



Regional Integration in the GMSR, Changing Competitive Advantage and Its Impact on Labour Markets and Society: Evidence from Chiang Rai Province, Thailand

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Abstract— As regional integration within the Greater Mekong Subregion (GMSR) intensifies, the location of competitive advantage will inevitably change and this will have considerable impact upon the locations in which economic activities take place and upon the type of work that will take place in the region. Some production activities will be required to move to respond to the comparative advantages (climate, natural resources and manpower, for example) while others will cease altogether. Inevitably, winners and losers will be created by these forms of creative destruction. The role of government will be to protect those who are vulnerable to these changes, particularly workers who find it difficult to respond to the changing circumstances. Using in depth interviews and secondary data collected from across the region, this paper investigates which types of industry will be required to move and which industries are likely to collapse. The focus is upon the Chiang Rai province of northern Thailand but the analysis also covers the wider GMSR as a whole. The implications of the changes for local labour markets are observed and recommendations made for modifying labour market policies with a view to dealing with expected future changes in addition to unpredicted external shocks.

Keywords— Infrastructure, labour markets, regional integration, Thailand.

1. INTRODUCTION

In common with other developing countries, Thailand has taken the steps that will lead it from being a predominantly agricultural economy to one in which manufacturing, services and knowledge predominates. The capital city of Bangkok has been in the forefront of these changes, while regions outside the centre have continued to be left behind. That there have been two, dual tracks of development has had many effects on outlying regions and has had powerful implications in terms of political and social development in the country. Since 2001, with interruptions, the Thai government has sought to reduce the inequalities in development that have occurred. Regional integration, spurred by transnational institutions such as the Asian Development Bank (ADB), has provided new tools by which inequalities might be considered and problems tackled. A problem, from government's point of view, is that the power to use these tools must be shared with transnational institutions and market-based partners, not to mention the inefficiencies that have bedeviled Thai government actions for as long as they have been reported. All actors have their own agendas and the results of actions in a complex environment are rarely predictable with any accuracy. Consequently, it is not clear that changes now taking place will improve conditions along the lines desired by government agencies or, indeed, will benefit specific geographical areas at all. It is not clear, as will be described below, that linking areas with wider networks of production and exchange will necessarily increase the type and quality

of opportunities available to local people, although intuitively or in concordance with pro-market ideology this would seem necessarily to be the case. This paper looks at how such changes have affected a specific area, which is the northern province of Chiang Rai in Thailand. The paper continues with a summary of the policies which have brought Thailand to the situation in which it now finds itself in terms of economic development and then continues with a description of the study which provided the results for this research. The analysis and then discussion of those results then follow.

After WWII, Thailand took greater advantage of its alliance with the western powers, especially the USA, in gaining access to overseas export markets and by hosting various facilities during the Korean Civil War (1950-3) and the two Indochinese Wars, when western interests required stable bases in the region. The model of rapid development pursued was similar to that seen elsewhere in the second half of the twentieth century and referred to generally as the East Asian Economic (or Development) Model. This model focused on generally outward-oriented, export-oriented, import-substitution and inward investment-encouraging policies characterised by mass manufacturing relying for competitiveness on low labour costs. In Thailand, Japanese investment was particularly influential in shaping this competitive advantage and Thailand benefited from the Japanese policy of off-shoring much of its low value-adding manufacturing activities. This development model was cemented in place during the authoritarian reign of Field Marshal Sarit in the late 1950s [3].

This policy continued until the 1990s, when the economy was shocked by the 1997 financial crisis, referred to locally as the Tom Yum Crisis. Factors contributing to the crisis in Thailand included excessive leverage of local companies in foreign-denominated debt, unsustainable asset-price inflation (particularly in the real estate sector), inefficiencies in the banking and finance industries and the policy of the central bank towards exchange rate changes. The results included

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numerous bankruptcies and retrenchments of workers, many of whom were obliged to enter the informal sector or return from closed factories to village family homes and subsequent under-employment. Confidence was shaken at every level of society and the economy. A new Constitution promulgated in the same year explicitly focused on the need to foster local, indigenous skills and capacities instead of the large-scale promotion of inward investment that had been the previous focus.

