The Political Economy of Thai Automobile Industry

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Abstract

Since 1961, corresponding to the First National Economic and Social Development Plan, Thailand began developing its automobile industry. In the early stages, Thailand adopted policies including import substitution and tariff protection but met limited success. Since the 1990s, under the influence of globalization, Thailand has moved away from producing national cars and turned towards liberalization policies that drew on foreign direct investment for development. Although Thailand's adjustment was commendable, the lack of corresponding measures and comprehensive development strategies struck the automobile industry heavily when the Asian Financial Crisis broke out. In 2001, Thaksin Shinawatra sought to correct the problems in the automobile industry by making policy adjustments based on Thaksinomics' dual track strategy. On the one hand, Thaksin emphasized the importance of FDI and continued to attract investment from Asian countries (especially Japan), on the other hand, Thaksin emphasized the domestic market. Through initiatives such as the eco-car project and first car incentive program, Thailand regained control of the automobile industry and led Thailand to become ASEAN's largest, Asia's fifth largest, and the world's ninth largest car producing country.

Keywords: Thailand, automobile industry, Asian financial crisis, Thaksinomics

Introduction

The automobile industry has long been regarded as an important strategic industry in developed countries, a sector that drives forward economic development, employment and technological advancement through vertical integration (Fujita, 1998). In Thailand, the automobile industry holds an important place in the economy. After more than four decades of development, Thailand is currently the world's largest producer of one-ton pickup trucks and the ninth largest automobile producer in the world. According to Japan's Automobile Manufacturers Association (JAMA), Thai produced automobile related products are touted to have the best quality among Southeast Asian countries (Thailand Invest Review, 2008). Automobile is currently the third largest industry in Thailand, employing more than 700,000 workers and boasting a Gross Domestic Produce (GDP) of 12% (Natsuda and Thoburn, 2011; Thailand Investment Review, 2009a).

In 2012, Thailand produced over 2.4 million cars with approximately 1 million cars exported to more than 130 countries in the world, making the Southeast Asian state an export factory for major producers around the world. In addition, in recent years, major producers have come to see Thailand as a site for R&D as well. As early as 2003, Toyota invested 27 billion Baht in Samut Prakan and established its first R&D center outside North America and Europe. The Toyota R&D center in Thailand was officially in function on May 11, 2005 (Staples, 2008). Other leading automobile and parts manufacturers including Yamaha, Bridgestone, Maxxis and Michelin have all established R&D and test centers in Thailand.

Since Thailand's development of the automobile industry in the early 60s, favorable economic and policy environments, appreciation of the Yen and globalization led competition led to the rapid accumulation of foreign direct investment (FDI) and economic growth in the country. Following the onslaught of severe financial crisis in 1997, Thailand was forced to reconsider its response to globalization. In 2001, newly incumbent PM Thaksin Shinawatra emphasized the dual track strategy of Thaksinomics. Track one continues the emphasis on FDI strategy, especially the attraction of Japanese FDI for the development of the automobile industry and the Thai economy, while track two places emphasis on increasing domestic demand (Chen, 2008). Departing from Thaksinomics, this paper will provide an analysis to the development of the automobile industry in Thailand.

Thaksinomics

There are two main reasons that led to the initiation of Thaksinomics: (1) a critical examination of the Washington Consensus, and (2) limitations to the East Asian Economic (EAEM). First, once in office in 2001, Thaksin soon undertook a critical examination of Thailand's long time obeisance for the Washington Consensus. The Washington Consensus was the main guiding concept for global economic development and a key driving force for globalization in the 1980s. However, as demonstrated by China's awing economic performance since its adoption of open reforms in 1978, measures such as liberalization and privatization suddenly did not seem like the only answers to economic development. The 1997 Asian Financial Crisis further encouraged reconsiderations for the Washington Consensus and the general consensus among Asian countries that the state should increase its role in economic affairs. Second, the EAEM is characterized by the emphases on high investment rate driven by FDI and an export oriented economy driven by labor intensive production. Yet the consequence of the EAEM was the entrapment of East Asian countries in a malignant cycle of price competition. For Thailand, active integration into the world economy did not bring about proportional benefits.

