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Government Policies, Rural Industrialization
and Employment

by

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FOREWORD

This paper is one of a series produced by the Rural Off-Farm Employment Assessment Project at Kasetsart University. The project is funded by the U.S. Mission of the Agency for International Development in Thailand under Project No. 493-0306. The objective of the Project is to provide information to the Royal Thai Government, USAID and other international donors, to be used to identify and develop appropriate policies and programs for the rural non-farm sector in Thailand.

The Working Paper Series is designed to share interim or preliminary results on different aspects of the Project work. Some papers also discuss methodologies to be used in future studies.

A list of Working Papers produced to date, along with a list of Research Papers of the Project, is included at the end of this report. Copies of papers in either series can be obtained from Dr. Tongroj Onchan, Director, Center for Applied Economics Research, Kasetsart University, Bangkok 9, Thailand.

Tongroj Onchan
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- 1 -

Government Policies, Rural Industrialization and Employment

by

Narongchai Akrasanee

Introduction

It has become general knowledge now that the Thai economy has had a very impressive growth rate by world standard, but the rural areas where 75 per cent of the Thai people live and work still lack far behind the urban areas in terms of economic development. Many reasons have been cited for the discrepancy in the development of the urban and rural areas, one of which is the inadequate opportunity for productive employment in most of the rural areas. It is believed that industry would provide a source for productive employment. How the rural areas should be industrialized has therefore been one of the most important questions of economic development policies in Thailand.

In this paper we intend to discuss and propose a strategy for employment-oriented rural industrialization. The paper is in four parts. Part I presents the stage of regional and rural industrialization. Part II analyses government industrial development policies. The relationship between rural industrialization and government's policies is discussed in Part III, with implications for off-farm employment drawn. Part IV discusses and proposes a strategy for rural industrialization which is employment oriented.

I. Regional and Rural Industrialization and Employment

In the following we shall define rural industries as industries which are located in area outside Bangkok (which includes Thonburi), Nontaburi, Pathumtani and Sumutprakarn. These areas may be in the provincial capitals, in other municipal areas, and in rural areas. With this definition the pattern of regional and rural industries may be discussed as follows.

Industrial activities are highly concentrated in the Central Region. In terms of value added, industrial production in the Central Region accounted for 82 per cent of the total value added in 1978, while the other three regions each accounted for about 5 to 7 per cent (Table 1). Most of value added originating from the Central Region are from the Greater Bangkok area, with the Bangkok Metropolis alone accounting for about half of the amount ^{1/}. Thus by this indication value added from the true rural industries is very small.

The pattern of regional distribution of industries may also be seen from the number of registered factories. By this account 70 per cent of the registered factories in 1978 were in the Central region, with 43 per cent in Greater Bangkok. Factories in the Northeast accounted for about 13 per cent while the North and the South had about 8 percent each (Table 1.1).

^{1/} Information from the National Economic and Social Development Board (NESDB).

Comparing the distribution of industrial activities by the number of registered factories with the distribution by value added implies that firms in the Greater Bangkok Area tend to be larger in terms of value added than in rural areas. This is especially so when we take into consideration the existence of smaller factories which have not registered. Their inclusion would increase the proportion of factories in rural areas ^{1/}.

For the whole kingdom industries producing food in one form or another are most numerous. But regional distribution by type of industries is different. According to a survey in 1978 the distribution of industries in each region is as below.

Region	Rank of Importance (in terms of number of establishments)		
	1	2	3
Greater Bangkok	Food	Textiles	Chemical products
Central	Food	Textile	Wood processing
Northeast	Food	Wood processing	Textiles
North	Tobacco	Food	Non-metallic mineral product
South	Wood processing	Rubber and rubber products	Food

^{1/} Mingsarn Santikarn, Regionalization of Industrial Growth, Thai University Research Association Report Prepared for the NESDB.

