

## Industrial Policy Support to Thailand: Initiatives in Response to the Asian Economic Crisis and Adaptation Thereafter

Minoru Yamada<sup>1</sup>

### 1. Introduction

This chapter reviews Japan's industrial policy support to Thailand in response to the Asian economic crisis in 1997, as well as the adaptation process undertaken thereafter by Thai stakeholders based on the outcomes of this support. In analyzing the case, its uniqueness is taken into account. First, as the support was provided in response to the economic crisis, it required emergent actions, which to some extent sacrificed the steady and long-term cooperation process that was characteristic of many other cases of Japanese support. Second, as the economic ties between Thailand and Japan have historically been strong, Japanese enterprises that had already advanced into Thailand and remained in the country at the time of the crisis, were strongly involved in the provision of support.

The analysis in this chapter is based on a review of existing literature as well as interviews with Japanese and Thai stakeholders involved in the initiatives that responded to the economic crisis and the evolution thereafter. In particular, the general description of the crisis and the recognition on the initiatives from a Japanese viewpoint relies heavily on Otsuji (2016). This chapter proceeds as follows: the second section provides an overview of the pre-crisis situation. The third section describes the action taken by stakeholders from the two countries during and after the crisis. Three concrete cases have been selected from the Thai

---

<sup>1</sup> The author is grateful to Dr. Bandhit Rojarayanont, former President of Thai-Nichi Institute of Technology, Mr. Hajime Kuwata, President of the Japan-Thailand Economic Cooperation Society (JTECS), Mr. Tetsuaki Nonaka, Counselor of Daicel Corporation, Prof. Yoshihiro Otsuji, Vice Chairman of the Institute for International Economic Studies and Adjunct Professor of National Graduate Institute for Policy Studies, and Ms. Miwako Oikawa of UNICO International Corporation for their providing valuable information and insights based on their involvement with the various initiatives covered in this chapter.

government's attempts at industrial restructuring, namely (i) formulation of a small and medium enterprise (SME) promotion master plan; (ii) the establishment of a factory evaluation system; and (iii) strengthening of the automotive supporting industry. The fourth section discusses the characteristics emerging from the analysis of the support and adaptation process in the three cases and is followed by the conclusions.

## **2. Overview of the Pre-crisis Situation**

### **2.1. Progress of industrial development**

In general, Thailand has experienced steady industrialization, particularly since its adoption of export-oriented policies in the early 1970s (Hoyrup and Simon 2010). The major statistics related to economic/industrial development are summarized in Table 9.1. The annual growth rate of the manufacturing sector has surpassed that of GDP in most years since 1961. Additionally, the share of the manufacturing sector in the GDP has risen remarkably from 13.0 per cent in 1961 to 25.9 per cent in 1996, just before the crisis. Thanks to a generally favorable business environment, Thailand has also been a popular investment destination for foreign enterprises, including those from Japan. The Japanese Chamber of Commerce, Bangkok (JCC) was established as early as 1954. After the Plaza Accord in 1985, which triggered significant appreciation of the Japanese yen, many Japanese manufactures chose to establish their production sites in Thailand. By the early 1990s, major Japanese automotive assemblers had entered Thailand<sup>2</sup> (Higashi 2000) and in 1995, automotive production in the country exceeded 500,000. Despite the apparently impressive record of macroeconomic/industrial development, the Thai economy suffered from structural vulnerability, represented by an appreciated home currency (baht), an overdependence on import (partially due to weak supporting industries), and a resultant current account deficit. International competition continually tightened due to the improving performance of emerging countries such as China and Mexico. These factors brought about a sharp plunge in manufacturing exports in 1996.

The industrial policies implemented by the Thai government before the crisis were moderate; policies were not intended to promote specific segments of the economy, for instance individual industrial sectors

---

<sup>2</sup> Some assemblers such as Nissan, Toyota, Isuzu, and Hino invested in Thailand as early as the 1960s.

**Table 9.1. Statistics Related to Economic/Industrial Development of Thailand (1961-2015)**

Indicators	1961-65	1966-70	1971-75	1976-80	1981-85	1986-90	1991-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006-10	2011-15
GDP growth rate (%) <sup>1</sup>	7.2	9.2	5.8	8.0	5.4	10.3	8.2	5.7	-2.8	-7.6	4.6	4.5	3.4	6.1	7.2	6.3	4.2	3.8	3.0
Manufacturing value added growth rate (%) <sup>1</sup>	11.3	11.9	10.4	9.9	5.0	15.1	11.8	5.7	0.9	-8.4	9.8	3.3	2.0	8.8	10.2	7.5	4.2	4.7	1.1
Manufacturing value added (% of GDP) <sup>2</sup>	13.9	15.1	18.6	20.5	22.2	25.6	27.0	25.9	26.7	27.4	28.4	28.6	28.0	28.7	29.8	29.6	29.8	30.5	28.0
Manufacturing exports growth rate (%) <sup>2</sup>	9.2 <sup>a</sup>	22.8	64.5	38.9	10.9	42.5 <sup>b</sup>	23.2	-3.6	3.0	-1.4	7.4	19.8	-6.9	5.7	18.4	21.2	16.1	12.3	2.8
Foreign direct investment (net inflows) (% of GDP) <sup>2</sup>	-	0.6 <sup>c</sup>	0.8	0.4	0.7	1.7	1.5	1.3	2.6	6.4	4.8	2.7	4.2	2.5	3.4	3.4	4.3	3.4	2.2
Motor vehicle production (thousand units) <sup>3</sup>	5	12	25	63	93	169	397	559	360	158	323	412	459	585	742	928	1,123	1,304	2,028

Notes: a. Average between 1963-65.

b. Figures for 1988 and 1989 are not available.

c. Figure for 1970 only.

Source: 1. World Development Indicators.

2. Author's calculation based on World Development Indicators and UNCTADSTAT.

3. Figures until 1998: Higashi (2000). Figures for 1999 and after: International Organization of Motor Vehicle Manufacturers (OICA) website (<http://www.oica.net/production-statistics/>).

or SMEs, through measures such as government subsidies (Suehiro 2010). While government agencies such as the Ministry of Industry (MOI), the Ministry of Commerce, and the Board of Investment were concerned about the country's industrialization or SME promotion, there was no single organization that took overall responsibility. The MOI had limited presence within the government as its main function was regulation enforcement rather than policy formulation. However, the above-mentioned structural vulnerability and the necessity for industrial restructuring were recognized by the government before the crisis, which led to the prompt establishment of the National Industrial Development Committee (NIDC), chaired by Deputy Prime Minister in charge of economy, in August 1997 (Suehiro 2010).

## **2.2. Cooperation from Japan**

From the 1950s, various forms of industrial cooperation occurred between the two countries; this was in line with the active advancement of Japanese enterprises into Thailand. Like other ASEAN countries, under the overall policy direction of the Ministry of Trade and Industry

(MITI, or the current Ministry of Economy, Trade and Industry (METI)) of Japan, Japanese public organizations such as JETRO, AOTS, JODC, and JICA provided support through acceptance of trainees to Japan and the sending of Japanese experts to Thailand.<sup>3</sup> What is unique about Thailand is the cooperation between the Technology Promotion Association (Thailand-Japan) (TPA) and its counterpart organization, the Japan-Thailand Economic Cooperation Society (JTECS). TPA was established in 1973, primarily by former students who studied in Japan and had a strong commitment to strengthening economic/industrial ties between the two countries. Its activities include industry-related training/consultancy, language courses, and publications (JTECS 2003).