Comparable to Reagonomics introduced in the 1980s, Thaksinomics was controversial upon its debut. In essence, two points inform Thaksinomics. First, (Japanese) FDI continues to play an important role in the economic and industrial development of Thailand. Second, the domestic market also plays an important role. It is hoped that increased domestic demand can reduce Thailand's dependence on export. Noting the discontent IMF reforms generated in the Thai population, Thaksin set aside liberalization and globalization policies and redirected state policy towards an emphasis on the interests of Thailand and localization (Hewison, 2000). Through the support for creative cultural industries and populist policies such as the People's Bank, One Tambon One Product and Farmers Assistance Plan, Thaksin successfully increased domestic demand and economic growth (Chen, 2011). The dual track Thaksinomics not only lifted Thailand's economy out of the shadow of financial crisis but also granted another victory to Thaksin at the ballot box in 2005. Even though a military coup

forced Thaksin out of office in 2006, localization policies adopted by Thaksin brought decision making power back to the government while the Thai economy quickly rebounded in a short period of time. Part 4 will analyze Thailand's automobile industry based on Thaksinomics.

Reviewing Thailand's Automobile Industry

Since the burgeoning of Thailand's automobile industry in 1961, Thailand has become the fifteenth largest car producer in the world and the fifth largest producer in Asia, trailing only China (world first), Japan (world third), South Korea (world fifth) and India (world sixth). Compared with other industries, automobile is the third largest industry in Thailand (Office of Industrial Economics, 2006). The automobile success story can be divided into the following periods.

Import Substitution Period (1961-1971)

Before the 1960s, all automobiles in Thailand were imported (Niyomsilpa, 2008). In order to develop its own automobile industry, in 1960, the Thai government passed the Industrial Promotion Act to provide inducements for investment (Doner ,1987). Several assembly companies obtained the license in the same year. In 1961, Anglo Thai Motor (ATM), Thailand's first automobile assembly company, was officially established. In its first year in running, ATM assembled merely 310 passenger cars and 215 trucks (Poapongsakorn and Techakanont 2008; Terdudomtham 1997). In 1962, in order to further encourage international brand names to establish factories for car assembly in Thailand, Bangkok increased the tariff on the import of completely built-up (CBU) models to 60%, 40% and 20% respectively and lowered the (completely knocked-down, CKD) tariff for spare parts import from 30%, 20% and 10% respectively (see table 1).

Table 1

Thailand automobile import tariff rate

	CBU(full vehicle import)			CKD(spare parts)		
	commercial vehicle	small truck	truck	commercial vehicle	small truck	truck
1962	60%	40%	20%	30%	20%	10%
1970	80%	60%	40%	50%	40%	30%
1978	80~150%			50~80%		
1983	150~200% (above 2300C.C.)			n.a.		
1991	300→100% (above 2300C.C.) 180→60% (below 2300C.C.)			112→20%		
1992	100→68.5% (above 2300C.C.) 60→42% (below 2300C.C.)					
Current	80%			30%		

Source: Tai (2010); Kohpaiboon (2009); Komura (2000); Staples (2008); Terdudomtham (1997)

Since 1969, six automobile retailers have established assembly lines in Thailand: Siam Motor & Nissan, Toyota Motor Thailand, MMC Sittipol (Mitsubishi), Isuzu Motor Thailand, Thai Hino Industry and Thonburi Automotive Assembly (Benz). Despite the entry of various retailers, the fact that Thailand continued to import spare parts generated a deficit in the country's trade balance with the world. In response, in

1970, Bangkok further increased CBU and CKD tariff in the hope of growing its own automobile industry. By 1971, Thailand hosted a total of thirteen assembly lines while the number of cars assembled increased to 9,017 vehicles, making up more than half of the domestic automobile market. Nonetheless, Bangkok's import substitution policy in this period didn't yield a positive result. The increase in imported vehicles further deteriorated Thailand's trade deficit and compelled Bangkok to make policy adjustments and adopt a stronger stance against foreign investment. In 1972, Thailand adopted related regulations that limit the influence of foreign capital on the Thai economy (Kesavatana, 1989).