Table 1 : Basic Statistics on Regional Industries

Year	Central	South	North	Northeast	Total
1. Population (million persons)	12.6	5.1	8.7	14.3	14.7
2. GDP from manufacturing (billion baht)	14.1	5.6	9.5	15.9	45.1
1974	40.4	2.7	2.9	3.3	49.4
1972	40.9	2.6	2.6	3.2	49.0
3. Distribution of manufacturing value added by region	1974	42.0	5.5	5.0	47.7
1972	42.0	5.5	5.0	47.7	
4. Growth rates of manufacturing value added	1970-1974	14.6	4.7	1.4	6.0
1970-1972	13.9	6.0	6.6	5.4	12.3
5. Share of manufacturing value added in regional GNP	1974	25.0	2.3	7.4	4.0
1972	26.5	4.0	9.1	6.2	19.1
6. Distribution of product by region of investment	1965-1972	84.0	7.0	7.0	2.0
1960-1972	79.3	6.3	6.6	7.0	100.0
1960-1972	64.3	7.1	11.7	16.5	100.0
7. No. of factories	1973	14,850	4,238	6,202	10,743
(Percent)	1973	(41.2)	(11.8)	(17.2)	(29.8)
8. Ranking of industries (based on No. of factories)	Rank 1	Processed foods	Wood products	Tobacco	Processed foods
Rank 2	Textiles	Putner & rub- btm products	Processed Wood products	Textiles & non-metallic mineral products	
Rank 3	Chemical products & wood	Processed foods	Wood products	Textiles & non-metallic mineral products	
1979	22,712	6,797	10,885	22,356	67,736
(")	(40.9)	(10.0)	(16.1)	(33.0)	(100.0)
1973	14,850	4,238	6,202	10,743	36,037
(")	(41.2)	(11.8)	(17.2)	(29.8)	(100.0)
1979	22,712	6,797	10,885	22,356	67,736
(")	(40.9)	(10.0)	(16.1)	(33.0)	(100.0)
1973	14,850	4,238	6,202	10,743	36,037
(")	(41.2)	(11.8)	(17.2)	(29.8)	(100.0)

Source : NESDB

Another way of classifying industries is in terms of firm sizes and market orientation. Most large-scale firms are located in the greater Bangkok Area, which may produce goods for both exports and import substitutes. Large-scale firms in rural areas, on the other hand, are mostly producing resource-based products for exports such as foods (canned pineapples), and rubber processing, etc. Large-scale, labor-intensive and export-oriented firms in rural areas are very few in number. The rest of the operations are considered to be small scale, producing products for local and domestic markets.

It is this latter type of operation which is the real potential for industrial employment and income in rural areas. This type of operation accounts for more than 50 per cent of the total registered factories in the country, as implicitly mentioned earlier. These operations, as the research works of Dr. Mingsarn show, have low degree of capital intensity by any measures, and thus can generate more employment per unit of capital employed.

Several characteristics of the small-scale rural industries are noteworthy. Apart from being labor intensive and producing products for domestic and local markets, they tend to use local machinery, which is often an imitation of the imported ones. Raw materials used are mostly local. The production schedule is flexible, to allow for the seasonal nature of labor supply. The owners/entrepreneurs are usually local residents. Finally they rely on their own fund and the commercial banks for project financing and working capital. These characteristics are crucial to the development policy for the small-scale rural industries.

II. Current Industrial Development Policies

On policy, the government has been promoting private investment in manufacturing since the First Economic Development Plan, 1961-1966. The role of the government has been to construct and create physical and institutional infrastructure, and to design specific policy and policy measures which have important impact on changes in the industrial sector. As will be discussed in the next section the policy has been in favour of large-scale, urban industries, rather than small-scale, rural ones. At present industrial policies and policy measures may be summarized as follows.

2.1 Investment promotion Investment promotion is one of the most important measures which have influenced growth and changes in the industrial sector. If we consider firms which employ more than 10 workers, then the promoted firms would account for about 30 per cent of capital and employment in the manufacturing sector.