JICA's support for the Thai industrial sector has emphasized the strengthening of the real economy and thus its main counterpart organization has been the MOI. The cooperation initially focused on 'hard' technology such as metalwork and machine industries. Gradually, it became more comprehensive covering institutional aspects such as export promotion and then supporting industry development. In 1995, a JICA study project produced a report on 'industrial sector development (supporting industries),' which contained comprehensive recommendations for industrial promotion. The MOI realized some of the recommendations, such as the establishment of the Bureau of Supporting Industry Development (BSID) under the Department of Industrial Promotion (DIP) (JICA 1999).

### **3. Initiatives during and after the Economic Crisis**

#### ***3.1. Occurrence of the crisis and the Industrial Restructuring Plan***

In July 1997, Thailand was severely damaged by a currency crisis that was triggered by the large and quick outflow of short-term and speculative capital. The fixed exchange rate regime was abandoned due to decreasing

---

<sup>3</sup> The Japan External Trade Organization (JETRO) provides services that contribute to the promotion of trade and economic cooperation with foreign countries. While Japan International Cooperation Agency (JICA) mainly provides support for the public sector in developing countries, Japan Overseas Development Corporation (JODC) and The Association for Overseas Technical Scholarship (AOTS) were organizations that supported industrial human resources development in developing countries through training and expert dispatch, respectively (these operations are now conducted by the new AOTS, or The Association for Overseas Technical Cooperation and Sustainability Partnership).

foreign currency reserves and the baht depreciated by more than 50 per cent within half a year. The crisis caused significant damage to the real sector. In 1998, the economic growth rate dropped to minus 7.6 per cent and the automotive production volume decreased from 559 thousand in 1996 to only 158 thousand in 1998. In response to the situation, the International Monetary Fund (IMF) and the World Bank extended their emergent financial and policy support, which required financial/fiscal stabilization policies. However, these measures, which focused on macroeconomic aspects, did not lessen the impact on the real economy and might have served to aggravate the situation further (Tanikawa 2000).

During the crisis, the already existent initiatives for industrial restructuring gained further momentum. The Industrial Restructuring Plan (IRP) was formulated by the Sub-Committee for Industrial Restructuring Plan under NIDC and approved by the Cabinet in early 1998. In formulating the IRP, the MOI relied significantly on the outcomes of the previous cooperation with JICA. The formulation process was also partially supported by a Japanese advisor from the MITI, who emphasized the importance of grasping the actual situation of Thai enterprises and taking measures to make feasible enterprises survive the crisis. The following are the factors that contributed to the increased momentum for IRP formulation within the Thai government:

- It was recognized that emergent responses focusing on macroeconomic aspects were not sufficient, and that addressing the needs of the real economy or individual industrial sectors/enterprises was necessary.
- There was pressing political demand for SME support (as symbolized by the emergence of the Thai Rak Thai Party led by Thaksin).
- The ambition of the MOI, especially the Minister of Industry was to strengthen its influence within the government.

The IRP consists of eight pillars that focus on (i) productivity, (ii) technological capabilities, (iii) labor skills, (iv) SMEs, (v) marketing, (vi) rural development, (vii) foreign direct investment (FDI), and (viii) environment protection. While the plan itself covered the period up to 2002, the concrete implementation plans were made annually starting from 1999. The plans made use of the government budget appropriated from financial support extended by donor partners such as the World Bank, the Asian Development Bank, and Japan (JICA 1999).

In parallel with the IRP formulation, the institutional settings for implementing industrial policies were also strengthened. Most importantly, in line with JICA's study in 1995, the MOI submitted a draft SME Promotion Act to Parliament in April 1999. The Act covered issues including (i) the SME promotion committee and office responsible for overall SME promotion policies; (ii) an SME promotion fund; and (iii) SME promotion action plans. At the implementation level, the MOI, in collaboration with the private sector, established new sectoral institutes (*Sathaban* in the Thai language) such as the Thai Automotive Institute (TAI) and the Electric and Electronic Institute (EEI) (JICA 1999).

In embarking on the IRP implementation, Prime Minister Chuan and the Japanese Minister of Trade and Industry agreed on Japan's cooperation for the preparation of SME promotion policies. According to the observation of one of the Japanese experts at the time, the Thai side had examined and compared the SME promotion system of various foreign countries. After deliberation, it requested support from Japan, who placed importance on the real economy or actual performance of 'ingredients' of the economy such as individual enterprises; this was in contrast to the IMF-like approach focusing more on the macroeconomic 'framework.' The context was also ripe for the Japanese side to support Thailand for the following reasons:

- Most of the Japanese enterprises in Thailand were committed to remaining in the country even during the crisis and had strong expectations for the Japanese government support to Thai industries.
- The Japanese government's policy towards ASEAN was also oriented towards focusing more on supporting the domestic industries (including SMEs) of the countries in the region beyond mere export promotion support. This was thought necessary for realizing further regional integration and stronger partnerships between Japan and ASEAN countries.

The following subsections outline three concrete cases from the various initiatives for industrial restructuring, where the MOI was in charge and intensive support was provided by Japan, namely (i) formulation of an SME promotion master plan; (ii) the establishment of a factory evaluation system; and (iii) strengthening of the automotive supporting industry.

### **3.2. Formulation of an SME promotion master plan**

The formulation of an SME promotion master plan (SME M/P) was one of the 24 projects within the 1999 IRP implementation plan, and under the fourth pillar of 'Program for Incubation & Strengthening of Small & Medium Supporting Industries' (JICA 1999). The DIP was responsible for this project receiving extensive support from Japan.

#### **3.2.1. Process of cooperation**

In response to the announcement of the Japanese government at the first ASEAN Economic Ministers-METI Economic and Industrial Cooperation Committee (AMEICC) meeting to support ASEAN countries suffering under the economic crisis, the MITI decided to send Shiro Mizutani to Thailand as an advisor to the Minister of Finance and the Minister of Industry. Mizutani was formerly a high-ranking official within the MITI who had served as Director General of the Consumer Goods Industries Bureau. In addition to his profound understanding of Japan's industrial and SME promotion policies, his human network with Thai stakeholders, established through his previous career as Representative of JETRO Bangkok office, made Mizutani the most suitable expert to serve as an advisor. In his role as Advisor, Mizutani visited Thailand on five occasions each of relatively short duration (for 55 days in total) between January and June 1999. To support his activities, close to one hundred working-level experts were mobilized from various Japanese organizations including the Japan Small Business Corporation (now the Organization for Small & Medium Enterprises and Regional Innovation, Japan), the Japan Small and Medium Enterprise Management Consultant Association (J-SMECA), and financial institutions dedicated to SME finance such as the Shoko Chukin Bank.<sup>4</sup> At the end of his mission, Mizutani submitted a draft SME M/P (the so-called 'Mizutani Plan') as a proposal to the Thai government. In coordination with the policy level support led by Mizutani, JICA also conducted follow-up survey to its 1995 study and submitted recommendations on the SME M/P and implementation plans for the newly established sectoral institutes (i.e. TAI and EEI).

---

<sup>4</sup> It should be noted that these organizations were largely engaged in domestic businesses in Japan, meaning that supporting foreign countries was beyond their original responsibilities.