Protectionist Period (1971-1991)

By the late 1960s, problems began to emerge in Thailand's automobile industry. Following suggestions by US specialist J.B. Organ, the automobile industry began to adopt a series of rationalization policies (Doner, 1991). In 1971, under the Ministry of Industry, Bangkok established the Automobile Industry Development Committee (AIDC), with the desire to increase the speed of industry growth through state support. Accordingly, Bangkok announced a series of policies for the automobile industry. For example, in 1975, Bangkok adopted the regulation that all assembled vehicles must obtain a local content ratio (LCR) of 25%. In other words, 25% of the spare parts used in assembly must be produced in Thailand.

In 1978, new policies were further adopted: (1) LCR in vehicles must increase to 50% within a period of five years; (2) assembly lines must decide between the production of consumer or commercial vehicles and could only produce three vehicle and engine types, with only one type over 2,000 CC; (3) new assembly lines must obtain a capital investment of more than 20 million Baht; (4) termination of license distribution for new assembly lines; (5) adoption of new measuring standards for LCR; (6) increase of CBU and CKD tariff from 80% to 150% and from 50% to 80% respectively while banning the import of CBU (Doner, 1987; Kesavatana, 1989).

Despite opposition from US capital, Bangkok's reforms garnered the support of Japanese and Thai capital (Doner, 1988). With the support of Bangkok's LCR policy and appreciation of the Japanese Yen after the 1985 Plaza Accord, Japanese spare parts producers joined in the migration towards Thailand by automakers and cooperated with local producers to achieve LCR requirements by Bangkok (Buranathanung, 1996; Maruhashi, 1995). As a result, the production of spare parts including starters, electricity generators, air cleaners, exhaust pipes, radiators and windshields increased immensely, and helped to spur economic prosperity in the automobile spare parts industry and the establishment of the Thai Auto-Parts Manufacturers Association (TAPMA) in 1978 (Doner, 1988). According to statistical survey, the number of auto-parts producers grew from about 140 in 1975 to more than 400 in 1983 and by the mid-1990s, more than 600 auto-parts makers were producing Original Equipment Manufacturer (OEM) and Replacement Equipment Manufacturer (REM) parts (Kesavatana, 1989).

In 1982, the Japanese Chamber of Commerce released a study report on Thailand's LCR policy for the automobile industry and supported the National Economic and Social Development Board's (NESDB) recommendation to freeze LCR at 45%. Correspondingly, liberal economists represented by the NESDB also demanded government reform on the protected automobile industry. In response, in 1983, Bangkok reached an agreement with vehicle assembly companies to maintain LCR at 45% (Doner, 1991). The agreement was nonetheless halted with Ob Vasurat's assignment as the Minister of Industry; NESDB was forced to announce a temporary halt on freezing LCR.

Once in office, Vasurat not only continued the policy of LCR but further demanded an increase in LCR to 70% in 1983 and 100% by 1988. After Vasurat's

departure from office in 1986, Thailand's new Minister of Industry reached an agreement with the AIDC, assembly companies and spare parts makers to freeze LCR at 47%. In short, Thailand's LCR policy in this period granted high protection to the domestic automobile industry that led to an increase in production cost and decrease in quality. The high prices of automobiles in Thailand severely contracted sales and forced away foreign capital such as GM Holden and Chrysler/Dodge (Lim and Fong, 1991). By this time, Thailand was ready for another round of reforms.

Liberalization Period (1991-1997)

Following the military coup in February 1991, Anand Panyarachun succeeded as the eighteenth PM of Thailand. In office, Panyarachun decided to liberalize Thailand's automobile industry in order to reduce the cost of domestic vehicles and increase the global competitiveness of Thai vehicles. Under Panyarachun, Bangkok cancelled import restrictions on CBU in April 1991 and in July, Bangkok further reduced CBU and CKD tariffs. Regarding CBU, tariff for vehicles above 2,300 CC was reduced from 300% to 100% while the tariff for vehicles less than 2,300 CC dropped from 180% to 60%. CKD tariff was greatly reduced from 112% to 20%. In 1994, Bangkok reopened applications for vehicle assembly license (Niyomsilpa, 2008). As a result of tariff reduction, government decision to liberalize the cab market and domestic economic development, automobile sales in Thailand increased by a margin of 13% to 20% (Champathong, 1996; Terdudomtham, 1997).