Investment promotion measures, according to the Investment Promotion Act of 1977, consist of various types of guarantee, special permission, and incentives on income tax, import taxes on raw materials and machinery, and protection measure in the form of temporary import surcharge on imports which are competitive with the promoted products ^{1/}. The investment promotion act is applied to domestic as well as foreign investment. In practice foreign investment is subject to a few extra conditions.

^{1/} Board of Investment, Investment Promotion Act of 1977, Bangkok.

In addition to investment promotion in general, the Board of Investment has special investment promotion scheme (by providing more incentives than general cases) for industries of high priority according to the government policies. These are export industries and industries in rural areas. As of December 1979, 122 firms producing goods for export had been promoted, out of the total promoted firms of 897. For industries in rural areas, there are 257 firms which are located in the central region but outside Bangkok and Smutprakarn. In all other regions of the country there are altogether 141 promoted firms.

2.2 Protection and control The government has policies to protect industries against competition from imports. At the same time the government also controls trade and industries, the acts of which benefit some industries while adversely affect some others. The protection and control measures are as follows.

(a) Protection from import tariff. The rates of tariff protection for industrial products (excluding processed foods and beverages and tobacco) have been on an upward trend. And if we classify industrial products into durable and non-durable consumer goods, intermediate products, and capital goods, then it will be found that the import tax system provides protection to durable and non-durable consumer goods more than intermediate products and capital goods. This is because tariff rates of consumer goods are usually higher than the rates of intermediate products and capital goods.

(b) Import surcharge. The Investment Promotion Act allows the Board of Investment to impose temporary surcharge on imports, in

addition to import taxes. The surcharge has been used mostly on intermediate products. The objective is to provide more protection for the domestic products, or to prevent dumping. The result of the use of import surcharge has been to confuse the structure of protection, such that it has become very difficult to understand what industries are given priorities according to the protection policies. (In 1980 there are about 20 products, and product groups, which are subject to import surcharge ranging from 10 to 40 per cent of c.i.f. prices).

(c) Import control. The control includes total import ban on 18 items, and permission to import on about 30 items. Import control is imposed and administered by the Ministry of Commerce. There are several reasons which may prompt the Ministry of Commerce to impose import control including alleged dumping by foreign producers. At times the Ministry of Commerce is requested by the Board of Investment or other government agencies to impose import control. It is obvious that import control benefits the producers who produce the products which are subject to import control. At the same time other producers who use the products as inputs may be adversely affected by the control.

(d) Export control. There is export ban on 15 categories of goods, and permission to export is required for 22 categories of goods. In addition there are 5 categories which are exported under quota. The export control creates a disadvantage for the producers of the products under control. There may, in this case, not be anyone who benefits from the control. This is because the products under

control may be produced at high cost because of the smaller scale of production than otherwise. Or the producers may not expand production, in which case shortage may occur.

(e) Price control. The Ministry of Commerce exercises price control through the Price Setting and Anti-Monopoly Act of 1979. In 1980 there were 34 categories of goods under price control, while the consumer and industries which use the products under price control as inputs may benefit from the control if they can purchase the products at the controlled price and expected quality. From our study, however, price control has usually led to shortage in the products subject to price control. And if the products are available at the controlled price, their quality may be below standard. In another case, the products may be available in the black market at higher prices. The latest revision in price control took place on 2 October 1980, with 19 categories of products remaining under price control. The method of price control has been, however, very much simplified.

(f) Factory control. Another protection-control measure is the control on establishing and expanding factories, and regulating the use of local contents in production. This is enforced by the Ministry of Industry. At present there are 23 categories of industries which are subject to factory control. And there are four industries which have to use specified quantity of local contents, i.e., motor vehicle assembly, motorcycle assembly and production, electric wire and cable, and steel industry (which is required to use domestically produced steel wire). The factory and production control measures

have favourable and unfavourable effects on different producers just as other control measure. They also prevent industries from expanding according to market forces.