The cooperation process had several characteristics. First, a high-ranking official like Mizutani was intentionally designated as an advisor to ensure high-level ownership on the Thai side. In response to Mizutani's advice, the two counterpart ministers promptly instructed their staff to take concrete actions. The quick and visible response sent out political messages to the general public that measures were steadily being taken to overcome the crisis.<sup>5</sup> Second, as Thailand was experiencing a severe economic crisis, support was provided in an emergent mode. Mizutani's visits were intentionally short so as to generate quick outcomes with a sense of emergency. This differs from common practice in Japanese industrial policy support, which has a longer time horizon, as illustrated by other chapters in this volume. Third, even under the emergent situation, the Japanese side managed to grasp the details surrounding Thai industries, ranging from various economic indicators and existing policies and laws/regulations to business practices on the ground.<sup>6</sup> This exercise was made possible by the large-scale mobilization of Japanese experts from various professional backgrounds. The presence of Japanese enterprises was another enabling factor; for example, the accurate information possessed by the JCC, which supplemented insufficient official statistics, was useful in analyzing the situation. Fourth, based on detailed observations, the SME promotion measures were tailored to the local Thai situation. While referring to the extensive menus found in relevant Japanese policies, Japanese experts avoided simply copying them. Rather, they prioritized those measures that would fit to the Thai context with necessary adjustments. For example, the establishment of SME cooperatives, which was a successful SME promotion measure in Japan, was not included in the Mizutani Plan as the assumption at the time was that strengthening individual SMEs should be prioritized in Thailand (AOTS 1999). The fifth characteristic concerns the modality of interaction between Japanese experts and their Thai counterparts. The Japanese experts were willing to consult with their counterparts on the contents of their recommendations. However, partly due to the emergent nature of the collaboration, there seems to have been limited room for intensive exchange of opinions, which could have served as a learning

---

<sup>5</sup> For example, AOTS, in partnership with the MOI, conducted so-called 'training for ten thousand people' to equip a wide range of local industrial human resources with basic business skills such as bookkeeping and 5S.

<sup>6</sup> One of the practical findings was that the financial statements from Thai enterprises were in many cases unreliable and thus not duly examined even during appraisals by financial institutions.

process on the Thai side. While the recommendations were elaborated to suit the local Thai situation, such adjustments were made by the Japanese side and their counterparts largely accepted the recommendations as they were.<sup>7</sup> In the course of JICA's follow-up survey, the study team urged the MOI staff to propose priority projects to be included in the M/P, but they failed to do so (JICA 1999).

### ***3.2.2. Contents of the Japanese recommendations***

The outline of the SME promotion measures proposed in the Mizutani Plan is shown in Box 9.1 It consists of two pillars. The first pillar, or 'measures for solving problems faced by Thai SMEs,' can be understood as the policies addressing SMEs in general, which covered issues including finance, management, and technology. The introduction of a factory evaluation system was proposed as an independent primary measure. This was based on the recognition that understanding the actual and detailed situation of individual SMEs, through factory evaluation, was the precondition for all other SME promotion measures to be effective. The second pillar, or 'SME policies for realizing vigorous economic and social systems,' complemented the first pillar by targeting more specific segments of the economy. This can be understood as the manifestation of the typical Japanese idea that general (or 'horizontal') measures are not enough to realize strategic industrial upgrading, but rather targeted 'vertical' measures focusing on specific sectors (such as supporting industries) are essential.

### ***3.2.3. M/P formulation by the Thai government***

#### ***M/P by the MOI***

Based on recommendations from Japanese experts, the MOI elaborated its own SME M/P, which was approved by the Cabinet in April 2000. The coverage of this M/P was, in keeping with the MOI's jurisdiction, limited to SMEs in the manufacturing sector. Although the contents of the M/P more or less reflect the recommendations from the Japanese side (JICA 2002),<sup>8</sup> there are some differences that could be understood as a result of the Thai side's own translative adaptation as shown below:

---

<sup>7</sup> According to a former Japanese expert, one of the exceptions was that the MOI insisted on including microenterprises as the target of support measures.

<sup>8</sup> According to a former Japanese expert, the MOI stated that '85 per cent' of the Japanese recommendations were accommodated.

### **Box 9.1. SME Promotion Measures in the Mizutani Plan**

#### **Measures for Solving Problems Faced by Thai SMEs**

1. Introduction of a Factory Evaluation System
2. Strengthening of the Financial System
  - (1) Restructuring of the Credit Guarantee System
  - (2) Restructuring of Special Financial Institutions (Establishment of a Financial Institution Specialized in SME Finance)
  - (3) Establishment of Equity Financing Facilities for SMEs
3. Measures for Further Upgrading Technological and Managerial Capability
  - (1) Introduction of a Comprehensive On-site Technical Guidance Program
  - (2) Technical Guidance Aiming at Global Standards
  - (3) Strengthening of Production/Quality Management through TQM, ISO, etc.
  - (4) Technology Development for SMEs and Promotion of Technical Guidance by Public Institutions
4. Human Resources Development
  - (1) Institutional Support for Promoting Human Resources Development for SMEs
  - (2) Support for Entrepreneurs and New Business Development
  - (3) Strengthening/Expansion of the Skill Certification System
  - (4) Strengthening of Human Resources Development Capacity at Vocational Training Schools and Universities
5. Improvement of Business Environment
  - (1) Institutional Promotion of Policy Dissemination Activities
  - (2) Introduction of a Preferential Purchasing System of SME Products by Public Institutions
  - (3) Strengthening of Export Promotion Activities
  - (4) Measures for Improving Efficiency of Logistics
  - (5) Support for Information Technology Development for SMEs
  - (6) Measures for Special Policy Objectives (Pollution Prevention etc.)

#### **SME Policies for Realizing Vigorous Economic and Social Systems**

1. Sector-wise Promotion Policies including Promotion Policies of Supporting Industries
  - (1) Sector-wise Promotion Policies
  - (2) Promotion Policies for Supporting Industries
2. Promotion Policies for Regional SMEs
  - (1) Formulation of Regional SME Promotion Plans
  - (2) Establishment of an Institutional System for Providing One-Stop Services
  - (3) Improvement of Business Environment
  - (4) Support for Small and Micro-sized Enterprises
  - (5) Support for Rural Areas and Region-specific Industries (Promotion of Local Industries)
  - (6) Regional SME Promotion through Linkage with Large Enterprises

Source: JETRO Bangkok Center (1999) (Translated by Author).

- The 'Introduction of Comprehensive On-Site Technical Guidance Program,' proposed in the Mizutani Plan, was not included in MOI's M/P in its suggested form. Instead, the M/P included the 'development of a consulting system for improving businesses and solving problems,' which could be understood as a measure with more general orientation (see the next subsection for the possible background to this development).
- Coordination among stakeholders appears to be emphasized. For example, 'business clusters' is positioned as one of the seven strategies. Although there are some references to clusters in the Japanese recommendations, cluster promotion is not an independent strategy. In addition, 'support for establishing micro and small enterprise cooperatives in the rural area' is included in MOI's M/P. It is interesting to note that the Mizutani Plan intentionally excluded SME cooperatives as the Japanese side thought these would not work effectively in the Thai context at the time.

While these differences are the results of MOI's own deliberations, it is appropriate to assume that the voices of third parties also influenced the formulation process, as illustrated below.

- In parallel with Japan's support, the International Labour Organization (ILO) and the United Nations Development Programme (UNDP) were implementing the 'Micro and Small Enterprises Development and Poverty Alleviation in Thailand Project.' This project produced several working papers, which largely advocated for SME promotion policies that complied with 'international best practices.' For example, the project recommended that provision of business development services (BDS) should be left to the private sector as much as possible.<sup>9</sup> They also demanded that SME policies be holistic and cover a wide range of enterprises, including the informal sector, rather than narrowing down the scope to specific industries such as manufacturing (Allal 1999).
- The World Bank was also involved in the formulation process. It conducted a large-scale enterprises survey (JICA 1999) and organized a seminar on SME M/P (Sevilla and Soonthornthada 2000).<sup>10</sup> This

---

<sup>9</sup> One of the working papers includes a citation from a paper written by MOI's Director General, which is in line with the international best practices (Allal 1999).

