nuclear physics, is a former Buddhist monk and Buddhism and holism strongly influence his thinking about industry and development (Sippanondha 1990).

The Buddhist ideal communicative style is well articulated by Raymond Tang (Bochner 1982: 99):

What greatly attracts me to the Buddha is the civilized concern which he shows for the temperate use of language... To attain this right way all lies, all bitter and double-tongued words, all idle babbling, must be avoided. So equally must harsh abusive speech, arrogant usage heeding only itself, and crude expression tending to corrupt. Style also is important, and bombastic inflated language is condemned no less than gentility and plausible fine words. Above all the Buddha values restraint with words, knowing that silence is often more expressive than the finished poem.

4. Taoist Concepts Related to Effective Entrepreneurship

The ancient literature of Taoism (see Deng 1992, Mair 1990, Watson 1964) is also relevant to the modern entrepreneur. As Mair points out there are also close relations between Taoism and ancient Indian philosophical thought, the source of both Yoga and Buddhism. The Yu concept in Taoism is also directly related to the flow phenomenon described above. Yu which is highly analogous to flow refers to the right way of the following the path, or Tao.

The inherent ambiguity of Taoism allows for a wide range of interpretations. Nevertheless, there are a number of recurring themes in Taoism which are highly relevant to the entrepreneur who seeks to be socially and environmentally responsible. Taoism, for example, stresses reverence for nature and harmony with nature. It also stresses humility and self-effacement. Deng (1992: 17) succinctly synthesizes the Taoist concept of leadership:

True leadership is a combination of initiative and humility.
The best leader remains obscure, leading but drawing no personal attention. As long as the collective has direction, the leader is satisfied. Credit is not to be taken, it will be awarded when the people realize that it was the subtle influence of the leader that brought them success.

Taoism also emphasizes the cultivation of creativity, knowledge, and flexibility (both physical and mental). Holistic thinking is still another aspect emphasized in Taoism and again Deng (1992: 358) is critical of the overspecialization of modern times:

The specialization of modern times calls for individual roles that do not necessarily form a whole. We often lose sight even of what the whole is. We have commentators, we have critics, but we do not have leaders....

The holistic intellectual framework of Taoism is consistent with Kline's (1990: 34) emphasis on the interdisciplinary foundations of technological innovation. There is also in Taoism an emphasis on reliance on the minds of the common people (Mair 1990: 17), highly consistent with Deming's (1982) emphasis on the empowerment of the ordinary workers through their participation in quality control circles and in suggesting innovations.

5. Real World Examples of Buddhist Entrepreneurs

5.1 Mohandas K. Gandhi

Mohandas, the father of Indian nationalism, in a number of ways reflects the ideals of the Buddhist entrepreneur. In pursuing his goal of an independent India, he was totally committed to passive resistance and nonviolent social and political change. It was a tragic irony that he died by an assassin's bullet. Gandhi was also concerned about excessive materialism and sexual vices and advocated a life of modesty and simple living. His philosophy is succinctly summarized in a pithy

statement: "The world has enough resources to satisfy everyone's needs but not his greed" (cited in Sippanondha 1990: 10).

Gandhi also gave considerable thought to industrialization and its threats to traditional Indian village life. Thus, he advocated the encouragement and promotion of village and home industries. Through such a process, important skills passed down through the centuries would be preserved and individuals would avoid the dehumanizing aspects of life in modern cities and factories. Thus, Gandhi was an advocate of local rice roots entrepreneurship, related self-reliance, and the satisfaction of basic needs (in Buddhism they are food, clothing, medicine, and shelter). The Thai King in his visits to remote rural areas of Thailand has noticed that the children seem to have the highest well-being in those villages oriented toward subsistence rather than in those oriented toward exports. This observation is consistent with Gandhian thought and philosophy.

5.2 Maha Chamlong Srimuang, Thai Pro-Democracy Leader

In Thailand, the pro-democracy leader, Maha Chamlong Srimuang, reflects a Buddhist style of leadership. He places a strong emphasis on personal modesty. As governor of Bangkok, he did not take his salary. He is vegetarian, does not drink, and does not engage in sex with his wife. Chamlong's unusual style has attracted considerable attention (Thinakorn 1992; Thongchai 1992) and he has published numerous volumes articulating his political philosophy and approach to leadership and management (1983; 1986; 1989; 1990a; 1990b; 1992a; 1992b). Chamlong is the de-facto leader of the Moral Force Party in Thailand which has steadily gained in popularity and is currently part of the governing coalition. The party's philosophy is reflected in the terms "clean and green" and Chamlong has tried to attract to the party only those of high integrity and ability.