2.3 Promotion of manufactured exports The promotion of export is a basic policy of industrial development. Several policy measures have been applied to promote manufactured exports.

(a) Promoted firms which are set up to produce manufactured exports are given more incentives than the promoted firms in general. That is, they are allowed full exemption from import taxes on machinery and raw materials, and from business tax and export tax (if it exists). In addition the general trading firms are promoted on the condition that they have a certain level of exports each year. The government also provides trade assistance by means of trade promotion by the Export Service Center of the Ministry of Commerce, and trade negotiations also through the Ministry of Commerce.

(b) Tax rebate and tax exemption provided by the Ministry of Finance are measures designed to promote manufactured exports. The Fiscal Policy Office sets tax rebate rates when requested by a producer/exporter. The rates are specific rates, which approximate the amount of taxes and fees which are a part of the cost of production, i.e. excise tax, import tariff, business and municipal taxes and other fees which are part of the cost of raw materials, machinery, fuel and electricity (excluding income taxes and royalty). The tax rebate is administered by the Customs Department in the form of tax coupon. The Customs

Department also administers the exemption of import taxes on raw materials used in the production of goods for export.

(c) Credit assistance is provided by the Bank of Thailand, by means of discounting promisory notes for production and export at rates charged by the commercial banks. The period allowed is 180 days (renewable), and the discount can be up to 90 per cent of export value. At present credit provided through the discount facility is more than B20 billion a year, about 60 per cent of which is for manufactured exports. Exports which have used this facility the most are sugar, tapioca products, molasses, canned foods, drug and medicine, jewelery, and electrical apparatus.

(d) Apart from the export promotion measures described above the government has been in the process of constructing a free trade export processing zone, which is to be a part of the Lard Krabang Industrial Estate. The project has been delayed due to technical problems.

2.4 Promotion of industries in rural areas The following are measures to promote industries in rural areas.

(a) Investment promotion. Four areas have been designated as promoted areas, and industrial estates are also included as promoted areas. Promoted firms located in these areas are given more incentives than promoted firms in general. That is, they are given business tax reduction upto 90 per cent of business tax for 5 years, and may be allowed a reduction in income tax upto 50 per cent for 5 years after the

normal period of income tax reduction. Apart from these in the calculation of income taxes which the firms may have to pay, they are allowed double deduction for payments for transportation, electricity and water supply.

(b) Credit assistance is provided through three sources: the Bank of Thailand, IFCT, and Small Industry Finance Office (SIFO). The Bank of Thailand has provided fund to the IFCT to be lent to rural industries and agro-based industries. The IFCT also gives higher priority to rural industries more than industries in the Greater Bangkok Area, by charging interest rate on loans at 13.5 per cent per year, compared to the rate of 14.5 per cent applied to industries in Greater Bangkok Area. As for agro-industries (which are mostly in rural areas) the IFCT charges interest rate of 13 per cent per year. SIFO charges interest rate of 9.5 per cent a year for small industries in all areas of the country (the rate is undergoing a revision at present).

(c) Other measures designed to promote industries in rural areas are the lower levels of minimum wage than in the Greater Bangkok Area. For example before the last revision in October 1980, the minimum wage in Bangkok was $\text{฿}45$ a day compared with $\text{฿}38$ a day in the central and southern regions, and $\text{฿}35$ a day in North and the Northeast. The government also provides technical assistance especially for small-scale industries in the areas of production, investment opportunity, and product promotion through the Ministry of Industry and in some areas, through the Ministry of Interior and the Accelerated Rural Development Office (ARD). Finally the government has an industrial estate scheme

and has promoted private industrial estate. But industrial estates of the government in rural areas are in the process of being established. As for private industrial estates, they are at Bangpoo and Nawanakorn, both of which are not far from Bangkok.

A part of the promotion of industries in rural areas is thus carried out in conjunction with the promotion of small-scale and cottage industries. The promotion has been in the form of credit assistance, and technical assistance in management, production and marketing by the Ministry of Industry.

