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EDITOR’S INTRODUCTION
Welcome to the second issue of Volume 1 of the SIU Journal of Management. The journal represents one of the principal methods by which the School of Management of Shinawatra University (SIU) to share research with the world at large.

This issue contains one invited paper, three double blind peer-reviewed research papers, one conference report and two book reviews. In the invited paper, Tatoul Manassarian analyses the nature of inflation measurement in his native Armenia and the causes of inflation for all sections of society. Armenia is a transition economy moving from the Communist rule of the Soviet Union to the market economy currently being introduced. Finding various flaws in the practices and methodologies currently employed, he seeks to embed improved versions within a development model that would, if properly managed and regulated, be both inclusive and sustainable.

Lada Phadungkiati, Kyoko Kusakabe and Soparth Pongquan investigate the role and performance of Thailand’s One Tambon One Product (OTOP) policy, which was introduced in 2001 as a means of strengthening the regional economy of Thailand and, hence, reducing vulnerability to external environmental shocks and the need for domestic and international labour migration and the various social ills that can be associated with that. Their research in Chainat province indicates that, as a commercial enterprise, some OTOP projects are more successful than others and that social benefits do not automatically accrue to those participating. In common with all forms of capitalist endeavour, OTOP projects create both winners and losers.

Arup Mazumdar investigates the state of the Indian insurance industry. As a country passing through hyper-late development and
with an enormous population, India represents incredible market opportunities for those companies able to stake out powerful positions and then make use of them by locking customers into long-term relationships on a win-win basis.

The third peer-reviewed paper sees Sittichai Anantarangsi consider the prospects for Thailand under the ASEAN Economic Community, which is scheduled to begin in 2015. He finds, on the basis of extensive interviewing with foreign executives and other informants, that Thailand should consider itself not so much a hub for inwards investment, as advertised by the Government, as a gateway to the Mekong region and the labour and resource markets the countries there offer.

Finally, G.D. Sardana and Tojo Thatchenkery described the highly successful ICMC 2012 held in Greater Noida, Uttar Pradesh in India, which was attended by the editor, among a number of more distinguished participants.

Please consult the call for papers at the end of this edition for details of how to submit papers and the types of submission of interest.

On a personal basis, 2011 has been a mixed year for Thailand. On the one hand, the return to democracy raised a huge cheer; on the other hand, the extensive flooding caused more than 750 deaths and incalculable social and economic damage. Let us hope that the government can effectively lead efforts to bring about reconciliation in the nation by promoting efforts to establish the truth about past events and apportioning responsibility properly for those events.

John Walsh, Editor, SIU Journal of Management
INVITED PAPER
The Real Causes of Inflation and Perspectives for Overcoming Them: The Case of Armenia

Tatoul Manasserian

Abstract

The consumer price index (CPI) is an inadequate measure of inflation in Armenia, which is a transition country that faces a number of difficult challenges. The increases in food prices that most affect lower income Armenians has been referred to as agflation, and this concept would better embody the issue of inflation in the country. Changes in the measurement of inflation should be placed within the context of the necessary creation of a developmental model that will help the country to takes the next steps towards economic and social development on a sustainable and inclusive basis.

Author: Professor Tatoul Manasserian, Founder of ALTERNATIVE Research Centre, is a member of the Armenian Assembly.
1. Introduction

The history of Armenia is a long and proud one but one that has led to the dispersal of many of her people into a diaspora. Nevertheless, cultural practices have been retained despite the changes made during the Soviet era. Armenia’s economy was considered to be one of the most advanced in the Soviet Union but much of its competitiveness was lost in the transition from planned to market economy. The economy has become even more vulnerable as a result of the negative impact of the global financial crisis, unexpected fluctuations in the world economy, including increases in the consumer price index (CPI) and the decline of the purchasing power of the population. In general understanding, inflation and CPI increases are like peas in a pod. However, the daily lives of people encourages them to see inflation in terms of basic food products (the ‘food basket’) and everyday commodities, while CPI may include hundreds of products intended for both individual and commercial use (e.g. coffee, copper, construction materials and butter – all together).

Consequently, inflation or CPI cannot be easily ranked among possible threats to the economy. Under prevailing conditions, where the currency is no longer backed by gold or other reserves and, in a certain sense, represents a state obligation, inflation could even be considered to spur the dynamic growth of the national economy to the extent of a range of 5-6 annual percentage points. Additionally, year-end increases in the consumption of goods and in production costs could well be considered a natural phenomenon requiring additional monetary resources. Realizing that available monetary resources could be insufficient to meet relatively higher household demands at the conclusion of the year, commercial enterprises in developed countries ordinarily offer consumers the benefit of considerable price discounts, thereby augmenting their purchasing power and stretching their limited resources. Conversely, in Armenia, prices move in the opposite direction: that is, they increase, primarily because of sellers’ confidence in Armenian consumers’ disposition with respect to
purchasing their goods under any circumstances, even at the cost of obtaining them on credit.

Price inflation of up to an aggregate of 10 percentage points could be beneficial in certain cases, provided the average monthly increase does not exceed one percentage point. Inflation that occurs at a steady and gradual rate of increase is often referred to as “creeping” inflation. This type of inflation normally occurs in conjunction with increases in money supplies, which accelerate the payment cycle and lower interest rates, positively affecting investments, as well as production growth and modernization, consequently boosting a country’s economic competitiveness. Accordingly, growth in production induces equilibrium between money and commodity supplies, even under conditions of relatively higher prices. Certainly, there exists a danger from deregulating “creeping” inflation, particularly in countries that have lower levels of production and where there are no functioning mechanisms for addressing structural distortions in the economy.

Thus, in at least two probable situations, price inflation may cause serious harm to state economic security. The first of these situations occurs when inflation is in double digits and gradually becomes uncontrollable, harming both local producers and local consumers. The second is the so-called stagnation, which occurs when a high rate of unemployment is exacerbated by the high rate of inflation. Clearly, Armenia is currently challenged by both of these negative phenomena.

2. Inflation in Armenia

It is important to articulate the current state of inflation as portrayed by official state statistics. According to public data released by the Republic of Armenia’s (RA) National Statistical Service (NSS),

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1 And when stagnation is accompanied by a decrease in production, then there is what is called “stagflation.”
consumer prices increased by 1.8% in December 2010, representing an increase of 0.2% over the previous month. This increase is derived from a 3.7% increase in food prices and a 0.1% increase in the prices of non-food consumer goods. Parallel to these increases, service sector prices have decreased by 0.2%.

Observation of the data over the longer term reveals that price increases for the whole year aggregate to 9.8%, which is constituted as follows: food items (including alcoholic beverages and tobacco): 14.6%; non-food items: 5.6%; and services: 4.2%. Considering that 2005 is used as base year for price comparisons, it is worth noting that, according to the NSS data reported in January 2011, overall consumer prices have increased by 37.7% and food prices have increased by 44.3% (CPI of Armenia, 2011: 5). From the standpoint of economic security, there is no question that these numbers are far from being within tolerable limits. Further, the consumer price index has far exceeded the limit of 5±1.5% as established in the enacted “2010 State Budget of the Republic of Armenia.” Our concern is not only that consumer price increases are merely a consequence of very significant economic issues, but also that there is a need for correcting the methodology of calculating the CPI.

Few people are aware that the CPI is not primarily involved with fluctuations in prices of the group of ten necessity goods, which would allow inferences to be made about the level of poverty and prices related to the consumer basket for minimal wellbeing. Instead, CPI calculations incorporate the prices of 470 commodities and services (including copper, molybdenum and gold), the majority of which are not included in the daily consumption patterns of the middle class, let alone being those segments of the population who live below that level or who are at the threshold of poverty. As a result, we deal with a price indicator that is calculated based on various non-food commodities and services that have a relatively low demand in the consumer market. In this situation, it is hypothetically possible to obtain a more tolerable price increase (when individual commodity
price increases are amidst decreases in the price of other goods and services) even when a double-digit inflation exists in individual prices of food items that characterize the consumer basket.

Nevertheless, the use of such methodology — a methodology supported by international organizations — would not have bewildered the average citizen if the actual price inflation of the consumer basket for minimal wellbeing were disclosed along with the CPI of 470 commodities and services, and if targeted measures were initiated for curbing inflation. According to official NSS data, prices of the above referenced consumer goods reflect the following changes: bread 12.7%; meat 16.4%; seafood -5.3% (decrease); dairy products 20%; eggs 27.4%; animal and vegetable oils 10.6%; fruit 22.6%; vegetables (including potatoes) 35.6%; sugar 1.9%; coffee, tea, cocoa 1.9%; confectionery 6.5%; other food items 2.5%; and non-alcoholic beverages 0%.

From a methodological perspective, it is important to consider variances in the consumer basket of households from different communities (considering that significant differences in consumption are evident between Yerevan and distant rural communities); NSS has selected one community from every district (marz), but rather than surveying villages, it has opted for cities with rather average standards of living. Besides, different consumer groups — such as those at the threshold of poverty, the lower middle class, middle class, and well-to-do groups — have intrinsically different spending dispositions with respect to the same commodity. Further, the NSS has presented averages rather than accounting for differences among different segments of the population. The vulnerability of this methodology is partly ameliorated by the NSS decision, accepted on January 25th, 2011, to “transition from the cumulative method of collecting, aggregating, and reporting macroeconomic indicators to a discrete monthly encapsulation,” according to which a new indicator of economic activity will be tracked beginning in January.
Notwithstanding the above, public perception of the degree of reliability of the data does not appear to be improving. It is quite obvious that potato prices have not increased by 18.8% or even by 35.6% since, compared to 2009 prices, these prices have increased five-fold, i.e., by 500%; similarly, those of buckwheat by 300% and apples by 500%. Similar inaccuracies also exist in reported price increases for other consumer goods (such as cheese, eggs and meat). This simply means that with ‘averaging’ we get a more moderate consumer price index. It is important to note also that the reported decrease in annualized seafood prices does not take into account the fact that, in the earlier months of the year, consumption volumes of frozen seafood, imported at relatively cheaper prices, are simply beyond comparison with quantities of seafood imposed upon the consumer at much higher prices in the month preceding the New Year. Consequently, seafood prices have increased rather than decreased (as was reported). This is also true for several other products. Further, variations in consumption volumes during different months of the year pose serious methodological concerns that must be resolved.