In his two terms of being governor of Bangkok, Chamlong developed impressive popularity despite the inherent difficulties of managing a hyperurbanized Bangkok. Chamlong was particularly noted for his personal attention to and concern for ordinary city workers such as street cleaners. He also was an innovator promoting various ideas to improve the quality of life of the ordinary citizen of Bangkok (e.g., the Rama IX public park in Bangna and the people's store at the weekend market).

5.3 Dr. Sippanondha Ketudat

Dr. Sippanondha, currently chairing four major corporations including the Petroleum Authority of Thailand, has had a remarkable career of public and private entrepreneurship. A former Buddhist monk, he received a Ph.D. in nuclear physics from Harvard and became a professor of physics at Chulalongkorn University.

He subsequently became involved in university planning and later was appointed deputy secretary-general of the National Education Commission, Office of the Prime Minister. Following the October 14, 1973, student "revolution" he became chair of the important Education Reform Committee, which played an important role in introducing a number of important changes in the Thai educational system, which facilitated Thailand's rapid economic growth in the '80s.

Though not a partisan politician, he has served in five cabinets under three prime ministers, most recently as minister of industry in Anand II. As minister of education under Prem, he orchestrated

a change in the basic structure of Thai education, which many judged to be politically impossible because of many vested interests involved.

In his private sector work, Dr. Sippanondha was the first president of the National Petrochemical Corporation of Thailand and as such was a major player in the development of the Eastern Seaboard Project, an innovative development project to help divert development away from Bangkok and to achieve a form of development more in harmony with culture and development.

Dr. Sippanondha's (1990) philosophy of entrepreneurship and leadership is well articulated in his recent book on the future of Thailand published by the East-West Center. A major theme of Dr. Sippanondha's philosophy is the Gandhian, Buddhist philosophy of "eat sufficiently, live sufficiently" (kin phau dii, juu phau dii). As an entrepreneur, Dr. Sippanondha is noted for his integrity, discipline, commitment and innovativeness.

5.4 Dr. Meechai Veeravaidya

One individual, who was an outspoken cabinet minister in both of Prime Minister Anand Panyarachun's interim governments, Dr. Meechai Veeravaidya stands out among many as being a particularly innovative social entrepreneur in his approach to dealing with and solving social problems.

From the first modern census in 1911 which showed a population of 8.3 million, the number of people in Thailand had increased to a level of 44.8 million by 1980. During the two-decade period from 1950, the rate of population growth was over three percent per year.

The innovator, Dr. Meechai Veeravaidya, whose name "Meechai" is now synonymous with the condom, began serious efforts towards reducing the Thai population growth rates in the 1970s. Dr. Meechai, responsible for establishing the Population and Community Development Association, began moving around the country handing out his business card with condoms attached. He even involved children who blew up the condoms as balloons. Even local grocers began to supply condoms to the people when they bought vegetables. Through extensive community education and related efforts, Dr. Meechai began the challenging task of helping his country reduce its high rate of population growth. Thailand's population growth rate has dropped from 3.2 percent in 1970 to the low rate of 1.5 percent in 1991. Thailand's dramatic success in reducing fertility has attracted the attention of demographers around the world (Cochrane 1979).

In the late 1980s, Dr. Meechai became alarmed by the number of children from the poor outlying villages moving to the cities in search of work. Frequently these children were encouraged by their parents to leave the villages because there was little hope of any meaningful employment at home. Many of these young girls and boys were lured into prostitution in the cities or into underground "sweat factories". To reduce this migration flow and to improve the quality of life in the poorer villages, Dr. Meechai enlisted the assistance of corporations in Thailand to help in his efforts to improve the quality of life in remote villages. The approach used by Dr. Meechai has been to encourage corporations to "sponsor" a village. In doing so, the company will make a no-interest loan available to the village to improve its water and sanitation facilities, generally under the direction of the company personnel. Secondly, the sponsoring corporation will help the village to develop an

industry or trade which will provide jobs, income, and an improvement in village conditions. As an example, a German glass manufacturer requires a long handled cotton yarn brush to clean out the dies in which bottles are manufactured. In the past, these brushes have been purchased from outside Thailand. In this particular case, the German employees met with the village people and taught them how to make the brushes, using only hand manufacturing techniques and appropriate local technology.