III. Industrial Development Policies and Rural Industrialization

Available statistics have been shown that the degree of rural industrialization is very low and has not been increasing. This is due partly to economic reason, and partly to government policies. Relative to Bangkok the rural areas have a much lower population density than Bangkok, and thus would have comparative advantage in the production of agriculture and other primary products. But the fact that the process of industrialization in rural areas has been very slow has to be explained by government policy or the lack of it.

The overall economic policies have been biased in favour of Bangkok, the consequence of which has been a much lower growth rate in rural areas. The policy bias is seen most clearly in the policy on infrastructure and agricultural output, and input, pricing. With a low growth rate, the rural areas lack effective demand to become a market big enough to attract manufacturing production.

Transportation cost has been a major element in preventing products from being manufactured close to sources of raw materials and market. Up until very recently transportation cost constituted a very small proportion of the cost of production and distribution. This has made it worth while to ship products and raw materials on a long distance to and from Bangkok.

Without manufacturing production entrepreneurship is very scarce in rural areas. Workers are also not suitable for factory works where regularity and continuity in attendance are necessary. Workers live in scattered areas. They also have seasonal employment opportunity, during which time they would prefer to work on the field and the farm.

Industrial development policies have not contributed towards the process of industrialization in rural areas. The emphasis has been on industries in urban areas. Investment promotion and protection policies have assisted import-substituting industries which rely more on the urban market for their products. The export promotion policy, while being very useful in creating employment, has attracted few industries into rural areas. And finally specific measures to promote rural industries have not been effective.

In the first place the designated promoted areas have not been able to attract investment because of inadequate infrastructure. The investment incentives provided are insignificant compared to the lack of infrastructure. Secondly credit assistance, which barely exists, can not be utilized unless there are entrepreneurs who seek investment fund, who have viable project to back it up. Thirdly the lower

minimum wage is irrelevant in promoting rural industries because workers are either not available during the planting and harvesting seasons, or available at a much lower than the minimum wage during the off season. Technical assistance is perhaps the only appropriate type of assistance provided to rural industries so far. The trouble is that there has been too little of it, and technical assistance alone is not sufficient.

It seems that to be effective the promotion acheme for rural industries has to be based on the basic characteristics of the rural areas. These are the availability of raw materials, the dispersed market, the lack of entrepreneurship, and seasonal nature of the labor supply. The rising cost of transportation will have a positive effect on the rural area, for it would encourage firms to locate their plants nearer to the source of raw materials and market. Technical assistance will have to be provided together with credit assistance. The rate of interest can be charged at the market-competitive rate. And the availability of the labor force very much determine the type of industries which can be located in rural areas. Agro-based industries are obvious candidates. The cottage industries which are very small and do not require expensive machinery which has to be kept running most of the time are also obvious candidates. This type of industries requires a comprehensive promotion scheme ranging from credit, operation, and marketing. And finally the labor-intensive industries can only be profitably set up in the area near the town centers. The promotion of such industries has to be linked to export pormotion policy. In

this case it would also require a reduction in policy bias in favour of Bangkok.

IV. Strategy for Rural Industrialization

Rural industrialization, especially small-scale industries, has been accorded a high priority in the Fifth National Economic and Social Development Plan, 1982-1986. This is because of its expected contribution to economic growth with stability, improvement in equity and economic security.

To consider the strategy for rural industrialization it is useful to classify industries into three categories according to their economic characteristics as done earlier, i.e., large scale resource-base industries, large scale labor-intensive industries, and small scale and cottage industries. The development of the first type of industries, which usually has a low degree of direct labor intensity but high employment linkage, depends on their prospect in exports and the availability of raw materials. The supply of labor is also important, but seasonal fluctuation can be accommodated. The second type of industries also depends on exports as well as the domestic markets, but in their case the availability of labor on a continuous basis is crucial to their development. For the third category of industries its development depends on a whole host of factors such as finance, entrepreneurship, production process and marketing. For these industries a continuity of labor supply is not crucial, however, and their market is mostly local.