<sup>10</sup> Japanese experts also referred to the World Bank survey results and had discussions with experts from the World Bank.

seems to suggest that the World Bank paid attention not only to the macroeconomic, or 'framework,' aspects but also to the real economy, or 'ingredients' on the ground.

- In addition to international donors, the presence of domestic stakeholders is also observed. For example, a paper prepared by the Institute for Population and Social Research of Mahidol University expresses some cautions around the SME M/P. Specifically, it raises questions about the appropriateness of the target sector selection and expresses an expectation that the formulation/monitoring process of the M/P be attentive to the opinions of domestic stakeholders (Sevilla and Soonthornthada 2000).

### ***Master plan by the OSMEP***

In February 2000, the SME Promotion Act was promulgated in parallel with the approval of the SME M/P by the MOI. As stipulated in the Act, the Office of SME Promotion (OSMEP) was duly established in November of the same year. Unlike the MOI, the OSMEP was mandated to cover SMEs in all sectors including manufacturing, trade, and service. An institutional framework, which remains in place today, was established where the OSMEP formulates and monitors comprehensive SME M/Ps and detailed action plans. The first SME M/P by the OSMEP was approved by the Cabinet in May 2003. It embodies the translative adaptation process by the Thai government reflecting upon MOI's M/P, opinions of international and domestic stakeholders<sup>11</sup> as well as the overall direction of the Thaksin administration who came to power in 2001. Box 9.2 and Figure 9.1 show the outline of strategies/measures taken by the M/P and its relationship with the Mizutani Plan, respectively.<sup>12</sup>

---

<sup>11</sup> One of the Appendices of the M/P shows the process of its formulation. According to the appendix, SME promotion policies from eight foreign countries (Japan, China, Australia, Malaysia, Singapore, Italy, Taiwan, and South Korea) were studied and five domestic seminars were held in regional cities and Bangkok in order to collect voices from stakeholders (OSMEP 2003).

<sup>12</sup> The indications of the relationship between the two plans in Figure 9.1 are intuitively classified into solid lines (strong and clear association) and dotted lines (weak and ambiguous association).

## **Box 9.2. SME Promotion Measures in the Master Plan by the OSMEP**

### **Basic Strategies for Enterprises of All Types and Areas across the Country (Broad Based Strategies)**

1. Strategies for Revitalizing SMEs as an Important Mechanism for Economy and Society of the Country
  - (1) Measures for Rehabilitating the Status and Strengthening Financial Stability of SMEs
  - (2) Measures for Improving Environment of SMEs to Expand Market and Create Opportunities
2. Strategies for Creating and Improving Infrastructure and Reducing Barriers to Business Operations
  - (1) Measures for Developing Infrastructure and Improving Government Regulations and Services to Facilitate the Operation of SMEs
  - (2) Measures for Promoting Cooperation between the Public and Private Sectors and Strengthening Private Sector Organizations
3. Strategies for Strengthening SMEs for Sustainable Growth
  - (1) Measures for Enhancing Efficiency and Promoting ICT use of Operators of Manufacturing, Trading, and Service Enterprises to Adhere to Corporate Governance Principles Satisfying International Standards
  - (2) Measures for Promoting Joint Research and Development for Innovation towards Business Use among Government, the Private Sector, and Educational Institutions
  - (3) Measures for Linking Enterprises and Developing Integrated Enterprise Groups (Clusters) through an Enterprise Grouping System, an Information Network System, and a Supply Chain System
  - (4) Measures for Improving the Capacity and Quality of Life of Personnel in SMEs

### **Strategies Focusing on Target Groups (Sectoral Strategies)**

4. Strategies for Enhancing the Capacity of Exporting Enterprises to the International Level
  - (1) Measures for Strengthening Export Marketing Capacity
  - (2) Measures for Developing Products and Services of SMEs to Meet the Internationally Accepted Standards
  - (3) Measures for Creating a Good Business Environment and Reducing the Burden and Disadvantage of Export-oriented Enterprises Arising from Trade Barriers or Laws, Policies, and Measures of the Government
5. Strategies for Creating and Developing New Entrepreneurs
  - (1) Measures for Promoting and Linking Research Activities, and Developing Innovation towards Commercial Production
  - (2) Measures for Creating and Instilling a Sense of Entrepreneurship
  - (3) Measures for Creating Opportunities for New Entrepreneurs by Providing Necessary Facilities and Supporting Training/Generation Measures
  - (4) Measures for Creating an Atmosphere Encouraging Generation of New Entrepreneurs
6. Strategies for Enhancing the Potential of Community Enterprises in Solving the Issue of Poverty and Spreading Prosperity to Regions
  - (1) Measures for Developing Local Wisdom and Generating Commercial Benefits
  - (2) Measures for Enhancing the Capacity of Community Enterprises towards the Development of the System as a Whole and Promoting the Early Generation of Benefits at the Local Province and Community Levels
  - (3) Measures for Creating Markets and Distributing Goods and Services of Community Businesses to Markets

Source: OSMEP website (<https://www.sme.go.th/th/download.php?modulekey=12>) (Translated by JICA and Author).



Note: The outlines of the two plans correspond to those shown in Box 9.1 and Box 9.2.  
 Source: Author's elaboration.

**Figure 9.1. Comparison of SME Promotion Measures between the Mizutani Plan and the Master Plan by the OSMEP**

Some of the observations are as follows:

- Both plans commonly employ the two pillars of ‘general measures’ and ‘targeted measures’ for SME promotion; however, the targeted segments are different. While the Mizutani plan proposes targeting specific industrial sectors, including supporting industries, the OSMEP M/P targeted exporting enterprises and new entrepreneurs.<sup>13</sup>
- Establishment of a factory evaluation system is not included in the OSMEP M/P in a concrete way. There is a reference to ‘*shindan*’ (a Japanese word corresponding to ‘evaluation’ as detailed in the next subsection) only in the main text outlining the measures under the ‘Strategy for Strengthening SMEs for Sustainable Growth.’
- Issues such as the business environment for SMEs, public-private partnership, inter-enterprise linkages, and entrepreneurship are emphasized. This seems to show some inclination towards the ‘international best practices’ stated above.
- The M/P aims to improve the ‘quality of life’ of SME employees, which is a perspective not found in the Japanese recommendations.

### **3.3. Establishment of a factory evaluation system**

This subsection reviews Thailand’s endeavors to establish a system to strengthen BDS provision with reference to Japan’s enterprise evaluation (*shindan*) system, and the associated support from Japan.<sup>14</sup> The enterprise evaluation system is one of the measures that contributed to SME development in post-war Japan. Under the Japanese system, personnel equipped with knowledge and skills for diagnosing enterprises (including factories in the case of manufacturers) are certified and registered as professional evaluators (‘*shindan-shi*’ in Japanese); they play an important role in SME promotion activities. Typically, *shindan-shi* conduct overall diagnoses of enterprise/factory performance from a mainly managerial and financial perspective, with a view to identifying challenges and/or opportunities for further growth in enterprises. They then provide

---

<sup>13</sup> In the Mizutani Plan, measures for strengthening export enterprises and entrepreneurs are included in the general policies. Regional SMEs are commonly targeted in the two plans.