In the past, Thailand's automobile industry was mostly oriented towards the domestic market, with local companies highly protected by LCR and tariff policies. However, after 1993, Thailand's automobile industry began turning towards exports. In 1995, Thailand's Ministry of Industry introduced the Automobile Industry Export Promotion Project, a five year plan (1996-2000) to promote automobile export, while Thailand's Board of Investment (BOI) proposed policy inducements to encourage exports by vehicle assembly companies (Fujita, 1998). Subsequently, a series of complementary policies brought America's three leading automobile producers to Thailand. In 1995, Chrysler and Ford entered the Thai market. In the following year (1996), General Motors entered as well.

In this period, Bangkok's policy for the automobile industry basically went in line with globalization. Although the car industry began to internationalize in this period (Poapongsakorn and Techakanont, 2008), its policy autonomy remained relatively low while corresponding to measures and polices related to the new development. In addition, Bangkok's decision to relax the threshold for share holding by foreign investors at this time caused most of Thailand's companies to begin falling into the hands of foreign ownership (especially Japanese ownership) (Fuangkajonsak, 2006). Despite the fact that policy adjustments led to partial benefits for the automobile industry, overall, Thailand's national interest was at a loss. Severe problems finally broke out in 1997.

Post-financial Crisis Period (1997 - present)

The Asian Financial Crisis massively impacted Thailand's automobile industry. While the automobile market shrunk by 40%, the sale of cars dropped from 561,523 vehicles in 1996 to 349,033 vehicles in 1997. By 1998, car sales plummeted to 140,402 vehicles, reaching only one-quarter of overall sales in 1996 (see table 2) (Terdudomtham, et al, 2002).

In order to save the automobile industry, Bangkok adopted a series of policies. First, in 1998, Bangkok reached the decision to terminate its longstanding LCR policy and prepare for ascension into the WTO in 2000 (Kohpaiboon and Poapongsakorn, 2011). Second, also in 1998, the Ministry of Industry established the Thailand Automotive Institute (TAI) and hoped the new institute

could serve as a bridge for communication between the government and producers. Bangkok hoped the TAI could strengthen cooperation between the public and private sector and boost the global competitiveness of the automobile industry (Thailand Automotive Institute, 2006). Third, since 2000, Bangkok began to implement reward and inducement policies for vehicle exports including the exemption of import tariffs on materials used for export, exemption of tariffs on automobile and auto-part export, establishment of export processing zones and support for cooperation among ASEAN countries. Fourth, in 2004, the automobile industry became more competitive as a result of tax reforms that increased CBU import tax to 80% (Kraipornsak, 2005).

Due to intense competition in the global automobile market, the global financial crisis in 2009 and massive flood in 2011 (Kohpaiboon, et al., 2010; Thailand Investment Review, 2012), the production, sale and export of Thai automobiles underwent great changes in this period. As many major car producers were forced to restructure, reduce production cost and expand in the international market at this time, companies established in Thailand began shifting away from the Thai middle class towards the global market (Niyomsilpa, 2004). In 2012, Thailand's automobile production reached a new historical record of 2.4 million vehicles while domestic sales reached approximately 1.4 million vehicles. It is clear that despite the financial crisis and natural disaster, with correct development and government strategies, the automobile industry can resuscitate effectively.

Table 2

Thailand Automobile Production and Sales

Unit: car/million Baht

Year	Car Production (rate of adjustment)	Car Sales (rate of adjustment)	Car Exports (rate of adjustment)	Sum of Car Exports	Sum of Spare Parts Exports
1990	304,062	304,843	n.a.	n.a.	n.a.
1991	268,560 (-12.7%)	283,115 (-7.1%)	n.a.	n.a.	n.a.
1992	362,987 (35.2%)	327,989 (15.9%)	n.a.	n.a.	n.a.
1993	419,831 (15.7%)	438,634 (33.7%)	n.a.	n.a.	n.a.
1994	434,001 (3.3%)	462,884 (5.5%)	n.a.	n.a.	n.a.
1995	525,680 (21.1%)	547,758 (18.3%)	n.a.	n.a.	n.a.
1996	555,821 (5.7%)	561,523 (2.5%)	14,020	4,253.36	2,042.19
1997	358,686 (-35.4%)	349,033 (-37.8%)	42,218 (201.1%)	16,226.99	4,495.85
1998	143,250 (-60.1%)	140,402 (-59.8%)	67,857 (60.7%)	28,125.55	5,984.78