Within the framework of the current strategy, the objective for calculating inflation is to capture the movement of price indices over 12-months (i.e., price inflation in a month compared to that of the same month in the previous year, which, as a rule, is normalized relative to the CPI adjustment in December of each year; even though the Central Bank releases information on price fluctuations during each year on the basis of analysis), which does not reveal the total picture on actual consumer purchasing power. It is important also to note that deviation of the average rate of inflation from the planned rate is a leading cause for intervention by the Central Bank and for government regulation.

Moving from the theoretical-methodological issues to the real causes of price inflation, it is important to classify the causes of inflation on the basis of:
a. Objective
b. Subjective

as well as by:

c. External drivers
d. Internal drivers

According to this classification, objective factors could be triggered by both external as well as internal drivers. This is also true in the case of subjective factors contributing to inflation. Analyzing the record high rate of inflation, one can naturally arrive at the conclusion that one should not look for the causes of the high rate of inflation only within the borders of Armenia. Stated otherwise, there exist objective reasons for accepting, albeit reluctantly, the rules of the game imposed from the outside. As an open market economy, Armenia has no other choice but to accept prices set in the world market, especially when importing commodities from abroad. This involvement provides ground for speculation with rising international prices. On the other hand, however, declining international prices, as a rule, are not even sensed by Armenian consumers. Consequently, one of the objective reasons, if not the decisive reason, of the mounting rate of inflation is the international upsurge in commodity prices.

Certainly, there are countries that are able to withstand such external influences through social protection programs that mitigate the adverse impact of inflation — in the form of subsidies from state budgets to socially vulnerable segments of the population — at the minimum, by making the consumer basket for minimal wellbeing more affordable. Such an example is the food-stamp program in the USA, which helps qualifying low-income households, including illegal aliens, to purchase food supplies using federally-funded food stamps distributed in accordance with the number of household members. During times of tough economic reforms in the early
nineties, Eastern European and several CIS\(^2\) countries, including Armenia, resorted to similar programs to protect their citizens from external pressures that caused food prices to soar. However, such measures alone do not provide permanent solutions over the long-run. One of the most important state concerns is the challenge of finding solutions to social problems through sustainable development programs rather than by way of such artificial reliefs. Besides, it is not reassuring at all to learn that Armenia has only scored slightly better compared to the more damaging effects of inflation recorded in neighbouring countries.

Conceivably, one of the most important external-objective factors is the drop in the production of certain foodstuff due to inclement weather conditions and natural disasters. Yet another notable objective factor is the adverse impact of the global financial crisis and consequent decline in the purchasing power of consumers in different parts of the world, as previously reported in official statistics.

Finally, it is important to emphasise the significant devaluation of the U.S. dollar among external-objective factors. The large supply of U.S. dollars in circulation in 2010, not backed by commodities, resulted in its devaluation in Forex markets. The Euro exchange rate began to rise despite all kinds of negative speculation, including predictions of its failure just a few months earlier. Against an exchange rate of $1.187 to the Euro in the summer of 2010, it grew to an exchange rate of $1.423 in November of the same year.

Considering current trends, it would not be difficult to project that the exchange rate for the Euro against the US dollar may fluctuate between $1.20 and $1.40 in 2011, quite possibly within the upper limits in the range in the latter months of the year, with some sagging occurring in the first two quarters of the year.

\(^2\) The Commonwealth of Independent States replaced the Soviet Union in 1991 and most members left during the first decade of the 21\(^{st}\) century.
This concludes the short-listed external-objective causes of inflation. In contrast, the external-subjective causes are overpowering compared to the preceding ones and could have a greater and more lasting effect on people, thereby rendering the current serious inflation but a prelude to forthcoming economic setbacks. The argument refers to the large-scale subsidy policies of industrialized nations in the absence of supporting economic norms. In other words, prices artificially reduced by means of subsidies and resultant increase in the competitiveness of such commodities could be ranked among the most critical issues in global economics. Such pricing strategies not only weaken developing economies — where lower production and labour capacities negatively affect the competitiveness of several commodities, especially agricultural products — but also impair the development of the world economy. Further, such policies contradict the principles of the liberal ideology developed nations exhorted transition economies to use. Consequently, farmers are not only encouraged not to engage in agriculture but to cease producing such agricultural products that are aimed at regulating prices in a given country. After all, the subsidization of agricultural products creates competitively uneven conditions especially for those developing countries that are at different stages of economic development and where the subsidization of the same agricultural products is not at an equal level (from a financial position).

According to World Trade Organization (WTO) assessments, consumers and governments of wealthy nations spend approximately US$350 billion per year to subsidize agriculture — enough to fly their 41 million dairy cows first class around the world one and a half times (WTO, not dated). According to a different analysis, the amount spent on a single cow in EU countries can exceeds the per capita income of an entire village in the Russian Federation.

Surely the above listing is not exhaustive of the economic and social harms caused by such policies. In effect, the production of certain goods supplied at competitive prices is becoming more costly and
increasingly dependent upon the subsidies allotted from the state budget of a given country. If such subsidies decrease, particularly as a result of the global financial crisis, then the production of those commodities would naturally decrease. This would result in a deficit in the supply of those commodities in the world market, which would naturally cause prices to increase.

In discussing the external-subjective causes of inflation, it would be remiss to ignore the artificial supply shortages of certain commodities created by countries that have a distinct advantage in the production of such commodities. This is a phenomenon totally unrelated to the prevailing crisis. Such commodities include petroleum, gas and other energy sources, gold and diamonds. Such phenomena are likely to occur more frequently when there are strategic alliances among producers of the same product, i.e., cartels aimed at protecting the shared interests of members, such as the Organization of Oil Producing Countries (OPEC) and others. Food markets are not exempt from similar pricing schemes. Currently, there are serious concerns not only with respect to rationed commodities but, also, regarding the economic security of countries such as China and India, which are exporters of food commodities.

The World Food Programme (WFP), the international food aid branch of the United Nations, has referred to the current food crisis as the “quiet tsunami” that could throw a minimum of 100 million people into the claws of starvation. Economists at Goldman Sachs have coined the economic term *agflation* to describe the rapid increase in the prices of food that occurs as a result of increased demand from human consumption. In the opinion of experts of this Manhattan-based organization, *agflation* was 26% in 2006 and 41% in 2007, before falling slightly in 2008-2009 and then reaching a record high of 49% in 2010 (Trefis, 2011). This is troubling both for industrialized nations and international organizations. Great Britain’s former premier Gordon Brown appraised the rising food prices by positing that this would lead to effects equally detrimental as those caused by
the financial crisis. In turn, the Secretary-General of the United Nations, Ban Ki-moon, has declared food price inflation to be a global crisis, which could have severe impact on the world economy and international security and necessitating coordinated actions for containing it. In this respect, more than 50 countries have instituted sanctions with respect to curtailing the volume of their food exports. For instance, in the USA, for the first time since World War II, restrictions in the volume of food sales have been instituted in large retail chains, such as Costco and Sam’s Club.

Clearly, the economy of Armenia is also showing signs of this agflation. Consequently, in addition to the assessment of international trends, it is important to analyze the internal causes of inflation. Research demonstrates that the internal causes stem from objective as well as subjective constructs.

First, a look at the objective constructs: a number of these objectives evolve not just from the fact that the internal free market is directly connected to the international market but, also, from the fact that Armenian commodities are not exported at prices set by the local economy but at prices shaped in the world market. To get a better picture of the degree of dependency upon world market prices, it is necessary to take into account official NSS data, which show that at January 1st, 2011, imports totalled (3,782.9 million AMD), more than thrice total exports (1,011.4 million AMD) (Government of Armenia, 2011). This shows that the local consumer is purchasing commodities at prices set by world markets, augmented by transportation costs, customs duties and the importer’s profit margin (often in the form of excessive profits). Further, this assumes that all businesses are fully abiding by the rule of law, which theoretically excludes market effects caused by the shadow economy, monopolies and smuggled commodities. Including those additional factors contributing to price inflation would have necessitated a separate analysis.

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3 The Armenian Dram (AMD) is equal to approximately US$0.0026.
Despite the above, external factors affecting local price inflation could well be unpredictable if, on the one hand, developments and trends in the global market were not taken into consideration and, on the other, they could also be predictable in anticipation of forthcoming impacts, creating opportunities for government agencies and businesses to take corresponding measures to inhibit possible shocks.

The next objective factor contributing to the high inflation is the insufficiency of state financial resources. In turn, this speaks to the problems of indexation with respect to the minimum wage, pensions and social benefits proportional to the consumer basket for minimal subsistence. Finally, one must take into account the effects of inclement weather conditions and the ensuing inability of farmers to make up even partially for inflation imported from the world market. Additionally, there are other objective factors that have a less significant effect on inflation (including a decrease in the volume of land used for cultivating certain plants and the potential effects of degradation of existing agricultural land). Based on calculations, wheat fields shrunk by approximately 50,000 hectares in the period 2003-2010 and potato fields by 10,000 hectares in 2010, the latter as a consequence of the drop in potato prices in the previous year and the ensuing decline in the profitability of growing potatoes. Similarly, vegetable fields have contracted considerably. These factors culminate in a decline in production of certain food items, which consequently inflates their prices.

As for the internal-subjective or arbitrary causes, their mere enumeration could counterweigh the external-objective as well as external-subjective factors and the detrimental outcomes they generate.

Although international reports rank Armenia among the liberal economies, it is evident that some seemingly invisible obstacles have been created in the market of certain commodities preventing potential new entrants from penetrating those markets. Such market limitations
are among the internal-subjective factors contributing to excessive inflation in various commodities. On several occasions, the Government of Armenia and the Central Bank have indeed discussed the existence of such hidden powers that manipulate prices in the local market.

The valuation of the Armenian currency and high prices, particularly those of imported commodities, are part of the strategy of importers to realize excess profits in foreign as well as local currencies, but are also shaped by the high level of centralization of the economy of the Republic of Armenia, which serves as a precondition for those enterprises with market dominance and monopolistic power to collude in exercising anti-competition and counter-market practices and exploiting their market positions. This is substantiated by the official data of the State Commission for the Protection of Economic Competition (SCPEC) of the Republic of Armenia. The results of SCPEC’s 2010 market analysis pertaining to 12 food items show that 7 of those are highly centralized (monopolized) and the remaining 5 are partially centralized. There is no mention of minimally centralized consumer markets. For instance, fluctuations in prices of cheeses are of significance. According to SCPEC records, there are 78 registered cheese businesses in the Republic of Armenia, not accounting for many village farmers that also make cheeses. With so many entities engaged in cheesemaking, it seems unfeasible that they would orchestrate prices, but organized arrangements of inappropriate price-setting have been detected — different cheese producers have increased their prices, virtually simultaneously, and roughly by equal amounts. In principle, cheese prices should have increased a few months later and by 150-200 AMDs at the most, following increases in milk prices. As the saying goes, “there is no free cheese, except in the mousetrap.”