<sup>14</sup> While the general term ‘evaluation’ is primarily used as the translation of ‘*shindan*’ in this chapter to maintain consistency with the Japanese recommendations in response to the economic crisis, the meaning of ‘*shindan*’ is more specific and closer to the word ‘diagnosis.’

general instructions for addressing the challenges and opportunities they have identified. For in-depth support, enterprises are expected to follow *shindan-shi*'s general instructions and rely on BDS providers with more specialized expertise. Guidance given by the *shindan-shi* is also expected to facilitate access to finance. As such, the role of *shindan-shi* can often be likened to that of 'home doctors,' as opposed to 'professional doctors.'

### **3.3.1. Initiatives in response to the economic crisis<sup>15</sup>**

The establishment of a factory evaluation system was one of the 24 projects in the 1999 IRP implementation plan and was included in the first pillar of 'Program for Improving Industrial Productivity and Renovating the Production Processes to Enhance Competitiveness in Production Costs and Product Delivery.' The MOI set up a Committee for Promoting the SME Evaluation Program which was made up of public organizations and private stakeholders, such as SME associations and financial institutions. This committee decided to implement the 'program for training SME evaluators for manufacturing enterprises' and designated the DIP as the body responsible for the program. Within the DIP, the BSID was assigned as the section in charge, which reflected the recognition that the factory evaluation system was primarily intended to promote a specific segment of SMEs or supporting industries. The actual implementation of the program on the ground was delegated to TPA.

The Japanese side provided intensive support for the Thai initiative. At the policy level, the Japanese advisor on IRP formulation contributed to the nurturing of a common recognition of the necessity for the factory evaluation system, which would be useful for discerning viable SMEs and connecting them to financial support. The Mizutani Plan also emphasized the system as the primary measure for SME promotion. JICA's follow-up survey report proposed a detailed implementation plan for establishing the system, with a view to connecting the evaluators' service to the specialized BDS providers and financial institutions. To materialize the proposed plan, field level support for evaluator training and trial implementation of factory evaluation was provided in four phases from July 1999 to March 2002. In cooperation with Japanese organizations that possessed practical know-how of the Japanese *shindan* system, including

---

<sup>15</sup> The description in this subsection largely relies on Otsuji (2016), JICA (1999), and unpublished reports by former Japanese experts.

Japan Small and Medium Enterprise Corporation and J-SMECA, 115 experts were mobilized for the program.<sup>16</sup> During the cooperation period, 479 associate *shindan-shi*<sup>17</sup> were trained, and close to one thousand factory evaluations were conducted. As the program was implemented during a severe economic crisis, competent personnel (e.g. ex-bankers) also participated in the training program. Beneficiary SMEs were generally satisfied with the evaluations that were conducted.

When it comes to the cooperation process, however, the implementing structure on the Thai side was rather weak. The project office at TPA was largely occupied by Japanese experts and the main counterpart of the BSID was too busy to stay long at the office and pay enough attention to the daily operation of the program. TPA, the implementing organization on the ground, had difficulty assigning sufficient personnel to the program and Japanese experts were frustrated with frequent changes of their counterparts.<sup>18</sup> In devising the factory evaluation system, Japanese experts had to lead the process as this system was totally new to their Thai counterparts and it was difficult for them to make immediate contributions to the process of designing the system. As a result, institutionalization of the system fitted to the Thai local context did not progress as expected.<sup>19</sup>

### 3.3.2. *Development after the economic crisis*

After the intensive support from Japan in response to the economic crisis, the initiative from the Thai side unfolded in a manner considerably different from Japanese expectations. As the OSMEP was established as the organization with overall responsibility for SME promotion policies, the initiative for establishing the system was also transferred from the MOI to the OSMEP. The OSMEP seemed to give relatively low priority

---

<sup>16</sup> JICA also assigned an expert for helping the institutionalization of the factory evaluation system during this period.

<sup>17</sup> Although Thai trainees acquired necessary skills to become *shindan-shi*, there was no mechanism, including examinations, for officially certifying their qualification. This was why they were designated as 'associate' *shindan-shi*.

<sup>18</sup> According to the reflection by a Thai expert involved in the program, this could partially be attributed to the high flexibility of the Thai labor market. It was not uncommon for Thai people, including TPA staff, to change jobs frequently especially when they accumulated sufficient skills and experiences at their current workplace to further their professional careers.

<sup>19</sup> There were some occasions where the Thai side exerted strong ownership. For example, the MOI secured budget for receiving some of the Japanese experts through tough negotiations with financial authorities.

to the establishment of the system, which coincides with the fact that OSMEP's SME M/P did not position the *shindan* system as an independent policy measure, as stated above. In fact, according to the opinion of a Thai expert, there seemed to be some reservation within the Thai government, from the outset, to legislate a rigid national system that could lead to the monopolization of general enterprise evaluation tasks by certified individual consultants.<sup>20</sup> In addition, it became necessary to coordinate the overall institutional framework for the provision of consulting services to SMEs. Specifically, while Japan provided support for introducing the *shindan* system, other donor partners also supported the formulation of business consultant qualifications. This then resulted in a situation where the quality of consulting service was not sufficiently assured (JICA 2002). Although the *shindan* system (more specifically, systematic training program or certification/registration system as found in Japan) has not been institutionalized due to these situations, related activities were observed, as illustrated below.<sup>21</sup>

#### ***MOI's endeavors for regional SME promotion***

The MOI continued activities mobilizing the trained associate *shindan-shi*, even after the intensive support from Japan ended. In particular, the MOI utilized associate *shindan-shi* in a systematic way within its jurisdiction. For example, diagnosis by associate *shindan-shi* was required in its projects such as Invigorating Thai Business (ITB), which responded to the trend towards emphasizing rural SMEs under the Thaksin administration. The MOI even trained new evaluators at the regional level, although the length of training was much shorter than the training conducted right after the economic crisis.

This trend of emphasizing the rural industries, together with the above-stated necessity for coordinating the consulting service provision, led the MOI to start an initiative to strengthen the institutions for supporting regional SMEs. With continual support from JICA, the MOI has been attempting to establish the Regional Integrated SME Promotion (RISMEP)

---

<sup>20</sup> Apart from individual consultants, the Ministry of Finance has a system for registering organizations engaged in government programs for enterprise consultancy (TPA and TNI are registered under this system).

<sup>21</sup> In addition, trained associate *shindan-shi* themselves are thought to be utilizing the wide expertise gained through the *shindan* training. According to an interview from a Thai expert, one of the former associate *shindan-shi* is serving as a manager of the SME Development Bank of Thailand.

system nationwide. Under the system, various BDS providers (ranging from public support organizations to individual consultants) are networked at the regional level and provide collective support for SMEs in their respective regions.<sup>22</sup> Specifically, when a BDS provider receives an inquiry from an SME and finds itself unable to meet its demands, it introduces another BDS provider that has expertise more suited to the needs of the SME. As the target segment shifted from supporting industries in the urban area to rural SMEs, the responsible sections within the MOI also changed from the BSID. At the central level, the section within the DIP in charge of industrial/enterprise development in general took the lead.<sup>23</sup> At the regional level, local offices of the DIP (Industrial Promotion Centers (IPCs)) or, in provinces where IPCs are not located, local offices of the MOI played the central role in RISMED operations.

Although the *shindan* system was not introduced into Thailand in the same form as in Japan, some of its traits seem to be reflected in RISMED. Just as *shindan-shi* act as ‘home doctors,’ attending to the needs of SMEs and referring them to appropriate specialized BDS providers, members of RISMED networks collectively cater to the needs of SMEs in the region beyond their individual expertise. A Japanese expert who supported the establishment of RISMED suggests that her MOI counterparts recognized the necessity for, and actual lack of *shindan-shi*-like personnel with general but broad knowledge in the country, especially in the rural areas. Such recognition led them to introduce and expand RISMED where respective BDS providers, with limited expertise on their own, knew and complemented each other to serve as a collective platform for assisting SMEs in the region. This development could be understood as a translative adaptation process by Thai stakeholders, including the MOI.