Year	Car Production (rate of adjustment)	Car Sales (rate of adjustment)	Car Exports (rate of adjustment)	Sum of Car Exports	Sum of Spare Parts Exports
1999	321,411 (124.3%)	218,330 (55.5%)	125,702 (85.2%)	50,187.21	9,918.32
2000	405,761 (26.2%)	262,189 (20.1%)	152,835 (21.6%)	63,349.15	19,896.31
2001	454,797 (12.1%)	297,052 (13.3%)	175,299 (14.7%)	83,894.70	23,215.46
2002	564,392 (24.1%)	409,262 (37.8%)	181,471 (3.5%)	82,474.66	25,255.06
2003	750,512 (33.0%)	533,176 (30.3%)	235,122 (29.6%)	102,208.06	35,953.33
2004	960,371 (28.0%)	628,265 (17.8%)	332,053 (41.2%)	149,232.80	52,847.10
2005	1,125,316 (17.2%)	703,261 (11.9%)	440,705 (32.7%)	203,025.36	91,218.54
2006	1,193,885 (6.1%)	682,163 (-3.0%)	538,966 (22.3%)	240,714.25	101,941.70
2007	1,301,149 (9.0%)	631,251 (-7.5%)	690,100 (28.0%)	325,079.72	144,223.63
2008	1,391,728 (7.0%)	614,078 (-2.7%)	775,652 (12.4%)	351,383.58	164,860.31
2009	999,378 (-28.2%)	548,871 (-10.6%)	535,596 (-31.0%)	251,342.99	128,143.69
2010	1,645,304 (64.6%)	800,357 (45.8%)	896,065 (67.3%)	404,659.37	179,350.21
2011	1,358,369 (-17.44%)	739,911 (-7.55%)	n.a.	n.a.	n.a.
2012	2,429,142 (78.8%)	1,423,580 (92.4%)	n.a.	n.a.	n.a.

Source: Thai Auto Industry, http://www.thaiauto.or.th (accessed on January 15, 2014).

Political Economic Analysis of the Thailand Automobile Industry

Track One Emphasis: FDI

According to academic studies, from 1999 to 2005, FDI in the automobile industry accounted for a quarter all FDI in the manufacturing sector in Thailand (Kohpaiboon, 2008). As table 3 suggests as well, the number of applications and investment figure of FDI going into Thailand's automobile industry increased over the years. In 2013, the amount of FDI in Thailand's automobile industry accounted for nearly half of all FDI flowing into the country, with Japan's contribution making a significant impact on the car industry (Ueda, 2012).

As early as the conclusion of the Plaza Accord in 1985, depreciation of the yen caused Japanese manufacturers to go out in search of new investment sites. Thailand became a prioritized destination for Japanese investments, which eventually gave rise to Japan's clear dominance of Thailand's automobile industry (Busser, 2008).

Table 3

FDI Applications in Thailand

Unit: million USD

		Automobile	Electronics	Chemical	Coal	Service	Agriculture	Light Industry	Total
2002	Cases	173 (30.9%)	142	59	9	74	61	42	560
	Sum	1,298 (31.2%)	816	292	44	248	1,310	147	4,154
2003	Cases	213 (31.9%)	152	95	18	77	57	56	668
	Sum	1,343 (24.0%)	1,522	1,263	444	767	295	358	5,593
2004	Cases	223 (29.8%)	152	107	18	106	82	61	749
	Sum	1,286 (16.8%)	1,985	1,169	1,612	853	563	207	7,675
2005	Cases	250 (29.4%)	173	126	21	143	51	85	849
	Sum	3,534 (28.3%)	2,066	1,871	3,137	1,171	396	297	12,472
2006	Cases	220 (26.7%)	180	80	32	192	46	73	823
	Sum	1,496 (16.8%)	2,071	1,167	743	2,415	717	270	8,879
2007	Cases	228 (27.0%)	153	129	27	203	46	59	845
	Sum	4,431 (30.1%)	2,279	2,877	795	3,602	257	258	14,500
2008	Cases	214 (25.7%)	144	103	30	206	62	73	832
	Sum	2,016 (23.6%)	1,924	1,099	561	2,092	486	370	8550