The same is true for free or bargain eggs. In the summer of 2010, when the retail price of eggs dropped below cost, it was evident that the large producers had colluded in order to push out the smaller
outfits, and they would resort to profiteering soon after monopolizing the egg market. Indeed, it did not take long for the egg producers to increase prices tenfold compared to the summer, blaming the increase on different fowl ailments. Rarely does one come across such price increases in the world market.

Based on assessments by international and local experts, the ineffective system of competition protection and prevalence of corruption have placed a significant segment of the Armenian economy in the hands of semi-monopolies or oligopolies, which inevitably inhibit the development of a socially-oriented competitive national economy. For example, the prevailing situation in the Yerevan central markets of agricultural products deserves separate analysis. The prices of fruits and vegetables offered at the so-called “nighttime” wholesale markets are markedly lower than the unanimously-set prices imposed on consumers only 3-4 hours later. Of course, this does not denote the classical understanding of profit-making. Rather, this relates to the phenomenon of “greed.” Here, the difference between purchase and sale prices represents a 75-100% mark-up, reaching and exceeding a 200% mark-up in select instances. Obviously, it would be futile to explore here the notion of competition or look for other objective price triggers. In fact, this represents the daily routine of a few natural persons, the ‘oligarchs’ (or magnates) of sorts, who more or less forcibly acquire the entire supply of commodities produced by farmers setting unduly high resale prices imposed on consumers on grounds of administrative obligations. One would think that the prices set at dawn determine the day’s commerce as if the day were to break not for the villager but for the oligarch. Such manifestation is extraordinary even when compared with the economic red tape that existed under socialism. In fact, this resembles the unscrupulous treatment of vassals by feudal economic lords and, in modern times, it could be regarded as an economic crime, which is undoubtedly defying the regulatory and supervisory functions of the state and weakening the economic and social foundations of statehood.
Generally, people understand inflation as the result of a single phenomenon, whereas it is actually the result of several phenomena interacting with each other. For example, inflation may occur as a result of product deficit (i.e., when there is excess demand versus the total quantity produced/supplied of that product), and it may also occur as a result of escalating production costs caused by the underutilization of production inputs — under prevailing pricing arrangements, the producer cuts back production supplying lesser amounts of what costs more to produce. In both of these instances, consumer expectations change, also affecting the consumer mindset and behaviour. Such occurrences are not at all foreign to Armenia. Even based on unfounded information or rumours concerning potential price increases of a commodity, consumer demand for that commodity significantly increases, providing entrepreneurs and merchants with a timely opportunity to increase prices rapidly. Further, research results have shown that a 6-7% plunge in the quantity of a commodity from the consumer market not only results in routine inflation but also creates panic. Consequently, consumers try to stock up on that commodity, thereby creating a much greater shortage in the supply of that commodity in the consumer market and pushing up prices even higher.

Returning to the roles of state regulation and supervision, it is necessary to consider those regulatory instruments, such as customs, taxes and monetary strategies that influence inflation within the framework of national competitiveness. Despite continuous attempts to regulate the state taxation system and the mechanisms implemented to that effect year after year, it is premature to characterize the system as being effective. Whereas steadfast management targeting the curtailment of the shadow economy would be productive, such policy is being implemented only with reservations, affording “privileges” to businesses that are already in favourable positions even before those advantages. As for actual tax privileges, those are not even permissible from a legal-regulatory sense at the present time. In other
words, there is no discrete and targeted policy aimed at the development of a specific sector or sub-sector.

Consequently, small and medium enterprises are shutting down, with the obvious impact that the shadow economy is growing and, consequently, state tax revenues are decreasing; in order to compensate for the revenue shortfall in the state budget, the tax burden is growing and progressively being shouldered by the fewer remaining enterprises. In turn, those additional taxes are augmenting the cost of goods and services, thus contributing to the mounting inflation.

Among the real causes of inflation are the adverse impacts caused by smuggled commodities and inefficient customs codes, as well as the low performance of the tax revenue collection system. Additionally, in the opinion of some experts, there are inflationary risks involved in the configuration, computation and documentation procedures of the value-added tax (VAT).

The fundamental issues surrounding access to credit by the real segment of the economy play no less significant role in current levels of inflation. The largest proportion of approved bank loans in 2010 (a total of about 806 billion AMD) went to the commercial sector (21.6%). Further, financing of trade, services and consumption together make up 41% of total bank lending, compared to 50 billion AMD in loans (6% of total loans) approved for agriculture (which exceeds the total of loans to that sector for the same time period in 2008 by just 17 billion AMD, and by 4 billion AMD compared to loans disbursed through September, 2008), and 174 AMD billion for manufacturing (representing 21% of total loans) (Central Bank of Armenia, 2011; Orensdir.com, 2011). These numbers attest to the lesser participation of the banking sector in the development of the production industry. In that regard, it must be questioned whether such lending patterns stimulate or dampen inflation.
An additional internal factor contributing to inflation concerns the implications of the currency exchange policy in Armenia. In general, the devaluation of the local currency over the short term could increase the competitiveness of the national economy and foster exports but, in the longer term, it could adversely influence prices and lead to inflation. Clearly, the relatively larger quantities of exports generate commensurate inflows of foreign currency, which undeniably influence the foreign currency exchange rate, augmenting the local currency’s purchasing power and, hence, also its value. In fact, a pegged currency (fixing the foreign exchange rate at any level relative to an external currency or currencies) raises serious concern.

In Armenia, the years 1994 and 2008 could be considered as periods of hyperinflation and super-valuation of the local currency. In 1994, the dram was devalued by 3162%. The Central Bank of Armenia and the government jointly resorted to obtaining financing through the World Bank’s credit programmes. Naturally, the most essential issue for the Central Bank was to pick the most effective financing strategy, i.e., selecting two out of three policy alternatives within the standard deadline: fixed exchange rate or guarantee of a narrow fluctuation margin; independent credit policy and, consequently, choice of appropriate strategy; in addition to the free flow of capital. Irrespective of monetary policy, the strategy for free capital movement should allow for a floating exchange rate.

At this point, it is important to note that the amounts of money placed in circulation, including inappropriate credit policies, internal as well as external national debts and emergent non-production costs, could trigger devaluation of the local currency and steep price inflation. Occasionally, devaluation of the local currency may render locally produced goods more inexpensive for outsiders, while its valuation has the opposite effect in external markets. In other words, when the country’s local currency is devalued, exports become cheaper, while imports are less affordable for residents. Conversely, valuation of the local currency has the opposite effect; foreigners pay more for goods
produced in the subject country, while local consumers pay less for imported goods.

Studies have shown that severe crisis has prevailed in countries pursuing all three goals simultaneously (e.g. Brazil, Argentina and Russia). In the event that the Central Bank chooses to adopt a fixed exchange regime and oversees its performance, then it must also assume responsibility for the risks associated with the peg’s clarity and predictability for traders, as well as be prepared for possible external shocks and massive speculation. On several different occasions, the Central Bank has had to intervene with short-term currency revaluations intended to safeguard competitiveness and in pursuit of other motives. In the current phase of economic growth, targeting a relatively low level of inflation would involve revaluations of the nominal exchange rate of the Armenian Dram.

Other external causes that should also be noted include:

- Increases in the price of oil: oil prices have been at record highs since the 2008 crisis, fluctuating at around US $100 or more per barrel (ProFinance Service, 2011) and as high as US$200 per barrel in Egypt (РБК, 2011), given the current political unrest in that country;
- Increase in demand for food: based on projections of the world population reaching 7 billion in 2011 (Sipe, 2010);
- Decrease in world grain stocks: the lowest levels were recorded in the past three decades along with the highest prices;
- Increases in production costs of food items (География, not dated).

Other noteworthy factors include:
In the world market, price setting schemes are fashioned not as much by individual companies but more by political and economic monopolies;

Use of some agricultural crops for obtaining biofuel, such as biofuels derived from sugar cane, maize and other plants;

Under prevailing conditions of financial-economic crisis and conflicts in several parts of the world, increases in military and other government expenses are, naturally, imposing additional monetary demands, which do not correspond to supplies of commodities in circulation.

Next, the research turns to several internal causes pertaining to the rate of inflation in Armenia, as follows:

- Declining economic ties with neighbouring countries (in 2010, particularly, exports to Georgia and Iran have decreased, although imports from these countries have increased (Statistical Office of Armenia, 2010), resulting in new outlays and additional inflation);
- Corruption and bribery: officials are now demanding larger bribes or so-called kickbacks that are directly contingent upon the unpredictability of their tenure in office, creating direct parallels between officials’ length of tenure and dependency on bribes;
- Weak economic and institutional environment: there are no effective reserve mechanisms; interest paid on deposits by commercial banks are minimal compared to the rate of inflation;
- Increase in public consumption: this increase results not so much from increased incomes than the growth of unearned income (including transfers from abroad, foreign grants, humanitarian aid and other types of financial assistance);
- Existence of large businesses involved in fixing production costs and setting prices in certain sectors of the economy;
- Increase in gas prices, manifested in the increasing unit costs of almost all commodities and services;
- Export of Armenian food products, including cheese, lamb, and certain kinds of fish, is leading to declining supplies of those goods in the local market and, therefore, to increases in prices;
- Reduction in the volumes of local production, under conditions of a stable money supply, which leads to price increases, on the basis of supply and demand conditions.

In common with many other cases, such comparisons could measure the adverse impacts of inflation against those of other countries.

3. International Comparisons of Inflation Rates

At present, prices in Georgia are lower than those in Armenia. In the month of September 2010, for example, inflation was at 1.2% and inflation of food items was 2% above the previous month. At the same time, prices of fruit and vegetables have dropped (by 7% and 2.8% respectively). Inflation rose abruptly at the end of 2010 and into the beginning of 2011. Further, there is a noticeable outflow of capital from Armenia to neighbouring Georgia. Meanwhile, in Azerbaijan, price increases are much higher than in Armenia, to the extent that the same commodity costs an additional 30-180 AMD in the former compared to the latter and often far more even than that.