### ***Shindan-related activities by other organizations***

Additional developments related to the factory evaluator training program took place after the economic crisis. TPA, which served as the main counterpart organization to Japanese experts within the program, continued its enterprise evaluation activities for Thai SMEs (the word ‘*shindan*’ is used on its website). Furthermore, the Thai-Nichi Institute of

---

<sup>22</sup> The description on RISMED is based on JICA (2016, 2018) and interviews from a former JICA expert and former JICA staff in charge.

<sup>23</sup> Currently, the Division of Industrial Business Capability Development (DBCD) is in charge, although the name of the responsible section changed several times due to frequent reshuffling of the organizational structure of the MOI.

Technology (TNI),<sup>24</sup> which played an important role in industrial human resources development in Thailand, established a course for training *shindan-shi* in its Executive Enterprise Management Program (Ohno 2010). According to its website, TNI continues to offer courses on *shindan* in its Master of Business Administration (MBA) Program. In fact, some associate *shindan-shi*, who were employed by TPA and engaged in the SME evaluation program, continue to teach *shindan*-related content at TNI. The content has inherited the traits of the *shindan-shi* training provided by Japan such as an emphasis on on-site learning rather than classroom lectures.<sup>25</sup> These developments suggest that, even though the *shindan* 'system' did not materialize, the *shindan*-related expertise as well as the Japanese word itself have spread widely in Thailand. This further implies that the core idea of *shindan*, namely a recognition on the importance of general enterprise diagnosis at the beginning of a consultancy and the need for skilled and dedicated 'home doctor'-like personnel to conduct such initial diagnoses, has been well rooted in the country.

### **3.4. Strengthening of the automotive supporting industry**

This subsection reviews the initiative for strengthening supporting industries, with a focus on that of the automotive industry. While the case of the factory evaluation system explained in the previous subsection is a horizontal approach without strong focus on specific industrial sectors, the initiative presented here is typically vertical as the main interest is in the business relationship between assemblers and parts suppliers in specific sectors.

#### **3.4.1. Initiatives in response to the economic crisis**

The economic crisis hit enterprises in all sectors. However, from the viewpoint of foreign assemblers who were determined to remain in Thailand despite the shrinking domestic market, the emergence of competent local parts suppliers was particularly important for expanding exports. Against this backdrop, there was increased momentum for strengthening supporting industries. Sectoral institutes, such as TAI and EEI, were approved by the Cabinet in 1998 and started operation the next year. These institutes aimed to play an important role in promoting their

---

<sup>24</sup> 'Nichi' means 'Japan' in Japanese. The University was founded by the TPA.

<sup>25</sup> Interview with a Thai expert.

respective sectors. However, existing literature does not clearly indicate the relationship between the initiative for strengthening supporting industries and the IRP. Although the second pillar of the IRP, the 'Program for Upgrading Technological Capabilities and Modernization of Target Industries,' is in line with the initiative, the 1999 IRP implementation plan did not contain concrete projects for this program.

In contrast, the Japanese side was proactive in supporting the initiative. At the policy level, Japan announced its intention to support the automotive supporting industry in four ASEAN countries including Thailand at the AMEICC meeting in 1998. The Mizutani Plan proposed a comprehensive on-site technical guidance program for supporting industries. According to the program implementation plan shown in JICA's follow-up survey report, selected local enterprises that showed significant potential were supposed to receive on-site technology transfer from experienced international experts as a means of improving their business performance.<sup>26</sup> The basic assumption was that such on-site guidance was more effective than off-site seminars and training.

### ***3.4.2. Implementation of the technical guidance program<sup>27</sup>***

In line with the proposed plan, actual cooperation with the automotive supporting industry, or the Automotive Expert Dispatching Program (AEDP), was conducted continually in two phases from October 2000 to September 2005. The experts from Japanese automotive enterprises, who were mainly dispatched through the JODC and JETRO programs, collaborated with TAI and provided technical support to around two hundred local auto parts manufacturers. In general, the program was evaluated highly by both parts manufacturers as direct beneficiaries and their business partners, or Japanese assemblers, due to the close coordination on the concrete content of the guidance to be provided to targeted local enterprises.

However, there was some complexity in the cooperation process. At the beginning of the program, the process was to some extent driven

---

<sup>26</sup> Unlike the case of the factory evaluation system, this proposal was not based on a similar model found in Japan but rather on good practices from South Korea and Malaysia.

<sup>27</sup> The description in this subsection largely relies on Otsuji (2016) and METI (2004, 2005, and 2006).

by Japanese interests.<sup>28</sup> First, Japanese experts and TAI had different preferences for target enterprises; while the Japanese side preferred Tier 1 enterprises with a direct business relationship with Japanese assemblers, the Thai side was more inclined to include lower-level enterprises.<sup>29</sup> There were some occasions where the Thai side expressed explicit frustration with the Japanese way. Second, as TAI could only assign a limited number of counterparts, in many cases Japanese experts supported target enterprises directly with the help of interpreters. While this resulted in quick outcomes for target enterprises, the contribution to strengthening TAI's capacity was limited. This situation gradually improved as the program progressed. According to the reports of the second phase activities, the process for selecting target enterprises was mainly led by TAI and guidance to the target enterprises was eventually conducted by teams of Japanese experts and their TAI counterparts newly employed for the program.<sup>30</sup> More importantly, TAI staff, ranging from management to technical counterparts to Japanese experts, came to recognize that the program activities were being conducted for their own benefit and they came to appreciate the Japanese experts for their support (METI 2006).

### ***3.4.3. Development after the technical guidance program***

Owing a lot to the technical guidance program, the automotive industry in Thailand recovered well from the damage of the economic crisis. In fact, the country went on to establish itself as the 'Detroit of Asia,' as was the goal of the Thaksin administration.<sup>31</sup> FDI from Japanese automotive enterprises further accelerated after 2002, with the expectation that Thailand would become a hub of the automotive industry in the ASEAN

---

<sup>28</sup> The title of the program ('Automotive Expert Dispatching Program') itself implies this tendency.

<sup>29</sup> Similar divergence of recognition was also observed at the policy level. In the opinion of one of the Japanese experts involved in the formulation of the Mizutani Plan, the MOI, or even the BSID, the section responsible for promoting supporting industries, was not very active in supporting enterprises that had a potential to become business partners with Japanese assemblers. In a sense, however, this stance of the MOI might be natural as there was a political pressure to ensure fairness in beneficiary selection and the ministry did not have sufficient technical capabilities to meet the demands of promising supporting industries.

<sup>30</sup> However, despite their satisfactory performance, retention of these counterparts was recognized as a challenge.

<sup>31</sup> While the Thaksin administration tended to emphasize the rural industries for political reasons, its 'dual-track' policies also placed importance on supporting industries in urban areas.

market. Automotive production in the country recovered steadily and exceeded one million vehicles in 2005.