The fabrication of this brush has been so successful that the German company is now purchasing large numbers to ship to its other manufacturing companies in Germany and other parts of Europe. This simple manufacturing example is only an illustration of the type of basic manufacturing task that is being carried out by local rural people. Yet the income from this and other similar projects is sufficient to make a marked improvement in the employment of the people and increased income of the village.

AIDS has become a serious problem in Thailand since its first apparent introduction several years ago. Here again, Dr. Meechai has been an outspoken advocate for AIDS education and instrumental in developing unique and innovative programs which encourage safe sex.

5.5 Dr. Prawase Wasi

Another prominent Thai social entrepreneur also active in the health field is Dr. Prawase Wasi, winner of the Magsaysay Award (the Asian equivalent of the Nobel Prize) in 1981 for his dedicated and committed work to improve the quality of rural health care in Thailand. He convinced the government, for example, to build 370 new hospitals in Thailand's rural districts. He has also been an active promoter of "the barefoot doctor" concept with an emphasis on indigenous health care. He has worked against the excessive use of unnecessary imported drugs and their possible adverse effects. One of his most innovative projects has been the involvement of the highly respected Buddhist priests in efforts to improve health and the quality of life in remote rural areas (Esterline 1990: 165-178). Finally, Dr. Prawase has been a strong advocate of the idea of Thailand establishing a new international university to promote peace, harmony, and world citizenship. To secure the funding and support to accomplish this lofty ideal represents a genuine entrepreneurial challenge.

6. The Need for Buddhist Entrepreneurs and Leaders

The resolution of the management crisis in many parts of the world in both the public and private sectors requires a fresh look at organizational life. Over time, increasing numbers of creative individuals, particularly in industrial societies, are opting to demanage alternative life styles. To go beyond the current economic crisis of stagnation and bureaucratic pathology will require leadership of imagination and creativity, open to new visions and approaches. America can experience either entropy and stagnate in terms of re industrialization and excessive materialism or become the leader of the teletronic revolution and genuinely assist less technologically advanced nations to progress by concentrating on the development and sharing of appropriate high technology to build human capacities, to promote sustainable development, and to meet universal human needs. To do so, Clinton and the new political administration in the U.S. must overcome vast vested economic interests to realize a genuine peace dividend (see Textor 1991).

Crucial here is the concept of integrated industrial development (Fry and Martin 1991: 244-245) suggested by the work of Sippanondha Ketudat (1990), which calls for industry and technology in harmony with culture and the environment. A major concept in Buddhism is reverence for life in all its forms (Davies 1987). Thus, the genuinely Buddhist entrepreneur should have a deep commitment to improving the human condition and quality of life. The most successful entrepreneurs have flexible financial resources which can be used to promote corporate social and environmental responsibility.

The Buddhist entrepreneur by definition is open to change and innovation. The Buddhist emphasis on contentment is directly relevant to long-term ecological concerns related to global carrying capacity and the need for sustainable development. Thus, the Buddhist entrepreneur has the Taoist flexibility to promote the ecotopian vision (see Callenbach 1975; Maser 1992; Thompson 1992) and not to resist change by clinging to hierarchy, symbols of status differentiation, and excessive materialism. Given their openness to change, Buddhist leaders are more likely to be able to overcome the tempocentrism which threatens global survival. Given their non-self orientation, they should also be open to the growing demands for popular participation, empowerment, democratization, cultural democracy, and economic democracy.

Since compassion has a central importance in Buddhism, Buddhist entrepreneurs can never forget the poor, the sick, the alienated, and the un-employed, wherever they may be. Their organizations will not be stuffy, fear-ridden, unnatural, and cold, but instead changing, playful, enthusiastic, and exciting. Their organizations will demonstrate a deep commitment and dedication to serve consumers with excellence and respect. Their goal is not profit maximization, but instead the optimization of human welfare, for the worker and employee as well as the consumer and larger society. For the Buddhist entrepreneur, administration is not power, but service to humanity in its broadest sense.

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