		Automobile	Electronics	Chemical	Coal	Service	Agriculture	Light Industry	Total
2009	Cases	176 (22.3%)	164	72	14	229	79	54	788
	Sum	1,502 (14.2%)	2,954	498	1,012	3,626	1,148	116	10,555
2010	Cases	244 (28.2%)	155	118	18	191	73	67	866
	Sum	1,852 (24.9%)	1,966	729	834	1293	501	276	7,451
2011	Cases	367 (34.7%)	200	117	40	200	72	63	1,059
	Sum	3,974 (30.6%)	2,566	1,409	886	3,174	555	434	12,999
2012	Cases	532 (33.6%)	289	228	34	336	85	80	1,584
	Sum	7,541 (36.2%)	5,024	2,707	514	2,929	1,042	1,097	20,849
2013	Cases	378 (33.4%)	207	124	28	272	64	59	1,132
	Sum	7,668 (47.3%)	2,784	722	1,144	2,838	742	327	16,227

Source: Thailand Investment Review, http://www.boi.go.th/english/services/boi_investment_review.asp

In 2004, Japan served as Thailand's top importer and second largest export destination. Conversely, Thailand was Japan's tenth largest importer and sixth largest export destination (MOEA, 2006). After the signing of the Japan-Thailand Economic Partnership Agreement (JTEPA) in 2005, the flow of Japanese FDI in Thailand continued to increase. However, Thailand's military coup in 2006 eventually stemmed Japanese FDI, as political instability affected investor interest in Thailand. As table 4 suggests, in 2001, Japanese FDI in Thailand reached approximately 15 billion USD, making up 20% of overall GDP in Asia. Following instabilities, the amount of FDI fluctuated in the range of 20 billion USD or approximately 10 to 20% of all FDI in Asia. In 2011, the flow of FDI into Thailand totaled 70 billion USD and contributed to 18% of all FDI in Asia. Yet in the following year, 2012, FDI reached only 5 billion USD and made up only 1.6% of FDI in the region. In 2013, FDI in Thailand rebounded to a record high 100 billion USD and contributed to one fourth of all FDI in Asia. Since 2001, FDI in Thailand has expanded over six fold – evidence that Japan places great importance in the Thai market.

Table 4

Flow of Japanese FDI to Thailand (2001-2013)

Unit: million USD

Year	Thailand	Asia (Thailand/Asia)	World (Thailand/World)
2001	1,594	7,797	38,495
		20.4%	4.1%
2002	528	8,177	32,093
		6.5%	1.6%
2003	678	5,028	28,767
		13.5%	2.4%
2004	1,867	10,531	30,962
		17.7%	6.0%
2005	2,125	16,188	45,461
		13.1%	4.7%
2006	1,984	17,167	50,165
		11.6%	3.9%
2007	2,608	19,388	73,483
		13.5%	3.6%
2008	2,016	23,348	130,801
		8.6%	1.5%
2009	1,632	20,636	74,650
		7.9%	2.2%
2010	2,248	22,131	57,223
		10.2%	3.9%
2011	7,133	39,492	108,808
		18.1%	6.6%
2012	547	33,477	122,355
		1.6%	0.4%
2013	10,174	40,470	135,049
		25.1%	7.5%

Source: Japan External Trade Organization (JETRO), http://www.jetro.go.jp/ext_images/en/reports/statistics/data/country1_e_14cy.xls (accessed on September 16, 2015).

Besides FDI, Japanese car assembly companies and parts manufacturers also dominated Thailand's automobile industry. In 1995, Japanese vehicles contributed to more than 70% of sales in Thailand's automobile market (Toyota 31%, Honda 23%, Mitsubishi 12%, Nissan 8%, Mazda 2%, Isuzu 1%), with Japanese dominance of the commercial vehicle market reaching as high as 98% (Kamnungwut, 1997). Thailand and Japan have enjoyed a long term economic partnership. The signing of JTEPA in 2005 more clearly stated Japan's ambition to support Thailand's development into the Detroit of Asia through cooperation initiatives in the automobile industry. Tangible plans include the following:

1. By 2009, custom tax for passenger vehicles over 3000 CC will be reduced from 80% to 60% and maintained at 60%.

2. Passenger vehicle engines not exceeding 3000 CC will be further improved upon negotiation between Japan and Thailand based on market access.