In 2001, the Thai Rak Thai (TRT) party of Thaksin Shinawatra swept aside the Democrat government of Chuan Leekpai and its neoliberalist response to the crisis, which was widely believed to be inadequate. Prime Minister Thaksin had created a set of economic policies which became known as Thaksinomics and which was based on the understanding that productivity had been falling in Thailand during the 1990s (suggesting the end of the usefulness of the East Asian Economic Model)¹ and the potential impact of the continued rise of China, which was increasingly a source of low cost manufactured items and a magnet for inwards investment [6]. The Thaksinomics program recognised that the extreme openness of Thailand (in common with many Southeast Asian countries) made the country overly vulnerable to external shocks which affected export sales. While not closing the country to the continued effects and changes brought about by globalisation, Thaksin placed a much greater emphasis on developing internal competencies and sources of competitive advantage, especially in the provinces outside of the capital Bangkok, thereby dampening the impact of internal migration in the country and its negative effect on social cohesion. Other policies focused on the promotion of Small and Medium Sized Enterprises (SMEs), especially those which offered the potential for competitive advantage through the use of indigenous knowledge and skills, village level funding aimed at identifying projects which would boost local income and careers opportunities, local community production schemes including OTOP – One Tambon One Product and the promotion of privatization. Second stage policies included the de Soto-esque [4] plan to reclassify assets, including intangible assets, to enable people to leverage them efficiently; this built on earlier policies which were aimed at enabling what were considered to be under-leveraged consumers the ability to boost their consumption of household goods by providing greater levels of consumer credit.

These problems have proven to be hugely popular in electoral terms but have received fierce opposition from ideological opponents in the political and traditionally powerful classes. Such problems as were experienced tended to result from difficulties in implementation rather than conceptual limitations. However, to continue to drive the economy forward and towards the ideal of the knowledge-based economy (KBE), it is necessary to identify and nurture those industries which might offer

significant and sustained competitive advantage based on local competencies and skills. It is certainly true that the proportion of workers involved in agriculture and its importance to the economy has continued to decline. Thailand is threatened with the middle income trap, in which competitiveness from the model described above has declined and the ability of the country and its workforce to take the next step is in doubt.

The GMSR has been home to endemic warfare throughout much of its history. The bitterness of the fighting in the post-WWII period, in addition to that provided by earlier periods and occasionally used as a pretext for nationalism by certain factions subsequently, continues to act as a problem in state relations. Relations have been improved through the mechanism of the Association of Southeast Asian Nations (ASEAN), which took as its founding philosophy the forbidding of public speech concerning occurrences within other countries, together with the restriction of agreements primarily to the economic sphere, leaving out the political and social realms. The latter is a tactic also employed elsewhere in the world, such as in the case of the Asia-Pacific Economic Confederation (APEC) and in early iterations of the European Union (EU). In the case of the Greater Mekong Subregion (GMSR) – Thailand, Burma, Laos, Cambodia, Vietnam and Yunnan and Guangxi provinces of China – it has meant that an economic agenda has been adopted without concomitant attention paid to the social and political issues, particularly equity issues. This has meant that integration to the extent that it has taken place has been possible but it also limits the goals that it can achieve.

2. THE STUDY

The research reported on in this paper has been based on a series of qualitative interviews conducted in Chiang Rai and Bangkok, largely during November 2007. Face to face interviews were supplemented by telephone interviews when it proved difficult to obtain access or for other practical details. More than 60 interviews have been completed to date and this work is part of a larger doctoral research program. Interviewees included many local business owners and operators, workers and labourers, government officials and other knowledgeable persons. Interviews resulted from a mixture of formal and informal contacts. Formal contacts occurred when the interviewers identified suitable individuals before the period of fieldwork and approached them for an interview. Informal interviews occurred during the fieldwork when relevant individuals were approached on an opportunistic basis. The interviews were supplemented by ethnographic observation and the accumulation of secondary data.

Interviews were conducted in either Thai or Chinese as appropriate and subsequently transcribed from notes made at the time and translated into English. The interview transcripts were entered into a database with other relevant materials and subjected to critical and content analysis. In concordance with the principles supporting grounded theory, the researchers became immersed in the data with a view to permitting theories

¹ Aggregate productivity growth during the 1990s was attributed to capital accumulation rather than total factor productivity (TFP) increases.

to emerge from the data, rather than following a quantitative method which begins with the formulation of hypotheses and then seeks means to test these through data collected. This method, combining in depth personal interviews with personal observation and the integration of secondary data and statistics has yielded good results in other cases (e.g. [7], [8]). Through continuous interrogation and re-interrogation of the research materials, the researchers were able to recognise repeated elements or phrases which gave rise to structures which then coalesced into emergent theories. This is the method pioneered by grounded theory researchers [5].