International experts have observed that, in the recent past, food prices have been continuously on the rise. Sharp inflation of food prices has also been observed in EU countries. Prices of bread and dairy products have risen by 21% in several Eastern European countries. The poor wheat harvest has caused bread prices to increase by some 11.5%. Dairy products have already hit dollar ranges rather than cents in EU countries; for example, 250 grams of butter now costs €1.17 compared to what used to be 75¢. In Spain, the price of milk has increased by 8.2%, and fowls by 11.4%, among other increases. Yet
another remarkable phenomenon is that, in Italy, pasta prices have increased, with inflation generally having increased prices by 5% in one year. The price of butter in the Czech Republic has increased so much (by about 35%) that consumers are switching to margarine. Substantial inflation in foodstuffs is also observed in the Russian Federation, where increases include oil (13.5%), pasteurized milk (9.4%), dairy products (7.9%) and sour cream (7.5%).

The price of a bushel of wheat in Chicago’s Mercantile Exchange increased sharply at the beginning of the agricultural new year (July 2010), hitting 2008 pre-crisis levels and remaining at around US$8-9. Similar increases, derived from shortages in supplies of agricultural products, as a result of inclement weather conditions and high inflation, have also been observed in the prices of sugar and rice in international markets; while prices of animal fats in international markets continue to rise at a steady pace.

According to a recent report by the UN Food and Agriculture Organization (FAO) on the 2010-2011 situation in the international food market, all countries must be prepared to face challenges imposed by new price increases (FAO, 2011). Further, according to data published by the International Grains Council, grain production for 2011 is projected to reach around 1.725 million tons, which is a reduction of 3.5% on the previous year’s production. This decrease is primarily driven by the projected insufficient maize harvest.

On the demand side, the consumption of grains is projected to exceed that of the previous year by 1.6%, at 1.79 million tons. Consequently, as a result of a projected increase in consumption and a decrease in production of grains, stockpiles may decrease by 61 million tons, falling to 340 million tons. It might be noted that the major producers of grain are Argentina, Australia, Canada, Europe, Kazakhstan, Russia, Ukraine and the USA. According to projections, these countries are expected to decrease production by 55 million tons, declining to a record low since 2003. Considering such stock
reductions in international markets, the 2011 harvest could have a serious impact on efforts to stabilize prices in the international market. Thus, the forthcoming behaviour of the agrarian sector could depend not only on the levels of yield in agriculture but, also, on macroeconomic indicators and the overall performance of the world economy.

The 2010 fluctuations in wheat prices correspond to price increases experienced for agricultural products. The drought in many wheat producing countries resulted in July price increases amounting to 70%.

Incidentally, demand for wheat has somewhat stabilized in recent months. However, it would be no surprise if the continuing drought in the USA and the torrential rains and floods experienced in Australia in the early months of 2011 culminate in a drop in the quantity and quality of the wheat harvest. Furthermore, India has introduced limitations on wheat export volumes, in spite of its excess stocks, whereas in China, the largest consumer of wheat, there is a continuing increase in local demand. Such factors, along with others, are expected to have serious impact on prices. In turn, the U.S. Department of Agriculture has projected that world wheat production in 2010-2011 is likely to be 644 million tons, which is a reduction of 5% on the previous year. Gross consumption is expected to increase by 10 million tons to a total of 660 million tons. Stockpiles could decrease by 76 million tons, considering the recorded declines in Russia and Ukraine.

At the same time, it should be noted that the volumes recorded in the second half of 2010 are not comparable to those of the world food crisis of 2007-2008. 2010’s shortage of supply, together with the projected reduced levels of production in Ukraine and Kazakhstan, are projected to offset the world surplus built up as a result of record high harvests in the previous two years. Further, fluctuations in the exchange rate of the US$ are expected to influence grain prices. In the
event of a devaluation of the dollar, wheat prices would increase proportionately. China and Europe are currently considered to be the largest wheat producers and consumers; thus, price fluctuations also depend on the levels of economic development in those regions. At present, a bushel of wheat is priced within a range of US $7.5-8. In the first half of 2011, it could reach US $8-8.5, with some stabilization projected following such an increase.

In discussing the high levels of inflation, it is important also to consider social factors. The effects of high inflation vary by the levels of economic development in different countries. First and foremost, one must take into account that consumers in EU countries spend 12% of their income on food, even in times of crisis. The same is not true for Armenia, where average consumers still spend most of their income on food. Official data attest to the fact that consumers who are at the threshold of poverty spend 70 percent of their household expenses on food items (Statistical Office of Armenia, 2010).

Moreover, according to official data, the poverty level in Armenia is at 23.5%. According to experts, in the event of a continuing crisis and resulting decline in transfers from abroad, the situation could worsen, increasing the poverty level to 31%. Indeed, it would be undesirable if poverty were to intensify at such a pace, similar to what has taken place in Georgia (60%); but, today, such a tendency seems inevitable (Black Sea News, 2011).

According to National Statistical Service data, the average monthly salary in state organizations has increased by 4.2 percent reaching 85,000 AMD and that of private organizations has increased by 9.3 percent to 133,000 AMD; however, even such increases do not make measurable positive impact under the prevailing inflation.

In November, 2010, pensions increased by 2,500 AMD, which hardly alleviates pensioners’ despair, considering that pensions have increased by 11% but prices of basic food have increased by at least
twice that much. At this time, the social wellbeing of the socially disadvantaged segments of the population has remained unchanged and, in certain instances, it has worsened.


It is plain that the most important measure for curtailing inflation is the well-defined configuration of the CPI and the effective realization of competitive advantages, which would reduce the economy’s dependency on external factors, thus allowing the prediction and oversight of prices in a competitive environment, while fostering sustainable development. Currently, industrial production and, more precisely, mineral production, is a central issue in CPI changes: since the higher CPI resulting from a more intensive exploitation of mines over the long run would generate dependency on the development of a specific sector, as was the case a few years ago with Armenian dependency on diamond exports that represented more than half of total exports.

The disproportionate increase in prices of different commodity groups is leading to an asymmetry in normal profits, which, in turn, could lead to the outflow of financial and human resource capital from the country’s production industry, in both manufacturing and agriculture, into the trade and services sectors and even into expatriation.

It is necessary to pay special attention to the methodology of calculating the CPI. Together with specifying in the CPI the 470 commodities proposed by international organizations, it is also necessary to provide the actual inflation rate in prices of necessity goods and to take steps targeted to curtailing them. The time has come for Armenia to compute the monthly agflation, that is, inflation of agricultural commodity prices, by taking into consideration the fact that the largest share of the current inflation rate lies in food price increases. Aside from the discrete calculation adopted by NSS effective January 2011 (which incorporates select cities from the 10
marzes of Armenia), it is necessary also to include calculations of price increases in rural villages, where price inflation has had a more severe effect.

Further, it would be practical to calculate the CPI not simply on a monthly basis but, also, by consumption quantities, taking into account the fact that such quantities have increased two and even threefold in a single month, compared to previous months of the year, and averaging consumption numbers would not reveal the full and correct picture.

Taking into consideration the degree of the prevailing polarization in the population, it is also necessary to calculate inflation by different consumer groups (such as those at the threshold of poverty, lower middle class, middle class or consumers with higher purchasing power). To the extent that it is possible, it would be helpful to incorporate into the CPI calculation methodology all possible external triggers (objective and subjective) as well as internal causes (objective and subjective). It is also necessary to compute, on a monthly basis, the cost of the consumer basket and the minimum cost of living, which, in accordance with the RA Law on the Minimum Cost of Living (Parliament of Armenia, not dated) would be applied to pension and minimum wage indexations.

To be informed in advance and be able to make accurate predictions, it is important also to compute such other indicators as the producer price index (PPI), which is a comprehensive index of wholesale prices of locally produced commodities (without accounting for distribution costs, VAT and other taxes); the cost-of-living index (COLI), a measure of the changing cost of a constant standard of living vis-à-vis changing incomes; and the capital costs index (CCI), which is a benchmarking tool used to track prices and forecast the performance of capital (securities, real estate and investment), which normally grows faster than the CPI, thereby providing opportunities for their owners to realize one-sided profits.
Of course, it would be desirable if statisticians were periodically to provide the public with the GDP price deflator, which includes the prices not only of goods purchased by consumers but, also, measures price changes with respect to similar commodities, the purchasing power parity (PPP) of local currency, as well as the Paasche index, which compares the cost of purchasing a basket of goods and services with the cost of purchasing the same basket in the base period (where prices are weighted by the quantities of the current period).

These measures would not only reveal actual price fluctuations but would definitely increase consumer confidence in monitoring prices, which, in turn, is an important factor in the market manifestation of positive consumer dispositions and behaviours.

In the battle against inflation, it is important to note that administrative constraints against price inflation could result in deficits in commodities, which are liable to increase in prices as a result of increases in demand or decreases in supply, in the absence of government intervention. Subsidization of price differences, realized in the interest of producers or consumers, could complement the rise in aggregate demand.

Given that the government’s attention must focus on both restraining inflation and decreasing unemployment, it becomes important to take into consideration that it is unrealistic to accomplish both goals concurrently. If measures are taken to contain inflation, then there is the issue of decreasing the money supply, which leads to a decline in consumer purchasing power. In turn, this reduces production volumes of those goods that are directly affected by the decline in consumer purchasing power. Consequently, a decline in production increases unemployment. A similar reverse correlation also exists with respect to measures directed to reducing unemployment, as has been discussed by Nobel laureates Finn Kydland, Edward Prescott, Robert Lucas, Jr., and Milton Friedman.
It is equally important that the tax and customs codes, as well as lending policies of the country, become more purposeful and productive. In particular, in the current phase of the world financial crisis and in efforts to curtail the inflation by way of increasing economic competitiveness, importers of new technologies and equipment should be exempt from customs’ duties. Subsequently, import duties could be levied on importers of new equipment parallel to the realization of increased profits and decrease in prevailing prices.

The fight against smugglers and the shadow economy would require a more effective campaign. It is abundantly clear that the shadow economy reduces state revenues, which must be supplemented with additional taxes levied on the remaining fewer businesses. In turn, additional taxes increase the cost of goods and services, contributing to the growing inflation. Adopting a progressive tax regime and converting to a distributive tax policy would also contribute to curtailing inflation.

Business firms operating in distant and especially border villages should be exempt from certain taxes. Further, subsidization of agricultural production should be increased for border villages. Given the limitations of state budgetary resources, it is recommended that subsidies in the form of irrigation water at no cost to farmers engaged in businesses aimed at strengthening national food security and agflation reduction.