3. Taxes for automobile parts over 20% will be reduced to less than 20%. The figure will be maintained at the signing of JETPA and eliminated by 2011.

4. For parts with tariff levels under 20%, the figures will be maintained and similarly eliminated by 2011.

5. Tariffs on sensitive items will be maintained and eliminated by 2013.

On the other hand, the JTEPA also mentioned the bilateral plan to jointly establish the Automotive Human Resources Development Project (AHRDP) aimed at the development of human resources to boost the international competitiveness of the Thai automobile industry. The main point of AHRDP is to increase the production skill and technology of second and third level parts suppliers. Four Japanese manufacturers participated in the project: Toyota, Nissan, Honda and Denso. In the first stage (2006-2007), three hundred pilot technicians were trained; the three hundred technicians trained over four thousand workers in the second stage (2008-2010) (Thailand Automotive Institute, 2012; Katsuda and

Thoburn, 2011). The previous discussion suggests that with the signing of the JTEPA, cooperation projects between Thailand and Japan clearly improved bilateral trade relations and in particular, increased the real interests of the automobile industry in both countries.

Track Two Emphasis: Domestic Market

In the new century, the price of oil climbed to record high levels, leaping from 27.6 USD per barrel in 2000 to a staggering price of over one hundred USD in 2011. Under the dual influences of soaring energy price and global warming, in June 2007, for companies investing more than 50 billion Baht in eco-cars, Thailand's BOI waived corporate income tax for eight years and taxes on related facility imports, not limited to the region of investment. Nonetheless, certain requirements were demanded: annual production should not be less than one hundred thousand vehicles after five years of establishment; fuel consumption of produced vehicles must reach at least one hundred kilometers per five liters of gas; the level of pollution must meet EURO4 regulations or less than 120 grams of carbon emission. At the same time, Thailand's Ministry of Finance also announced that for vehicles under 1300 CC and using gas engines and vehicles under 1400 CC and using diesel engines, an excise tax of 17% apply. In contrast, the excise tax for passenger vehicles falls in the range of 30 to 50% (Thailand Investment Review, 2007). June 10, 2009, with the aim of further saving an automobile industry shaken by financial crisis, Thai PM Abhisit Vejjajiva adopted a series of policies, including: tax exemption on imported facilities related to eco-car production; five year income tax exemption for companies with investments exceeding 100 billion Baht; six year income tax exemption for companies investing more than 150 billion Baht, not limited to region. However, certain conditions must be reached. For example, investors must establish a new production line devoted to the production of high tech vehicles such as hybrid cars while annual production must not fall under one hundred thousand vehicles after five years in production. In addition, investors must apply to the BOI for permission to invest (Thailand Investment Review, 2009b).

The preferential policies immediately received support from Nissan (New March/Micra), Honda (Brio), Mitsubishi (Mirage), Toyota (New Vios/Yaris) and Suzuki (Swift) after introduction. Japanese manufacturers expressed their interest in increasing investment in Thailand, particularly for eco-cars including hybrid and electronic vehicles. Among the investors, Suzuki boasted the largest investment scale at 95 billion Baht and an annual production of 138,000 eco-cars (Thailand Automotive Institute, 2012; Katsuda and Thoburn, 2011; Thailand Investment Review, 2009c). Regarding manufacturers that use E85 alcohol oil (ethanol) in production, the Ministry of Finance granted a three year import tax exemption. Based on engine displacement, consumption tax exemptions in the range of 25%, 30% and 35% are also granted. In 2009, the BOI further announced that 90% of the import tax on related parts for the production of eco-cars will be exempted. It was expected that preferential policies introduced by the Thailand government can reduce the price of eco-cars by about two thousand USD and boost overall sales (Thailand Investment Review, 2009a).