It is clear that the timing of the interviews had an impact upon the opinions of many respondents. Thailand suffered a military coup in September 2006, which interrupted a period of significant economic growth for the Kingdom and also the reduction of income inequalities. Investor confidence, particularly international investor confidence, was strongly shaken by the coup and by a number of policy decisions made by the junta-appointed assembly thereafter. Respondents looked forward to the general election scheduled for December 23rd, 2007 as the start of a new period of confidence and growth but it was not entirely certain that this would arise. Had the interviews taken place at a different time, then it is quite likely that many respondents would have had different opinions. However, the economic and political situation affected all respondents in the same way.

3. CHIANG RAI

Chiang Rai province is composed of 16 amphurs and two semi-amphurs, with a total area of some 11,678,369 square metres or 7,298,981 Rai.² The distance from Bangkok is about 729 kilometres. The region is bounded by Burma to the west, Laos to the east and Chiang Mai Province to the south. The total population of Chiang Rai is just 1¼ million people. There are some 1,233,559 people in Chiang Rai or 610,205 male and 623,354 female. The labour force in Chiang Rai is about 714,094 people and 225,435 workers are in the private sector, with only 43,723 workers registered for social security, since the economy of Chiang Rai is based on agriculture and is largely informal in nature. Casual labour patterns extend throughout the province with average daily wages of between 80-120 baht. Barter and labour exchange is also common. A principal source of labour is the hill tribes people who mostly live in mountain villages, together with Thai workers aged over 40 - most younger workers have migrated elsewhere for work.

Few large scale enterprises exist in the Chiang Rai region, especially in the private sector. Young people with good qualifications, especially at undergraduate level, customarily have to move away from the region in order to find employment opportunities commensurate with their abilities and experiences. This results from not just the lack of opportunities in the local market but also

the seniority-based salary system prevailing in Thailand, as elsewhere in East Asia. This means that people are paid more, on an automatic basis, according to their initial qualifications (and any subsequently obtained) as well as increments based on length of service. A consequence is that individuals with undergraduate degrees will routinely expect to receive more than one with a vocational qualification, irrespective of the fact that the latter will normally be rather more ready to contribute to a business, especially a small or medium-sized business, than the former from the beginning. This situation is exacerbated by the fact that individuals graduating with undergraduate degrees every year greatly outnumber those with vocational degrees. Some efforts have been made to increase the number of vocational students in the Chiang Rai region but these suffer from the problem of over-centralization of decision-making, which means that a number of the courses offered are inappropriate insofar as subsequently locally-available employment opportunities are concerned. Other problems also exist, largely as a result of mismatches between supply and demand and lack of resources and capacity on behalf of service providers. Gek-Boo Ng, former head of the Asia-Pacific Office of the ILO, has more than once commented on the importance of technical capacity for gathering, redacting and disseminating labour market statistics and this is one particular area where enhanced capacity could be of direct assistance [11].

There is also a qualitative or psychological aspect to the labour market of the Chiang Rai region, which is similar to that found in most of the rest of Thailand and other parts of the GMSR. This may be described, in the demotic, as the 'sabai sabai' culture. This term indicates a feeling of ease and relaxation which precludes preoccupation with stress or concern with the future. The extent to which this really exists depends upon anecdotal evidence as much as anything else but it is widely believed to be a widespread phenomenon, especially away from the urban areas and it appears to be believed more particularly by overseas investors and executives

The Chiang Rai area combines a number of traditional businesses based on low labour costs and with little value-added (e.g. tea plantations) together with newer business opportunities based on development of the infrastructure in the region following the signing of a Free Trade Agreement with China and the opening of the Asian Highway, which links the Chinese mainland via Kunming, capital of Yunnan Province, with Singapore in the south. This highway passes through parts of Burma [Myanmar] and Laos, as well as Thailand. Upgrading of port and customs facilities at Chiang Saen also promotes riverine trade along the Mekong. Various Chinese dialects are used in the Chiang Rai region, including Yunnanese and hilltribe dialects for people who had migrated from China, perhaps via Burma. It is important to note that the various groups of Chinese in the north of Thailand are not always on good terms with each other or with their neighbours across the border in mainland China. The Kuomintang factions, for example, have no wish to deal with representatives of the People's Republic of China but will export their goods to political

² Figures are provided by the Statistical Office of the Province of Chiang Rai.

allies in Taiwan. Indeed, it is ethnic Chinese from this region who are brought to Bangkok and tourist regions to be guides for Taiwanese tourists visiting the Kingdom [12]. In short, this is an area of numerous mixed ethnic groups dealing with a variety of environmental factors of greater or lesser hostility to them.