Additionally, it is recommended that implementing targeted credit programs intended to finance business firms that are engaged in operations (particularly production operations) focused on promoting economic progress and enhancing competitiveness. It is necessary to direct loans received from international organizations, on a priority basis, toward the growth of such production operations, which would also supports efforts to reduce inflation. Further, it is also recommended that interest rates be determined on the basis of such business loans approved for production purposes.
It is also deemed appropriate that the government set the prices of select commodities included in the consumer basket for minimal subsistence and earnestly stimulate local production of those food items included in the minimum consumer basket.

Taking into consideration the fact that some proprietors of agricultural land acquired during privatization are not particularly interested in cultivating their lands, significant proportions have been taken out of production and have consequently become eroded or exhausted. In other words, the lucrative real estate transactions that some have enjoyed have hampered the growth of agriculture, considering that almost half of Armenia’s terrain is not suitable for agricultural production. Consequently, in order to avoid such manifestations and promote the optimal use of natural resources, it is recommended that a progressive tax levied on proprietors who do not cultivate their lands should be instituted. Obviously, such taxes cannot be imposed on plots that are in use. However, those property owners who prefer to hang on to thousands of hectares of land for subsequent generations will be forced to pay progressively increasing taxes. This may drive them to consider cultivating their lands effectively or to sell them to those who better appreciate the actual worth of land. Otherwise, a paradox strikes: despite the fact that people engaged in agriculture represent almost half of the labour force, the country is forced to import foodstuff from abroad at significantly higher prices. A country’s land resources should be optimally utilized for agriculture, by growing grains and other plants, according to an organized production plan that, ideally, permanently ends food shortages.

Concurrently, there is a need to compensate for price increases through adjustments of pensions and wages and, finally, by adopting a system of vouchers for necessity-foods distributed to the socially disadvantaged segments of the population (especially targeting those who get basic groceries on credit). Aside from these measures, it is necessary to monitor market prices closely to ensure that competition
controls are adequately enforced by the Competition Protection Commission and similar entities.

Taking into consideration likely future increases in world food prices, it would be no surprise if the high levels of inflation lead to a situation where bartering of commodities may replace monetary transactions, at least for some time and in certain situations; this is a phenomenon that has prevailed in different periods in history challenged by various crises, e.g., during the difficult times of war in Germany and the USSR in the 20th century.

From the perspective of a more radical change, it is important to note that the best way for offsetting inflation is through the aggregate demand of the population. The latter would weigh against continuous price increases. If real demand falls, monopolies would be forced to bring prices down to acceptable levels in order to make profits rather than decreasing the volumes supplied. However, such a move is unlikely to happen in Armenia, given that there is no direct correlation between actual household incomes and the amounts of commodities consumed. The factor of unearned income (in the form of assistance received from abroad) would not allow the economy to grow in conformity with economic principles.

5. References


PEER REVIEWED RESEARCH PAPERS
Working for Money or Working for the Group? Community-Based Women’s Rural Enterprises in Chainat Province under the OTOP Project

Lada Phadungkiati, Kyoko Kusakabe and Soparth Pongquan

Abstract

This paper investigates the nature of the One Tambon One Product (OTOP) policy in Thailand and its impact on community women. A case study of two well-established groups practicing OTOP is used to contrast the means by which economic success can be achieved through and also highlights the different motivations which women might have when approaching such a Community-Based Rural Enterprise. It is noted that OTOP works much better in terms of rewarding profitable groups rather than those more interested in fostering community solidarity, self-help and women’s empowerment as part of the human economy.

Keywords: community-based rural enterprises, empowerment, gender, One Tambon One Product, Thailand.

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1. Introduction

Thailand started the *One Tambon One Product (OTOP)* project in 2001. After the 1997 economic crisis, HM the King announced the Theory of Economic Self-Sufficiency to focus on a more resilient and sustainable economy (Department of Agriculture Extension, 2006). Based on this principle, and to appeal for support from the rural population, Thaksin Shinawatra, who became Prime Minister in February 2001, came out with a series of poverty alleviation projects such as the People’s Bank Program (through the Government Savings Bank) and the Village Development Fund (VDF), as well as OTOP.

Rural micro and small-scale enterprises have always been dominated by women in Thailand, and have always been positioned as a means for supplementary income for rural households. Even before OTOP was introduced, a large number of community-based income generation groups already existed in Thailand. The objectives of the OTOP project are to create jobs and income for the communities and to strengthen communities to be self-reliant, as well as to develop community’s creativity in harmony with their way of life,\(^5\) which shows that they need to be closely related to the strengthening of these income generation groups.

There have previously been many studies undertaken on Community-Based Rural Enterprises (CBREs), especially those operated by women. These studies focused on the problems and obstacles in the process of setting up and running the enterprises from both internal factors (socio-economic characteristics and background of the

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\(^5\) The Office of the Prime Minister’s regulations concerning the One Tambon One Product National Board B.E. 2544 states five objectives: (1) to create jobs and income for communities; (2) to strengthen the communities to be self-dependent; (3) to promote Thai wisdom; (4) to promote human resource development and (5) to promote the communities’ creativity in developing products which are in harmony with local culture and way of life (Source: OTOP 5 Star Website, n.d.).
members, as well as production, financial and marketing management of the enterprises) and external factors (technological, financial, marketing and policy support from government) as found in the work of Novenario (1984), Khattak (1993) and Mahat (1995).

There have also been many other studies related to the OTOP project focusing on the organizational management of OTOP groups, effects of those groups on local people, problems and obstacles that groups have faced and consumers’ opinion and feedback on OTOP products, as found in the studies of the National Economic and Social Development Board (NESDB, 2003), Chuo Senko Public Co., Ltd., Thailand (2003) and Rattanakamchuwong (2005).

Nonetheless, there remains very limited literature emphasizing the social and institutional effects of CBREs, such as development in knowledge and skills, change in attitude of members, change of gender roles within households and the creation of local networks. The assessment of the linkage between the organizational structure and management of the CBREs and economic, social and institutional effects to the rural people has also rarely been studied and documented, especially in terms of the gender aspect.

Consequently, by taking a case of two OTOP groups, this study aims to fill in the gaps in literature by not only focusing on the commercial aspect of OTOP but, also, how it has contributed to social development and women’s empowerment.

2. Women in Community-Based Rural Enterprises

Rural non-farm enterprises, as which most CBREs can be categorized, are important income sources for rural households. Since most of the rural non-farm enterprises can be started and operated with little capital, it is relatively easier for households to start them and it has been an indispensable survival strategy for rural households (Ellis, 1998). Silvey’s (2004) study in Indonesia showed how vibrant rural
non-farm enterprises backed by agriculture resources (land), enabled the community to weather the economic crisis better, while another community which did not have a strong non-farm enterprise and was totally dependent on remittances from migrants, was harder hit by the crisis. Rural non-farm income is important for rural diversification (Ellis, 1998) and for development linkages (Leinbach, 2004).

Women are the major operators of rural non-farm micro-businesses, and this provides an important income source, for especially for middle-aged women who would have fewer employment opportunities than younger women and men. Since women’s micro-businesses are normally carried out at home, it is easier for women to combine them with household work. Women’s community-based income generation groups have economic, social and institutional advantages. Economically, community-based income generation groups create employment opportunities and income as they facilitate the effective mobilization of resources, knowledge and skills which would otherwise not be utilized for economic purposes (UNIDO, 2003; Tewari et al., 1991; Anderson and Leiserson, 1978). They raise organizational and managerial capabilities of women, build awareness of rights and obligations, and thus improve women’s confidence (UNIDO, 2003), as well as self-esteem and self-efficacy (Moyle et al., 2006). Acharya (2006) noted that the social mobility of women is enhanced by the effective launch of entrepreneurship. Additionally, moral support a group may receive improves the social status of women through networking, achieving economic gains and cultivating an entrepreneurship culture (Tewari et al., 1991).

Institutionally, by being organized as a group, they obtain more opportunities for attending seminars, trainings and workshops, and this enhances networking between women (UNIDO, 2003). It also makes it easier for women’s groups to draw the attention of banks, NGOs and other financial institutions to support their activities further (Anderson and Leiserson, 1978). The visibility achieved by a group
enables many women to overcome gender-bias in the access to credit (Acharya, 2006).

The performance of women’s rural income generation groups is influenced by various factors, including management capacity and leadership, as well as external factors, such as the macro-economic environment and government support. Leadership and the entrepreneurial attitude, as well as risk taking or risk avoiding characteristics of the leaders who have the confidence of the community, play important roles in setting focus and providing impetus for women’s rural enterprises. As indicated in the strategic paper of SEED (2009), capable leaders can ensure meaningful participation in decision-making and actions from the broader community. Millman and Martin (2007) observed women entrepreneurs obtain great self-confidence and self-belief both at start up and as the business continued. They had confidence in their abilities and felt that there were no barriers to female enterprise. Many successful women’s enterprises were found to have strong and capable leaders (e.g. Ogawa, 1994; Tewari et al., 1991; Millman & Martin, 2007).

Although women’s rural income generation groups create advantages and benefit, they still suffer from the general obstacles that female-managed enterprises often face, such as lack of technology, resources and credit, as well as lack of market linkages (Della-Giusta and Phillips, 2006; Mayoux, 2001). Women’s enterprises tend to be concentrated in certain sectors and tend to remain small and earn little (Dignard and Havet, 1995). At the same time, a number of scholars point out that women’s enterprises do not only operate on pure enterprise economic performance alone but can also be motivated by non-economic factors that derive from the particular positions and social expectations that women possess in society. Tinker (1995) argued that women’s enterprises do not operate on the logic of the market economy but on the human economy – which places higher priority on the family’s well being rather than the growth of the
enterprise. Della-Guista and Phillips (2006), referring to Matthews and Moser (1996), noted that social roles and self-images of women allow them to focus more on the ‘balance of activities they engage in’ rather than the enterprise performance itself, which is incompatible with the male-defined success of such enterprises.

OTOP is, by definition, a CBRE and many of the OTOP groups are women’s groups. This paper, by comparing two OTOP groups run by women, explores how women’s groups operate with respect to various values separate from economic performance, and analyzes how the OTOP project is able to capture the dynamics of such CBREs. Before evaluating these cases, it is necessary to review how the OTOP policy was introduced to Thailand.