4.1 Strategy for Large-Scale Industries The strategy to promote industries in rural areas should be based on the economic characteristics summarized above. Thus for the larger-scale industries, resource-based as well as labor-intensive, export promotion policy, which includes a wide range of incentives for export and measures to correct obstacles to export, would be a necessary condition for their development. This, however, may not be sufficient. Having decided to invest the firms need to decide on location. It may be necessary to have additional policy measures to influence the firms to choose a rural location over an urban one.

The first policy recommendation for rural industrialization of a large-scale type is to have an export promotion policy and to correct the bias in favour of urban location. This means that import substitution industries should not be qualified for any incentives at all unless they are located outside the Greater Bangkok Area, or they are industries of high priority. Secondly the excessive level of protection for import substitution industries needs to be reduced, and the protective rates made more uniform ^{1/}. Thirdly a comprehensive incentive scheme for exports including improvement in export facilities needs to be provided ^{2/}.

^{1/} It should be noted here that lowering protection will tend to depress prices and thus will benefit small-scale industries in general.

^{2/} For export incentive scheme see TURA "Industrial Development in Thailand and Industrial Development Policies 1982-1986" report prepared for the NESDB, November 1980.

Having corrected the biases, more specific policies may now be discussed. For the resource-based industries the tendency is to locate the factory close to the source of raw materials because of the rising cost of transporting bulky materials. Foreign buyers will tend to buy more and more of the finished products rather than raw materials, also because of the transportation cost consideration. Thus the demand as well as cost factors will work in favour of rural location. What is needed in addition to export promotion policy is, therefore, the availability of investment fund for this type of rural industries.

The availability of investment fund is also important for the large-scale labor-intensive industries. This is especially the case for local firms. (Multinational corporations in this business can presumably raise their own fund). But given the opportunity to export, the availability of labor supply on a continuous basis is perhaps the most important consideration. Because of the labor supply problem an urban location is often found to be superior to a rural location.

The government can not do very much to stabilize the labor supply. The government will have to make it cheaper for this type of industries to locate in rural areas. Since they are export-oriented industries they are already entitled to all of the tax and non-tax privileges regardless of location. Any additional privileges apart from the promotion status will be considered redundant. A better access to investment fund seems to be the only justifiable additional incentive for rural location.

For the large-scale labor intensive firm a more viable strategy is to encourage them to choose a location outside Bangkok Metropolis, but within the Greater Bangkok Area. This will not add as much to the congestion of Bangkok and should make it possible for the firms to have a status to this type of firms if and only if they are located outside the Bangkok Metropolis.

Finally for import-substituting industries, as mentioned earlier, they should be given promotion incentives only if they are located outside the Greater Bangkok Area. For these industries they should also be entitled to rural investment fund.

In summary the rural-oriented industrialization strategy and investment incentives for large scale industries may be demonstrated as in the table below.

4.2 Strategy for Small-Scale, Cottage Industries Small-scale and cottage industries in rural areas need a special promotion program. Apart from silk weaving, which is export-oriented, most of these industries produce products for local and domestic markets. Export promotion policy will affect them only when there exists a sub-contracting arrangement between larger firms or trading firms and these small firms.

Available information indicates that factors which are important to rural small-scale industries include finance, marketing, management and production technique; a promotion program needs to include more than one of those factors. But finance in terms of the

Table 4.1 : Location and Incentives for Large Scale Rural Industries

Location	Incentives		
	Investment promotion	Other export incentives	Access to rural investment fund
<u>Resource-based</u>			
BKK Metro	No	Yes	No
Greater BKK but outside BKK Metro	No	Yes	No
Outside Greater BKK	Yes	Yes	Yes
<u>Labor-intensive</u>			
BKK Metro	No	Yes	No
Greater BKK but outside BKK Metro	Yes	Yes	Yes
Outside Greater BKK	Yes	Yes	Yes
<u>Import Substitution</u>			
BKK Metro	No	No	No
Greater BKK but outside BKK Metro	No	No	No
Outside Greater BKK	Yes	No	Yes

availability of credit to purchase (mostly local) machinery and fund for working capital is known to be the most important problem of small-scale rural industries. Thus it is recommended that effort to promote rural small-scale industries should be concentrated on building up financial institutions. These may include a special financial institution for the purpose, and a scheme to be implemented by the existing commercial banks. Interest to be charged for these loans should be market competitive. And the financial institution should also provide a window for technical assistance.