Regarding the partnership between Thai and Japanese stakeholders, the technical guidance program evolved to a new modality. Support for individual local enterprises was scaled up to the broader initiative of human resources development within the automotive industry. In 2005, building upon the achievement of AEDP, the Automotive Human Resource Development Project (AHRDP) was launched. TAI served as the secretariat of the project and major Japanese enterprises (Toyota, Honda, Nissan, and Denso) sent experts to train Thai trainers in their respective fields (METI 2008).<sup>32</sup> To date, TAI continues to contribute to the human resource development of the automotive industry.<sup>33, 34</sup> According to its website, TAI provides 26 public training courses and 68 in-house training courses. Some of the course titles reflect the influence of Japanese management methods, such as 'Continuous development courses with Kaizen' and 'HORENSO Course, Japanese Communication Techniques for Increasing Work Efficiency.'<sup>35</sup> Although the on-site guidance program proposed by Japan during the economic crisis and implemented through AEDP was not institutionalized as originally envisaged, the shift in orientation from support for individual local parts producers to broader industrial human resource development is understood to be an adaptation by TAI and relevant stakeholders.

#### 4. Discussion

This section summarizes and discusses the tendencies and characteristics

---

<sup>32</sup> Concerning the involvement of the Japanese public sector, while the experts from Japanese enterprises were dispatched as part of JETRO's program, JICA also participated in AHRDP by sending long-term experts in charge of the overall project coordination and providing relevant equipment. However, the next round of cooperation (Automotive Human Resources Development Institute Project), implemented from 2011 to 2016, was more privately driven and JICA did not participate.

<sup>33</sup> In addition to human resource development, as an organization responsible for the overall promotion of the automotive industry, TAI has various functions such as research and development, testing and inspection services, business analysis, and information provision.

<sup>34</sup> TPA has also played an important role in automotive human resource development through in-house training, consultancy, calibration, and translation/publication of technical materials.

<sup>35</sup> 'Kaizen' means 'improvement' in Japanese and 'horensō' is an abbreviation of Japanese words meaning 'report, inform, and consult.'

of the three Thai initiatives and the corresponding Japanese support to overcome the economic crisis. First, the factors that enabled effective actions in response to the crisis are analyzed. Then, the process of translative adaptation by Thai stakeholders, or how they digested and utilized the input and outcomes of the Japanese support, is reviewed.

#### **4.1. Enabling factors for effective actions**

The following are thought to be the direct and indirect factors that contributed to the effectiveness of the immediate actions taken in response to the economic crisis:

##### Direct factors

- (1) Private and public stakeholders in the two countries were engaged in the actions with seriousness as the risk of discontinuation of economic activities produced a strong sense of emergency.
- (2) The commitment of high-level government officials ensured steady implementation of the proposed actions. The intensive support from Japan was based on a request from the Prime Minister of Thailand and the announcement by the Japanese Minister of Trade and Industry at the AMEICC meeting. The Thai Minister of Industry was ambitious enough to enhance MOI's presence within the government by taking quick and responsive actions for saving SMEs, partially for political reasons.
- (3) There was full-fledged working-level support from the Japanese side. Experts from a wide range of Japanese organizations with diverse backgrounds were mobilized and contributed to both (i) preparation of recommended policy measures (SME M/P) and (ii) on-site training/consultation (the factory evaluation system and the technical guidance program).
- (4) The Japanese side tried to grasp not only the macroeconomic indicators but also the actual situation of the real economy. While Japanese models were referred to, they were not simply transplanted to the Thai context; attempts were made to adjust the models and devise solutions suited to the situations in the country through joint work with Thai counterparts wherever possible.

##### Indirect factors

- (1) Even before the economic crisis, there was awareness of the structural vulnerability of Thai industries and the necessity for promoting SMEs and supporting industries. This awareness meant

that Thai stakeholders were ready to take relevant actions once the crisis occurred, as illustrated by the quick finalization of the IRP in early 1998.

- (2) The long-term and multi-faceted relationship based on mutual trust between Thai and Japanese stakeholders facilitated the actions taken. For example, as a former JETRO Representative, Mizutani had an established network among Thai stakeholders. Similarly, TPA was an organization founded by former Thai students who had studied in Japan and had a basic understanding on the Japanese way of thinking.
- (3) The presence of Japanese enterprises in Thailand during the economic crisis was important. Unlike the time-bound cooperation projects of donor agencies, FDI enterprises are permanent stakeholders as long as they continue operations in the destination country. In the face of the crisis, Japanese enterprises, especially in the automotive sector, came to expect public support from Japan for strengthening Thai supporting industries, which generated a timely 'win-win' situation. The experts from Japanese enterprises actively engaged in the technical guidance program and contributed to a rapid improvement in the performance of Thai auto parts producers. This development served as the basis of the collaboration platform between Japanese automotive enterprises and Thai stakeholders including TAI, which led to AHRDP and other initiatives.

#### ***4.2. Translative adaptation process by the Thai side***

While the actions taken in response to the economic crisis were generally effective, this does not mean that the collaboration between the two parties was always ideal or that the outcomes of the actions continued or sustainably took root. The overall tendency commonly observed from the three cases is that, while the cooperation process was largely aligned with the Thai government's own plan, it also entailed some donor-driven aspects. In the end, however, the Thai counterparts exerted considerable ownership and used the outcomes of the Japanese support to respond to the context after the crisis, as will be discussed below.

First, all three initiatives were aligned with the Thai government's overall orientation, which suggests Thai ownership in a general sense. The SME M/P formulation and the establishment of the factory evaluation system were explicitly positioned as projects in the IRP implementation plan. The

initiative for strengthening the automotive supporting industry was also consistent with IRP's overall orientation, although it is not clear from the existing literature whether the actual activities were recognized as part of IRP implementation. Apart from the relationship with the IRP, the establishment of TAI as the sectoral institute responsible for automotive industry promotion was the Thai government's original initiative.

Second, during cooperation, the level of participation by Thai stakeholders was mixed. Concerning the SME M/P formulation, the Thai counterparts were cooperative, but the recommendations were written by Japanese experts who referred to Japanese models and adjusted them for the Thai context. Looking at the factory evaluation system, participating evaluators were eager to learn the skills necessary for enterprise diagnosis; however, the administrative counterparts could not spare sufficient time for the program or make significant substantial contributions, which caused some frustration among the Japanese experts. The MOI and TAI both had a stake in strengthening the automotive supporting industry (especially in terms of target selection); however, at the beginning at least, the actual guidance to the beneficiary enterprises was in many cases provided directly by Japanese experts due to the absence of Thai counterparts. These observations could be partially attributed to the emergent nature of the support provided during the crisis; the Thai side was not necessarily indifferent to Japan's support, but it had difficulty assigning adequate counterparts or it was not possible for those who were assigned to be proactive enough to participate in the activities in a constructive manner. This is all the more true given that these types of activities were quite new in the Thai context. In addition, it could be pointed out that the high flexibility of the Thai labor market might have been a factor behind the unstable assignment of counterparts with Japanese experts.

Third, despite their apparently limited participation during the cooperation period, Thai stakeholders sometimes utilized the outcomes of Japanese support in ways that the Japanese side did not expect; this could be understood as the process of translative adaptation. Building upon the Japanese recommendations, the MOI and then the OSMEP completed their own SME M/Ps. These plans were different from Japanese proposals as evidenced by their emphasis on the role of the private sector or smaller enterprises, which indicates an inclination towards international best practices. The OSMEP version did not position the factory evaluation system, the core of Japanese recommendations, as an independent

measure; this is presumably the result of their own elaboration as well as incorporation of the voices of a wide range of stakeholders. Concerning the factory evaluation system, while the 'system' of training or certifying/registering *shindan-shi* was not institutionalized, presumably reflecting the reservations Thai stakeholders had about introducing rigid legislation, the importance of enterprise evaluation, or *shindan*, is well rooted. TPA conducts consultations for enterprises using *shindan* expertise, and TNI includes *shindan* in its education program (such as MBA). It might even be argued that the high flexibility of the labor market contributed to the wide spread of the *shindan* concept. In addition, the mechanism for regional SME promotion, or RISMEP, has some commonalities with the concept of *shindan*; just as *shindan-shi* conduct general diagnosis and connect client SMEs to specialized BDS providers, RISMEP provides such a function collectively through networking of BDS providers with different expertise. In the automotive supporting industry, the technical guidance program established in response to the economic crisis concentrated on providing direct guidance to local enterprises to meet the expectation of Japanese assemblers. Maintaining the partnership with the Japanese enterprises, TAI later shifted its orientation to developing industrial human resources in the automotive sector in a broader sense, as the case of AHRDP illustrates.