4. CHANGING COMPARATIVE AND COMPETITIVE ADVANTAGE IN THE GMSR

The concept of comparative advantage derives from the work of the economist David Ricardo, who pointed out that different countries had different distributions of economically exploitable resources as a result of geographic, climatic and other factors. Thailand, for example, has comparative advantage in growing rice and tropical fruits over China, for example, owing to the plentiful water and weather conditions. The distribution of comparative advantages can change over time as conditions change and as certain resources become more valued or scarce than they previously had been. To some extent, governments can change the nature and extent of comparative advantages in their states by such means as improving infrastructure, preparing a better trained and skilled workforce and so forth. While comparative advantage is available to all organisations able to take advantage of it, competitive advantage resides within a specific organisation (whether in the public or the private sector) and, in order to be sustainable, should not be easily replicable by competitors. It is generally more efficient for governments to promote comparative rather than competitive advantages because that leads to a greater efficiency in the distribution of resources and because it is very difficult to distinguish between nationally-owned and internationally-owned organisations in this respect. With respect to comparative and competitive advantages at the provincial level, the research indicated changes in the Chiang Rai region that have been summarized in four separate areas. These are: infrastructure, institutional change, government policy and macroeconomic and macrosocial change. These are detailed individually below.

Infrastructure

The principal improvements to the infrastructure have taken place in transportation. The River Mekong has been improved for trade on the Chinese side of the border (although there are various environmental concerns associated with this), while port and customs facilities have been built at Chiang Saen and Chiang Khong. Industrial estates are being created at both towns. Three existing border checkpoints (Mae Sai with Ta Chi Lek (Burma), Chiang San with Ton Purk (Laos) and Chiang Kong with Huay Sai (Laos)) are being supplemented by the North-South Corridor, which will link Kunming with Bangkok. This includes the already built R3W, which passes through Burma and is often closed for political reasons and the yet to be completed R3E, which will pass through Laos and will require a bridge across the Mekong. It was scheduled for completion in 2011 but this may be postponed because of the 2006 coup. Research indicates that, while

infrastructure as a whole is associated in East Asia with higher levels of economic growth, the provision of transportation, specifically roads, is more problematic [9], [10]. Research found that riverine transportation is hampered by lack of skilled personnel to operate the customs procedures and this caused a bottleneck such that traders switched their cargoes to R3E where possible. The National Electronics and Computer Technology Centre (NECTEC) and National Science and Technology Development Agency (NSTDA) are planning to open an 'IT Valley' to help train workers for relevant industries, in partnership with the private sector [2]. This will take some time to complete and further years before graduates are available for the local labour market. It is not clear whether supply and demand factors in the employment market have been included in planning.

Institutional Change

The Asian Development Bank (ADB) has been leading the way in fostering regional cooperation and economic integration in the GMSR. It observes: "The regional cooperation strategy and program (RCSP) for the Greater Mekong Subregion (GMS)1 aims to help achieve the GMS vision of an integrated, harmonious, and prosperous subregion. It has four strategic pillars: (i) strengthening connectivity and facilitating cross-border movement and tourism; (ii) integrating national markets to promote economic efficiency and private sector development; (iii) addressing health and other social, economic, and capacity-building issues associated with subregional links; and (iv) managing the environment and shared natural resources to help ensure sustainable development and conservation of natural resources" [1]. The ADB has worked with the Association of Southeast Asian Nations (ASEAN) and individual country governments to push through various agreements aimed at furthering the vision outlined above. Additionally, multilateral and bilateral Free Trade Agreements (FTAs) have changed the relations of production. In particular, the China-Thailand FTA, together with completion of the North-South Corridor, has enabled a large amount of Chinese agricultural produce to be retailed through the multiple retail chains that are now a significant aspect of Thai consumer society. This has had the effect of making much of agricultural cash crop production in Chiang Rai uncompetitive and increasing rural unemployment.

Government Policy

As described previously, government policy from 2001-6 and 2007-8 has featured redistribution of resources to the provinces to an unprecedented extent. While this has had some benefits, they take time to accrue and talented young people are still drawn away from the region because of lack of opportunities for qualified individuals. More attention is required to eliminate replication of duties and jurisdiction between government agencies and in matching supply and demand in the employment market. The education system requires a major overhaul and the enormous and entrenched bureaucracy of the relevant ministry has defeated government reform [13]. A further negative constraint in enhancing

competitiveness is the limit to the enforcement of the rule of law. Numerous groups of migrant workers, unofficial border crossings and informal employment all conspire to lower wages (often to below the legal minimum) and inhibit value-adding activities and upgrading of human resources and of other business resources. Greater enforcement of existing legislation would improve the situation, although it would cause some dislocation to patterns of existing competitive advantage as businesses currently active would need to reconfigure themselves.