3. Development of OTOP as a Policy for Rural Development

Before 1992, developmental policies of the Thai government focused on building roads and other physical infrastructure, promotion of agricultural activities and of large-scale export-oriented industries. A change in policy in 1992 shifted the focus to promotion of community-based income generation groups, although such discourse was not yet translated into implementation and practice. The government set up a community development department in each province and district starting from as early as the 1960s and also established community-based groups, including housewives’ groups.

\[6\] In Thailand, the community-based income generation group is recognized as a small and micro community enterprise (SMCE). According to the Act of Promotion of the SMCE (2005), the SMCE is defined as a community enterprise that produces products or offers services and must be operated by a group of people who have a relationship with one another and share their way of life to create income and self-reliance of their families, their communities and other communities. The SMCE may either have or not have registration as a juristic person.
The Ministry of Agriculture created a series of training sessions on food processing and handicraft making for village women to promote off-farm income. However, the budgets allocated to such activities were relatively small and, even though credit facilities were provided, many groups faced marketing problems after receiving such training, and businesses remained small even if they did start up in operation. There were many housewives groups that started small income generation activities but, with few exceptions, they catered principally for local consumption.

Community-based income generation groups received renewed attention after the economic crisis in 1997 as a means whereby unemployed people could be returned to employment. However, it was only in 2001, under the Thai Rak Thai administration, that these community-based enterprises were seen as prime movers to stimulate the rural economy, through the introduction of the OTOP project.

The OTOP project was established following the model of the One Village One Product (OVOP) campaign of Oita Prefecture in Japan, although with its own modifications and adaptations. The principal rationale of OTOP was to create market linkages for locally produced products, through upgrading product quality and linking products to domestic as well as international markets, while also addressing the major bottlenecks of access to market for many rural enterprises (Rattanakamchuwong, 2005). OTOP aimed for a ripple effect through supporting products which utilized local resources so that the producers of raw materials, especially in the farming sector, would benefit (Secretariat of the Prime Minister, 2001). It also aimed for the conservation of natural resources and the environment and the preservation of indigenous knowledge, culture and the customs of each local area (Sombatpanich, 2004), as well as promoting self-
reliance and creativity and the utilization of indigenous knowledge\(^7\) (CDD, 2002). However, the most evident feature was the marketing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocated Budget (Million Baht)</th>
<th>Expenditure Plan (Million Baht)</th>
<th>Actual Expenditure (Million Baht)</th>
</tr>
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<tr>
<td>2003</td>
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<td>1,445.89</td>
<td>1,236.93</td>
</tr>
<tr>
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<td>1,000</td>
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<td>547.56</td>
</tr>
<tr>
<td>2006</td>
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</table>


The Thai government initially focused on providing non-monetary support, such as technological support, marketing support, and skill and knowledge training support to the OTOP groups rather than giving them the subsidy or monetary support (Rattanakamchuwong, 2005). The government provided machineries and tools, as well as established provincial OTOP centres, organized provincial and national OTOP fairs and linked OTOP producers to retailers and wholesalers domestically as well as internationally (see Table 1).

In order to encourage OTOP producers to improve their products’ quality and design, the OTOP Product Champion (OPC) Campaign competition was organized each year by the Community Development Department of the Ministry of the Interior. The evaluation principles

\(^7\) According to the Community Development Department (2002), the main principles of OTOP are: i) Local yet global; to use indigenous knowledge for the improvement of products and services until global acceptance is achieved; ii) Self-reliance and creativity; to utilize the use of local raw materials and indigenous knowledge for income generation, which helps to improve the living conditions of local people and iii) Human resource development; to foster in people a challenging and creative spirit.
of OPC were considered from both supply and demand sides (CDD, 2006) – with the supply side mainly examining the potential for ripple effect locally and the demand side examining marketability issues.

For the supply side, OTOP groups and products were measured based on the following criteria:

- Provincial identity (unique and outstanding product and its presentation of the identity of the province);
- Local wisdom and resources (use of indigenous knowledge and local wisdom, ratio of local raw materials and labour from the province in which the group is located);
- Marketability (satisfaction of customers, creation of occupations and income for people in the province, stable and secure domestic and/or international markets and recognition as the souvenir of the province); and
- Value creation (transformation and diversification of the products and design development).

For the demand side:

- Production (production capacity, continuity of production, period of business operation exceeding three years, unique and outstanding provincial product and knowledge transformation to other local people and the next generation);
- Quality and standards (safe raw materials for the consumers, environmentally friendly production process, avoidance of the destruction of the scarce resources or violation of any standards or law, acquirement of required standards and no official complaints from customers);
Marketing (systematic production and marketing management, clear distribution channels, application of marketing plan, market expansion and sales volume and revenue from products);

Product design (appearance and testing of products, quality and elegance of products, practicality of products and avoiding imitation of other products and violation of the copyright law); and

Social responsibility and cultural preservation (preservation of local culture and norms and avoidance of the destruction of the local culture as well as Thai culture).

Based on these criteria, the products were given one to five stars, with five stars signifying export quality. Depending on the number of stars that the product received, producers received different types of assistance from the government. Only those who received five stars were promoted by the government for export and those that obtained four or more stars could participate in the national OTOP fairs, while the lower starred products could only participate in provincial or district fairs. Government supported the cost of these fairs and the cost of presentation booths, which was the major part of the marketing cost for many OTOP groups.

Later, the Thai government identified that many OTOP producers still faced the difficulty in running their business due to the lack of financial resources, and shifted its policy to providing financial support to OTOP producers directly and indirectly. A Village Development Fund (VDF) was established in each village as a revolving fund that facilitated long-term local investments and income creation in rural areas at community levels (Thailand Investor Service Centre, 2001). Even though this was not exclusively intended for OTOP groups, many groups utilized this as their principal source of capital. The People's Bank Program and the Bank for Small-and
Medium-Sized Enterprises (SME Bank) were subsequently introduced for the same purpose (Secretariat of the Prime Minister, 2001). The OTOP credit project was introduced by the SME Bank specifically to target the financing of OTOP groups for expansion and improvement of the enterprises involved, improvement of production techniques and the marketing and distribution channels of the OTOP products, creation of value-added OTOP products through product development, and other business operation activities of OTOP enterprises (SME Bank, 2006). After Thaksin Shinawatra and Thai Rak Thai won a second term in 2005, support for community-based agro-processing continued, and new credit sources were added to accelerate local economic development through the establishment of a Small Medium Large Government Budget (SML), which, again, did not target OTOP groups specifically but was used as a credit source by many groups. Some OTOP groups obtained financial support from the Tambon Administration Organization, the Community Development Department (CDD) and other government agencies.

In October 2005, Permanent Secretary of the Ministry of Commerce, Mr. Karun Kittisataporn, announced that the export value of OTOP goods reached US$1 billion (around 40 billion Thai baht) (Bangkok Post, 9 October 2005). In 2004, 29,385 OTOP products were registered for grading (one to five stars) and 7,967 products were selected (Janchitfah, 2005), while in 2010, the number increased - 11,001 OTOP products were registered for grading and 10,728 products were selected (www.thaitambon.com).

As can be seen from Table 2, many of the products are concentrated on textiles handicrafts and food, where many of the community based enterprises are strong. As for the types of producers, nearly 70 per cent of the producers are community based enterprises (see Table 3 for the type of producers). NESDB (2003) reported that 81 per cent of those who joined OTOP projects in 2003 were women.
### Table 2: Type of OTOP Products in 2010; source: ThaiTambon.com website (http://www.thaitambon.com/) (accessed on 8 August 2011).

<table>
<thead>
<tr>
<th>Product</th>
<th>Number of products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>2,679</td>
</tr>
<tr>
<td>Drinks</td>
<td>445</td>
</tr>
<tr>
<td>Textile, fabric, dresses</td>
<td>3,553</td>
</tr>
<tr>
<td>Handicrafts, decorations, souvenirs</td>
<td>3,475</td>
</tr>
<tr>
<td>Non-food Herbal products</td>
<td>576</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,728</strong></td>
</tr>
</tbody>
</table>

### Table 3: Number of OTOP producers by type in 2010; Source: ThaiTambon.com website (http://www.otoptoday.com/about/otop-ten-years) (accessed on 8 August 2011).

<table>
<thead>
<tr>
<th>Type of producers</th>
<th>Number of producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and medium size enterprises (SMEs)</td>
<td>726</td>
</tr>
<tr>
<td>Community based enterprises</td>
<td>22,189</td>
</tr>
<tr>
<td>Sole proprietorships</td>
<td>10,303</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33,218</strong></td>
</tr>
</tbody>
</table>

## 4. OTOP: Is It Benefiting the Local People?

The assessments of OTOP are mixed. Chuo Senko’s (2003) study showed that after the implementation of the OTOP project, income of OTOP producers, sellers and local people in place where OTOP exists increased and out-migration decreased in all places, except in the Northeastern part of Thailand. On the other hand, Sangkaman’s (2002) study showed that OTOP producers still find it difficult to market their products in spite of the support from the state and, thus, are not able to link their participation in the project to higher income.

The studies by Chuo Senko (2003) and NESDB (2003) identified that OTOP groups are not able to overcome the typical challenges that are often faced by small enterprises, such as low quality products and lack of quality control; low technical knowledge and poor packaging; difficulty in differentiating their products from other CBRE products;
no protection for intellectual property; lack of business management skills; low profit margins;⁸ and no access to distribution channels, despite the government’s support for marketing. These might be because many of the operators of OTOP groups were older in age and had low education (NESDB, 2003) but also shows that OTOP fell short in changing the nature of small-scale community based enterprises and many groups could not fully benefit from OTOP’s strongly marketing oriented support.

What was alarming was that these studies pointed out the disparities among OTOP groups, since government support focused on the more successful groups leaving out the rest. Advertisements for products were done on the internet, so only the products that were suited for such advertisements catering to a specific audience benefited and many people did not know about the products.

Another question was whether the OTOP projects were benefiting the community-based groups or not. Prapas Pintoptaeng’s study showed that successful OTOP businesses were already well-established businesses (Janchitfah, 2005). Rattanakamchuwong (2005) observed that some of the OTOP producers were individual business persons but joined in the project just to get privileges from the RTG’s support policy. These entrepreneurs have more resources and linkages, thus are more successful in expanding their products, getting more attention and support from the government and marginalizing the truly rural community-based groups. Such business groups do create employment but only for low waged labourers.

Although OTOP includes products that are mainly made by community-based groups, Table 4 shows that the increase in sales was enjoyed more by SMEs rather than village-based groups, suggesting

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⁸ Chuo Senko (2003) and NESDB (2003) noted that 27.5 percent of OTOP groups earned less than 5,000 baht per month.
that the economic benefit from OTOP project might have accrued more to private enterprises than village enterprises.