The special financial institution should be set up as a private corporation, but with substantial government participation so that it will have an access to cheaper sources of fund. Its interest rate should be market competitive such that it will make profit, which can then be used for technical assistance. Its collateral requirement should be flexible enough to allow for assets such as machinery and equipment, in addition to the usual land title deed.

The special financial institution, being a new institution, will not be able to provide enough credit for rural small-scale industries. It is expected that much credit will have to be channelled through the existing commercial banks. With a vast network of branches throughout the country the commercial banks are in the position to assist small-scale industries. Thus a credit guarantee scheme and a rediscount scheme (with the Bank of Thailand) should be set up. The credit guarantee scheme will allow the commercial banks to lend more to small-scale industries, while the rediscount scheme will make more fund

available to be lent through the commercial banks. And, like the small industry finance organization, interest rate charged for these loans should be market competitive. These two schemes will help provide the much needed investment fund. Mechanism should also be set up such that the credit guarantee scheme should be able to accommodate the demand for overdraft.

Apart from credit and technical assistance through financial institutions, government agencies also have important role to play in assisting small-scale industries. Several agencies have been involved in one form of assistance or another, as mentioned in Part III. The success of these assistance programs is known to be limited because of their fragmentary nature. It is thus recommended that the program be concentrated in one agency, i.e. the Department of Industrial Promotion (DIP), with the program designed such that it can provide assistance in the four areas of finance, marketing, management, and production technique. At present the DIP has all elements of the program built in to its structure, but all are inadequate. The Small Industry Finance Organization should work closely with the DIP so that the DIP can rely on it for providing financial assistance to small-scale industries. Other agencies which have been promoting small-scale and cottage industries should concentrate their effort in the delivery of assistance, and should link their programs with the DIP's.

This, therefore, means that the DIP will have to modify its orientation to concentrate only on the promotion of small-scale, rural

industries. In terms of activities it should have a special development program for small-scale industries, and it should provide technical assistance through training and demonstration, rather than performing the role of the entrepreneurs themselves.

4.3 Summary of Policies to Promote Rural Industries The policy recommendations may be summarized in terms of policy measures as follows.

(a) Investment promotion. Investment promotion of medium and large-scale industries should be limited to only firms located in areas outside the Greater Bangkok Area. An exception is made for labor intensives, export-oriented industries, which may be entitled to promotion privileges if they are not located in the Bangkok Metropolis.

(b) Export promotion. All existing incentive and procedure for exports should be simplified. The objective is mainly to facilitate exports, and to eliminate the tax element in the cost of production.

(c) Tariff protection. The overall protection level should be reduced by making tariff rates more uniform within the range of 20 to 30 per cent. This will have the effect of reducing the bias in favour of domestic sales.

(d) Financial assistance. Credit availability for rural industries should be increase through:

1. The Industrial Finance Corporation of Thailand.
2. The Small Industry Finance Organization of Thailand.
3. Commercial banks, by setting up credit guarantee and rediscount schemes at the Bank of Thailand.

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- No. 1 Tongroj Onchan, Pradit Charsoambut, Richard L. Meyer and Donald C. Mead, "Description of the Rural Off-Farm Employment Assessment Project in Thailand", October, 1979.
- No. 2 Donald C. Mead and Pradit Charsoambut, "Rural Off-Farm Employment in Thailand: Phase I Survey Results", June, 1980.

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