## 5. Conclusion

This chapter analyzed Thailand's endeavors and Japan's support for industrial restructuring in response to the Asian economic crisis from the late 1990s to mid-2000s. Overall, it can be concluded that Thai stakeholders had adequate ownership and capacity to utilize the outcomes of Japanese support in a balanced manner, realizing translative adaptation in the face of changing contexts. More specifically, the immediate actions, which paid due attention to the actual situation of the real economy, contributed to containing the crisis even though the initiatives were sometimes led by Japanese experts from a short-term perspective. From a longer-term perspective, the endeavors to respond to the crisis contributed to laying the institutional foundation for industrial development and SME promotion of the country, which had been weak and fragmented before the crisis. Referring to the Japanese recommendations as well as voices of various stakeholders, the newly established OSMEP formulated a comprehensive SME M/P for the first time in the country. On the ground initiatives in response to the crisis led to (i) widespread recognition on the

necessity of solid evaluation/diagnosis of enterprise performance and (ii) a strengthened platform for developing industrial human resources for the automotive sector through private public partnership.

There are some limitations to this chapter, which suggest possible areas for further research. First, while the SME promotion measures proposed by the Japanese side were comprehensive, this chapter only looked in detail at the factory evaluation system and the technical guidance program where the MOI was responsible and Japan provided extensive support. Reviewing the process by which other recommendations, including financial measures addressed to the Ministry of Finance, were accommodated by the Thai side would add useful insight into Thailand's response to the economic crisis. Second, the analysis of this chapter is largely based on existing literature and discussions with relevant Japanese stakeholders. In-depth interviews from a wider range of Thai stakeholders might unveil important facts related to the endeavors during and after the crisis, which could lead to different interpretations from those presented in this chapter.

## References

- Allal, Maurice. 1999. *Business Development Services for Micro and Small Enterprises in Thailand*. Bangkok: ILO/UNDP.
- AOTS (The Association for Overseas Technical Scholarship). 1999. "Azia no saisei to AOTS no yakuwari" [Revival of Asia and the role of AOTS]. *Kensyū* [Training]. Autumn 1999.
- Higashi, Shigeki. 2000. "Sangyō seisaku: Keizai kōzō no henka to seihu kigyō-kan kankei" [Industry: Business and government in a changing economic structure]. In *Tai no keizai seisaku: Seido, sosiki, akutā* [Economic policy in Thailand: The role of institutions and actors], edited by Akira Suehiro and Shigeki Higashi, 115-78. Chiba: Institute of Developing Economies.
- Hoyrup, David, and Jean-Christophe Simon. 2010. "FDI in Thailand: The High Road to Industrial Diversification Revisited, Sustainability of Thailand's Competitiveness." In *Sustainability of Thailand's Competitiveness*, edited by Patarapong Intarakumbert and Yveline Lecler, 17-51. Bangkok: Research Institute on Contemporary Southeast Asia.
- JETRO (Japan External Trade Organization) Bangkok Center. 1999. "Tai seihu heno tyūsyōkigyō sinkō seisaku no teigen ni tuite" [About proposals to the Thai government on small and medium enterprise promotion policies]. Japanese Chamber of Commerce, Bangkok Report. September 1999.
- JICA (Japan International Cooperation Agency). 1999. *The Follow-up Study on Supporting Industries Development in the Kingdom of Thailand*. Tokyo: JICA.
- . 2002. *Heisei 13 nendo Tai-koku tyūshō kigyō sinkō bunya purojekuto keisei tyōsa hōkokusyo* [Project formation study report in the field of small and medium enterprise promotion in FY2001]. Tokyo: JICA.
- . 2016. *Project for Enhancing Regional Integrated SME Promotion (RISMEP) Mechanism in the Kingdom of Thailand: Project Completion Report (Second Phase)*. Tokyo: JICA.
- . 2018. *Regional Integrated SME Promotion (RISMEP) in the Kingdom of Thailand Work Completion Report*. Tokyo: JICA.
- JTECS (Japan-Thailand Economic Cooperation Society). 2003. *Tomoni ayumi, tomoni susunda 30 nen: Kizuna wa umi wo koete* [30 years of walking and progressing together: Bonds beyond the sea]. Tokyo: JTECS.
- METI (Ministry of Economy, Trade and Industry). 2004. *Tai-koku ASEAN*

- zidōsya sangyō no zyunkai-gata gizyutu sidō zigyō hōkokusyo* [Report on on-site technical guidance program for the ASEAN automotive industry in Thailand]. Tokyo: METI.
- . 2005. *Tai-koku ASEAN zidōsya sangyō no zyunkai-gata gizyutu sidō zigyō hōkokusyo* [Report on on-site technical guidance program for the ASEAN automotive industry in Thailand]. Tokyo: METI.
- . 2006. *Tai-koku ASEAN zidōsya sangyō no zyunkai-gata gizyutu sidō zigyō hōkokusyo* [Report on on-site technical guidance program for the ASEAN automotive industry in Thailand]. Tokyo: METI.
- . 2008. *Bōeki tosi enkatu-ka sien zigyō (Senmonka haken) Tai: 'Zidōsya sangyō zinzai ikusei zigyō' (Senmonka hōkokusyo)* [Expert report on 'automotive industry human resource development project' in Thailand under trade and investment facilitation program (Expert dispatch)]. Tokyo: METI.
- Ohno, Kenichi. 2010. *Transferability of Japan's Small and Medium Enterprise Management Consultants System to ASEAN*. Unpublished manuscript. GRIPS Development Forum.
- OSMEP (Office of Small and Medium Enterprise Promotion). 2003. "Small and Medium Enterprises Promotion Master Plan in Thailand (2002-2006)," accessed September 29, 2020. <https://www.sme.go.th/th/download.php?modulekey=12>.
- Otsuji, Yoshihiro. 2016. *Tai tyūsyō kigyō seisaku to Nihon: Tūka kiki-ji no keiken* [Thai small and medium enterprise policies and Japan: Experiences at the time of currency crisis]. Tokyo: Shoseki Kobo Hayama.
- Sevilla, Ramon C., and Kusol Soonthornthada. 2000. *SME Policy in Thailand: Vision and Challenges*. Nakhon Pathom: Mahidol University.
- Suehiro, Akira. 2010. "Industrial Restructuring Policies in Thailand: Japanese or American Approach." In *Sustainability of Thailand's Competitiveness*, edited by Patarapong Intarakumbert and Yveline Lecler, 129-73. Bangkok: Research Institute on Contemporary Southeast Asia.
- Tanikawa, Hiroya. 2000. "Azia tūka keizai kiki no yōin to seisaku kadai" [Factors and policy challenges of Asian currency and economic crisis]. In *Tenkan-ki no higasi Azia to Nihon kigyō* [The East Asian economies and the Japanese company at a turning point], edited by Masahiko Aoki and Juro Teranishi, 19-60. Tokyo: Toyo Keizai Inc.