With the recovery of the global automobile market and related policies adopted by Bangkok, in 2010, many global car producers announced their plans to step up investment in Thailand. Ford announced a plan to invest 150 billion Baht in Royong for the establishment of a seventy-five thousand square meter production ground with cutting edge technology. The commencement of production was due for 2012 and annual production was expected at fifteen hundred thousand vehicles. On the other hand, Toyota also announced an investment of 40 billion Baht for the expansion of its production site

at Chachoengsao. Toyota hoped to increase its annual production to two hundred thousand vehicles. Mitsubishi announced an investment plan to place 150 billion Baht in Chonburi for the establishment of eco-car factories. The plan was Mitsubishi's largest investment project outside of Japan. Similarly, expected to commence in 2012, annual production was set at two hundred thousand vehicles (Thailand Investment Review, 2010). August 2013, Bangkok announced the second phase of preferential policies for eco-car investment, in hopes of further stimulating Thailand's automobile industry (Thailand Investment Review, 2013).

On the other hand, after claiming victory in the election on July 3, 2011, PM YingluckShinawatra adopted an incentive program for first-time car buyers in Thailand upon her incumbency. According to the incentive, Thai citizens buying a domestically manufactured vehicle valued under 100 thousand Baht and 1500 CC for the first time can enjoy a tax exemption of ten thousand Baht (effective from September 16, 2011 to the end of 2012). However, Yingluck's first car program confronted strong repercussions from import car dealers soon after introduction, as retailers argued that automobile imports under 100 thousand Baht such as China's Chery Automobile, India's TATA Automobile and Malaysia's Hicom Automobile, will all be affected. Beneficiaries from the policies were predominantly companies with domestically produced vehicles under 1500 CC such as Toyota Vios and Yaris, Honda Jazz and City and Suzuki's Swift. Nonetheless, the policy garnered strong support from the Thai populace. In the period from September 16, 2011 to July 13, 2012, applications for tax rebate under the first car program reached 93,833 vehicles, with the amount of tax return totaling 68 billion 33 million Baht. Approximately 425 thousand vehicles were expected to fall under the first car program (The Universal Daily News, 2012).

In short, Yingluck's first car program was aimed at re-stimulating a depressed automobile industry while extending the line of thought on emphasizing the domestic economy since the Asian Financial Crisis. Correspondingly, imported vehicles were exempt from the first car incentive program. At the same time, Bangkok regained leadership of the automobile industry through its eco-car policies, strengthened the role and functions of government, and successfully initiated the recovery of Thailand's automobile industry.

Conclusion

Influenced by globalization in the 1980s, in the aftermath of the Cold War, Thailand adopted liberalization policies. The lack of supervision caused Thailand to pay the price of severe financial crisis in 1997. Near the end of 1997, ChuanLeekpai from the Democrat Party entered the PM office and began to carry out structural reforms including privatization and liberalization that generated widespread criticisms. In 2001, Thaksin successfully claimed the seat of PM under the outcries for nationalism and populism. Thaksin adopted a two track economic office in hopes of helping the Thai economy out of the shadow of financial crisis. Track one emphasized the importance of FDI on Thailand's industry and sought to improve the economy through increased trade. Trade two emphasized the importance of the domestic market and sought to strengthen government leadership, in hopes of avoiding the negative impacts of globalization (see Table 5).

Table 5

Thaksinomics and Thailand's Automobile Industry

Concept	Track One: FDI emphasis	Track Two: domestic market emphasis
Policy	FDI and cooperation from Japanese industry	1.eco-car project 2.first car incentive program

Source: Author's own compilation

In short, Thailand's automobile industry developed under the guidance of a two track economic logic adopted by Thaksin and his successors. Bangkok continued to attract Japanese FDI through policy incentives while cooperating with Japan's automobile industry in order to increase the competitiveness and export advantage of the Thai automobile industry. In terms of the domestic economy, through the eco-car project, Abhisit strengthened the role of government and reclaimed policy control over the automobile industry. In 2011, Yingluck adopted the first car incentive program in response to depression in the automobile industry caused by global financial crisis and natural disaster. Since then, Thailand's automobile industry rebounded, setting an unprecedented record with the production of over two hundred thousand vehicles in 2012.

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