Macroeconomic and Macrosocial Change

The increasing importance of both China and Vietnam as production centres, together with increases in Thailand's overall economic development, has led to changes in the expectations and experiences of Thai people at many levels of society. The society itself is ageing, although the effects of this are not yet severe. Since 2001, an ever-increasing number of people have become involved more extensively in consumer society by leveraging their assets to purchase items through credit usage. This has been controversial as a resurgent religious right influential in the media has criticized credit as excess and morally incorrect. Political divisions dogged Thailand throughout 2006-8 and seriously hampered the government's ability to produce and implement policies. Lack of investor confidence has meant that many investment decisions have been postponed and in other cases the decision has been taken to move the investment elsewhere. Continued macroeconomic turbulence, particularly with respect to high oil and commodity prices and the crisis in the international banking system have also acted to destabilize the economy across the whole country.

5. IMPLICATIONS

Border regions such as Chiang Rai may become central actors when cross-border integration takes place and they may also become bridges or conduits through which people and goods pass without leaving much or any benefit behind. The construction of the transportation network passing through the province might increase the likelihood that it will become a conduit rather than a destination and this is, perhaps, one of the reasons why increasing the stock of infrastructural goods (especially with respect to roads) does not always lead to positive growth results. Indeed, it may be that it is in removing bottlenecks and constraints to growth that infrastructure works and, consequently, such develop may result in negative results for the area concerned. The Thai government has sought to counter this possibility by developing local institutions that add value to pre-existing local economic activities and look to produce higher quality resources in the future. The provision of space for industrial development and agricultural processing, as has occurred in the Special Border Zone of Chiang Saen and Chiang Khong may facilitate cross-border investment which will increase this tendency. However, it is not likely that there will be much high-value investment from Laos or Burma in the foreseeable

future and it will be from China that any such project will emerge. The many Chinese labourers active in the region, building the R3E in Laos and the many infrastructure projects in Burma, for example, also seem interested in settling in the region and establishing their own businesses. It may be possible to attract some of these people to Chiang Rai or, at least, to establish network relationships with them.

The level of public and political discourse in the region remains low, as judged by its ability to include rather than exclude people. Most people in central areas of each state are able to ignore peripheral areas and routinely to consider neighbours as irrelevant or perfidious. Those outlying people whose lives accept a different reality in which cross-border transactions of all sorts are an ever present and largely positive aspect of life are mostly ignored by those central polities. Improving this state of affairs requires enhancing the ability of all involved to understand the conditions in which they live and recognizing their legitimate power, such as it is expressed by the law of each country. This will be a lengthy undertaking requiring the cooperation of many elements in society.

Chiang Rai province is a largely forested and mountainous province and this has considerable impact on both the types of economic activity that take place there and the ways in which integrative functions can occur. Its tourism industry is developing, along the lines of multiple-goal tourism: that is, it includes aspects of eco-tourism, ethnic minority tourism, cultural and urban tourism. Each of these requires specific improvements in infrastructure, education and business and organizational environment. Greater technical capacity at local government offices is also required, while the increase in the number of university and vocational school seats is making a contribution in these areas.

6. CONCLUSION

Balancing power between the centre (or centres) and peripheral regions remains perhaps the most pressing issue in Thai politics and its has a significant impact on the social and economic development of regions remote from the capital Bangkok. It is at the heart of current controversies in the Kingdom, in which various groups aim to bring down a democratically-elected government with a stated policy and proven commitment to redistributing resources away from Bangkok and to the remaining provinces. Numerous elite groups conspire to prevent this from happening and, through various means, have had important successes in their efforts. The struggle for justice and equality continues.

In Chiang Rai province, regional integration has taken the form of transportation changes, merging of workforces and increasing institutional closeness arising from Free Trade Agreements on a bilateral and multilateral basis. Development of riverine trade along the Mekong, in particular, has changed the geography of the province, stimulating the growth of local industrial parks and the port facilities themselves. This has had mixed impacts on the labour force, since there remains an imbalance between the skills and competencies

required for new positions and those available in local people. Temporary labour migration, both internal and external in nature, has if anything increased as a result. More attention is required from relevant government agencies to deal with this situation.

As ever, more research is required to understand and identify emergent opportunities in industries which might become competitive in the Chiang Rai of the future, as well as in identifying the resources, particularly in terms of human resources, which those industries may require. This research is proceeding.

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