<table>
<thead>
<tr>
<th>Type of group</th>
<th>Total sales in 2001</th>
<th>Total sale in 2002</th>
<th>Increase/ decrease in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>2,723,652.17</td>
<td>4,765,217.39</td>
<td>74.96</td>
</tr>
<tr>
<td>SMEs registered as a small villager group</td>
<td>869,521.62</td>
<td>1,263,729.73</td>
<td>45.32</td>
</tr>
<tr>
<td>Villager groups</td>
<td>421,013.48</td>
<td>483,478.08</td>
<td>14.84</td>
</tr>
<tr>
<td>Cooperative and farmer groups</td>
<td>27,660,000.00</td>
<td>25,440,000.00</td>
<td>-8.06</td>
</tr>
<tr>
<td>Average</td>
<td>1,911,985.39</td>
<td>2,310,521.01</td>
<td>20.83</td>
</tr>
</tbody>
</table>

Table 4: Total sales of goods produced in 164 villages before and after the implementation of the OTOP policy; source: OTOP Policy Evaluation 2005, in Janchitfah, 2005.

Fujioka (2008) maintained that the major differences between original OVOP of Japan and OTOP was that while OVOP was a movement that was locally-led, OTOP is a centrally-led project looking for rapid results. While OVOP did not have any designated budget, OTOP had one of 1,000 million baht (around 27 million USD) in 2005,\(^9\) which amounts to around 0.08 per cent of the national budget (Bureau of Budget website). Fujioka (2008) further pointed out that while OVOP focused on community development through promoting “only one” product of the locality, OTOP focused on entrepreneurial promotion by promoting “number one” through OPC, which followed various criteria.

As can also be seen from the OTOP assessment criteria, there are none concerning building up of local cohesion or labour issues. That is, the assessment is solely concerned with the product itself and the

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\(^9\) The actual amount spent was only 547.6 million baht.
economic values created around the product. Empowerment of the local people and especially women and women’s groups that are the natural target group of community-based enterprises development was not its main focus. This is the reason why such criticisms as OTOP only benefiting the already established existing personal business operators and creating disparities among OTOP groups have been raised. It has never been the objective under OTOP to empower the poor or build local cohesion but the objective was to promote the products for the rural economy.

This being said, still, OTOP had an unexpected result of empowerment a number of so-called housewives’ groups in the locality who were able to adapt to the market oriented nature of OTOP. This paper has explored how and why certain women’s groups are able to grow under the OTOP project, while others do not seem to be performing but still do not close down altogether. Which ones are able to fit into the market and what are the motivations behind the operation? The hypothesis is that the local women’s groups are holding different values, not necessarily commensurate with the priority of OTOP. In order to explore the different ways community-based enterprises are operated by women’s groups, two groups in the same locality that produce OTOP products have been selected for study.

5. Methodology

Data collection was conducted in August to September 2006 with two OTOP CBREs in Bang Loung sub-district in Sapphaya district of Chainat Province in Thailand. Bangluang Sub-district was selected because of the availability of CBREs operating for more than 10 years, and because there are two different CBREs producing similar type of the products with distinctive differences in their degree of business success. In order to maintain anonymity, the groups will be called Group TS and Group SL.
Chainat Province depended for 30.3 per cent of its Gross Provincial Product from agriculture, hunting and forestry activities in 2005, followed by trading and repairing services (20.9 per cent) and public administration and defence and compulsory social security activities (10.2 per cent) (Chainat Provincial Comptroller website). There are a large and growing number of OTOP producers in Chainat. In 2002, there were 79 groups, while in 2006, it grew to 183. In 2004, six OTOP products received five-star awards, all of which were produced by local groups operated exclusively by women.

Aside from observations, a structured questionnaire survey was conducted with members of the CBREs. There are two types of members of CBREs. Committee members are the core members of the group, who are engaged in day-to-day production and marketing as well as overall management, while group members are basically shareholders, who contribute to the capital of the group enterprise and receive dividends at the end of the year.

All committee members of both CBREs who were available in the village during the period of data collection were selected for interview. There are 20 committee members in TS\(^{10}\) and 8 committee members in SL, but only 6 from TS and 5 from SL were interviewed. The group members from each selected CBRE were randomly selected from a list of group members. There were 154 group members in TS and 71 group members in SL. The sample sizes of the group members of TS Group and SL Group were 30 people of each.

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\(^{10}\) From the total of 20 committee members, there were 13 core committee members and 7 non-core committee members. The 13 core committee members comprised of the Chairperson, Vice Chairperson, treasurer, secretary, public relations and marketing officers who represented the core management of the CBRE, while the rest were assigned to do other kinds of production and marketing work. The seven other committee members were assigned to do production work only.
<table>
<thead>
<tr>
<th>Type of Memberships</th>
<th>TS (persons)</th>
<th>SL (persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee Members</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Group Members</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>35</td>
</tr>
</tbody>
</table>

Table 5: Number of Committee Members and Group Members interviewed.

The chairperson of SL Group and one of the key group committee members of TS Group were interviewed in detail to explore the history of development of the group. Both groups are called “housewives’ groups.” Further face-to-face interviews with interview guides took place with selected committee members and group members. Key informant interviews were also conducted with related government officers.

The two CBREs were formed in different manners. Assisted by the Agricultural Extension Division (Home Economic Unit), TS group was formed in 1990 by the chairperson using the connection of the savings group, whereas SL group was formed later in 1994 with the encouragement of the village headman and assistance from the Non-Formal Education Office. Both groups are led by well-connected women in villages and often carried out in conjunction with government-led events in the locality. At the same time, they had opportunities to attend government offered training courses and seminars and, through that, started food processing and other small-scale income generating activities.

6. History of the Group TS

Group TS is a well-known group that has received many awards from government. It was established in 1990 and was based on an existing savings group. The Chairperson of the group has remained the same since its establishment in 1990. Initially, TS started to process seasonal fruits in 1990. With the help of Agricultural Extension
Division of the District, 20 members (all women) came together to form a group. Most group members were older and less educated women. Among the respondents, more than 80 percent had only primary school education and 50 percent were aged 50 or above. The younger generations either migrated to the urban areas or are engaged in other full-time jobs and are not interested in CBREs.

The seasonal fruit project was not successful and they could only sell products in the village. After some time, the villagers became bored with the existing products. Discovering that they have a lot of leech lime in the area, through local wisdom concerning herbs and plants and assistance from the Non-Formal Education Office on production techniques, the group then started producing aloe vera shampoo mixed with leech lime in the backyard of the chairperson’s house. Household items such as knives and basins were used in the production process. The product was sold in plastic bags within the village during monthly meeting among villagers. Encouraged by positive responses from the villagers, the group bought the plastic bottles originally intended for medicines from the Public Health Centre to use as containers. Later, the group sold 72 shares to villagers at 50 baht per share and raised 3,600 baht, which was enough to buy plastic bottles directly from the factory.

They started to market not only inside their village but also to nearby villages. However, the salary of committee members who worked on production was only around 500 baht per month in the first year. This caused some of the committee members to lose confidence in the group and some dropped out.

In the second year, the group improved production techniques and management systems. The agriculture extension officer informed them of a big market fair in Bangkok and supported them so that they could participate. This led to higher recognition of the products and sales volume gradually increased. However, the higher sale volume led to a shortage of leech lime and aloe vera in the area. The Non-
Formal Education Office then provided seeds for the herbs and the group started to plant the herbs by themselves.

In the third year of the group’s existence, the group generated total annual revenue of around 3,000,000 baht. The core committee members who took care of both managerial and production work were able to earn 50,000 baht per year and the members (shareholders) received a dividend of 500 baht per share. TV shows reported on this successful group, which further improved their reputation. The group further diversified their products and received several awards.

In 1996 (the seventh year after group formation) and in 2002 (after 13 years), they were struck by heavy floods and both production and marketing suffered, contributing to a decline in sales. After the second flood, the group decided to invest in infrastructure to improve production and storage to stabilize production and marketing and improve quality. With loans from the Community Organizations Development Institute (CODI) and some from their own funds, they built a production room, storage room and show room.

Although TS’s products received OTOP awards every year since the first product competition was organized in 2003, the group has faced increasing competition in recent years. The OTOP project inspired the formation of a number of other groups producing identical products in Thailand. As a result, their sale volume decreased gradually, even though they still remain the strongest shampoo production group in the province.

7. History of the Group SL

Group SL was established in 1994 by 22 members (all women) with the assistance of the Non-Formal Education Office, which provided

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11 CODI is a public organization. A total of 700,000 baht was received at an annual interest rate of just 1 per cent.
training and raw materials. The training was initially provided for normal shampoo production. Subsequently, with technical assistance from Non-Formal Education Officers, group members decided to modify the formula by adding various types of herbs available in the local area to the products. The group was established through the strong leadership of the previous village headman, whose wife served as the Chairperson of the group.

The place of production place was an open area under the house of the previous village headman. Household items such as knives and basins were used in the production process. The group sold around 230 shares to villagers at 100 baht per share in the first year. Their main products initially were herbal shampoos and conditioners and, later, they added chili pastes. With the initial funds from selling shares to its founding group members, the group had enough money for its operations and also for the purchase of good plastic bottles from Bangkok. The products could be sold only in the locality, so the group could offer only three baht dividend to its group members at the end of the first year.

During 1995 to 1998, even with the death of the former village headman and the change of chairperson, the sales volume and the revenue of the group gradually increased due to the expansion of the market to nearby areas, diversified packaging and the launch of the herbal hair conditioner and allied toiletry products. The increase in demand for the chili paste was also one of the reasons leading to the greater revenue of the group.

The group won second prize nationally as an outstanding occupational group from the Ministry of Agriculture and Cooperatives in 1996. This caused the group to be widely recognized by customers and communities. Several field visits, both domestically and internationally, appearances on TV shows and participation in various exhibitions accelerated the growth of the group until it achieved peak revenue in 2001. In that year, the total revenue of the group was
around 500,000 baht. The committee members who took care of both managerial and production work could earn 20,000 baht per year and the shareholders received a dividend of 46 baht per share.

After 2001, the group faced continuous decline in sales volume and revenue due to competition with the TS group. Even the receipt of a four-star OTOP award at regional level in 2003 did not improve the situation. The chairperson then decided to invite one group member, who made Thai snacks, to become a committee member and merged her business with that of the group. The chairperson wanted to include the Thai snack producer in order to maintain the existence of the group, which was at a risk of closing down because of the decline in shampoo and chili paste products. She also hoped that, with the help of the Thai snack producer, other products would be marketed better. The merger was arranged such that the Thai snack operator would maintain financial independence, but by virtue of being a member of the group, would help to market other goods on behalf of the group. Hence, Thai snacks became a new product line for the group. While sales volume and revenue from the Thai snacks gradually increased, those of the herbal shampoo and hair conditioner kept declining. Since the Thai snack revenue did not contribute to the group’s income, the merger with the Thai snack business made little positive impact on the financial well-being of the group.

The group was very much dependent on the Thai snack producer, who had become a committee member so as to market its original products, including herbal toiletries and chili pastes. Committee members were no longer able to work full time because of the low income that the enterprise produced. The current chairperson, who was the main and indeed the only person responsible for all types of managerial work in the group, was too old and discouraged to wish to continue the group. She planned to operate the group just to maintain existing business as long as possible but she was afraid that she would not be able to continue for much longer, since she had to look after her elderly mother. Sales of herbal shampoo, hair conditioner and chili paste
continue to decrease and, in July 2008, almost all committee members resigned.

8. Management of TS and SL Groups

In general, TS had better business performance than SL in terms of more structured management, more modern production facilities, more working capital, better equipment and better marketing information. For example:

*Production techniques and facilities:* TS has a production building that allowed them to produce products in a cleaner, more controlled environment with a larger production capacity, while SL were producing on the open floor beneath the former village headman’s house, with most of the processes being carried out manually. TS also has better quality control and standardized production methods, with a facility to conduct pH balance test, while SL had to depend on rules of thumb and experience to check the quality.

*Inventory management:* TS organized its own herb planting sub-group and cleared the problem of procurement of raw materials. Together with proper storage rooms and stock management system, TS is able to have controlled production plans and has stabilized the cost of production. SL does not have a proper storage room and produces only when necessary, for example, when there are fairs.

*Market information and marketing:* TS obtained higher amounts of income and more up-to-date marketing information because of higher levels of interaction with government officers and customers. They had better exposure because they were involved with more training sessions, field visits and market fairs than SL, whose members were less mobile than TS. The access to information this represented allowed them to improve their product and design. Unlike SL, which tried to improve its original products and packaging design and expand the product line during a limited period of time, TS has
constantly improved its product line and packaging. Owing to the limitations in obtaining market information to improve existing products, SL relied on their personal connections and information from inside the village, instead of improving the existing product lines, SL launched new products by introducing Thai snacks. Owing to differences in market information, TS was able to expand their market not only domestically but also to neighbouring countries, while SL found the local market to be the main target.

**Capital:** TS were able to access more capital compared to SL. The chairperson of SL had a risk averse personality and did not really want to borrow money, while the TS Chair took it as an opportunity to borrow money at a very low interest rate. Better capital allowed TS to have higher production and thus higher income and profit. In 2005, the net annual profit of TS and SL was 1,000,000 and 36,000 baht respectively. This allowed TS to invest more in production and assets and better wages and dividends. However, in terms of dividends, SL have been more generous in recent years, although their business performance has not been good. In 2006, TS gave 62.3 baht on average per member (members who are not founding members cannot hold more than two shares per household), while SL gave 80.3 baht per member (the average number of shares that members hold is around eight).

**Workers and working conditions:** TS has a higher number of permanent workers who have received good quality training and experience in production and management. On the other hand, in SL, it is only the head of the group and two more committee members who have a certain level of training, skills and knowledge. The working conditions and environment of TS were also found to be better than those of SL, having a standard working place with proper instruments, machinery, uniforms, lights and ventilation to facilitate the work of the workers. The wages are higher in TS than SL - in 2005, TS offered 5,000 baht per month for permanent workers (core committee members) and 130 baht per day for non-core committee
members and other temporary workers; SL meanwhile paid just 30-40 baht a day for both committee members and temporary workers. Committee members who worked permanently only earned about 800 baht per month, which is below the poverty rate.

TS, because of better mobility and willingness to borrow money for business expansion, was able to benefit more from the OTOP project, which has provided opportunities to participate in fairs outside their provinces, and also from related government projects, which gave access to more credit sources.

9. Different Values of Different Groups

It is apparent that TS has much better achievements in terms of economic and business performance. In TS, among the 20 committee members, 13 core committee members shifted from being farmers and part-time traders to becoming full-time herbal shampoo producers. Through this, in 2006, they were able to earn 5,000 baht per month or around 164 baht per day (other committee members earned about 130 baht per day).\textsuperscript{12} Noting that the average income of the population in Chainat in 2006 was around 4,162 baht per person per month (NSO, 2006), core committee members earned above average income from CBREs. On the other hand, SL earned only around 800 baht per month even for permanent workers of the CBRE. Even for core members, the work was not regular, and they worked on average 107 days per year only. Temporary workers earned only 30-40 baht per day, much lower than the minimum wage, although it is noted that the wage rate was the same for temporary workers and permanent workers (committee members) in SL, while the wage rate was different in TS.

Consequently, the income effect from CBREs for committee members was much less in SL compared to TS. Among the interviewed

\textsuperscript{12} The minimum wage in Chainat province in 2006 was 142 baht per day (Chainat Provincial Statistical Office website).
committee members, members of SL earned on average only 7 per cent of their household income from a CBRE, while TS members earned 40 per cent. For one of the TS committee members, her only household income source was from the CBRE. With such a large difference in terms of economic performance, it would be expected that the confidence in running a business and the members’ perceptions of the business would be better in TS. However, it is noted that, when asked whether rural people have the ability to run the business, both SL and TS respondents have shown the same level of confidence in their ability to run the business. It was also noted that SL members felt that gender roles inside the household changed after joining a CBRE more than TS respondents did. In SL, out of 30 respondents, eight (26.7 per cent) replied that other members of the family help out with household work more than before they were engaged in the CBRE, while in TS, this was only two out of 30 (6.7 per cent).

It was also noted that SL members felt that group solidarity increased with CBRE membership. In TS, only nine out of 30 (30 per cent) replied that group solidarity increased, while in SL, 16 out of 30 (53.3 per cent) replied the same. In SL, even though the profit was small, the venture distributed higher and more regular dividends to its members than in TS. This was because the enterprise had to pay back the loan borrowed for the construction of its production building. TS informed its members that, from 2002 to 2007, they would receive the dividends at a fixed amount of 20 baht per share only. However, it was discovered that the dividends had not been paid to the shareholders in 2002 and 2004. Instead, they were paid 40 baht per share in 2003 and 2005.

13 The study asked respondents to answer in three degrees on how strongly they are confident in the ability of rural people to run the business. With a weighted average index, with a full score of 1, TS scored 0.72, while SL scored 0.76.
SL hired ordinary members as temporary production workers at the same wage rate as committee members. The work in SL was manually done and there were not many committee members who worked permanently, so there was more room for non-committee members to be involved, thus contributing to providing income and employment to ordinary members. On the other hand, TS hardly hired anyone outside the committee members, since the work used high-tech machinery and did not require extra labour. This was also reflected in the members’ replies when they were asked whether they participated in CBRE group activities. SL members replied that they attend more activities than did those in TS.\textsuperscript{14} Such participation and interaction might have influenced the members’ confidence in the SL group.

So, what does this mean? The economic performance of TS is much better than in SL. With better business performance, the chairperson of TS and the group received a higher number of awards than did SL. The TS group also made donations to local schools and funeral ceremonies, since they had more resources to spare. They received more visitors from outside, since government and other agencies recognize TS as a successful case, and were in turn introduced to others. TS thus enjoyed stronger linkage with government and other development agencies, as well as with other OTOP groups, wholesalers, retailers, community-based organizations and NGOs. Consequently, they were able to receive more opportunities for training and marketing. Since the members were more mobile than in SL, TS were able to respond to the opportunities created by the OTOP project much better than did SL. However, although their linkages with external agencies have increased, they have been more detached from their community itself. It is also noted that SL raised more

\textsuperscript{14} The study asked respondents the degree to which they participated in the groups’ activities in three degrees. For the weighted average index, with a full score of 1, TS scored 0.64 while SL scored 0.7.
capital through selling shares in the community than TS, and TS’s capital composition has a higher external fund ratio than SL.

Despite such different economic and business performance, the level of self-confidence and satisfaction between the two groups remain the same. This indicates different values that make women feel successful about their business apart from economic performance alone. The satisfaction and confidence of SL comes more from the interaction and linkages that they receive from their community members. The way SL operates is community-based. It tried to employ more people and to distribute dividends as much as possible to benefit as many people as possible. Even though the business profit is not high, the committee members gain strength to carry on by support from the community members.

“We started this group because, by having a group, it will allow our village people to access support from different government agencies such as information on fertilizers from agriculture extension office and other services and information from the government (interview with chair person of SL).”

On the other hand, the TS vice president remarked that the success of the group was due to their high mobility, which allowed the business to gain more contacts with various people and organization. TS committee members do not have problems leaving home and attending meetings and fairs organized in other provinces. The OTOP project has benefited the committee members, since it has provided them with many kinds of opportunities for training and attending meetings, and field visits, as well as selling products in OTOP caravans or fairs. TS committee members have business travel trips two or three times a month, while the head of the group travels even more often and further afield. Women’s mobility is normally restricted because of the multiple responsibilities that they have at home, but the high mobility of the TS chairperson was possible because of her former experience as an independent entrepreneur.
Committee members of SL also travel, but not as much as in TS. The SL Committee members have more restrictions in terms of mobility, since they have to attend to household work and farm work. The head of the group is also not very mobile, since she has to take care of her elderly mother. She can only manage day trips. SL committee members do not travel more than once per month.

The mobile members of TS were influential in capturing external markets through the OTOP project, which is something SL was not able to do. This restriction made them look more locally and they found encouragement and meaning in their group activities through group cohesion and community support. This group tried to benefit more and more people in the community rather than retaining profit internally to make the business grow. From the OTOP perspective, such non-economic, intangible community/group cohesion and increased confidence does not get recognized. Groups that do not grow are seen as being non-successful. The SL case shows that CBREs can operate according to different values than pure market value.

10. Conclusion

The comparison between TS and SL groups demonstrated how some women’s groups are able to benefit from the OTOP project, while others are not able to do so. Group members, especially the leaders, need to be mobile and, at the same time keen, to borrow more money to expand their products in order to be assessed as a success by OTOP project criteria. It is noted that many women who work in community groups would experience a similar situation as the members of SL, who have restricted mobility because of their responsibilities at home, and who are more scared of borrowing money because they have lack experience in large investments and repayment through running a business and who cannot afford to risk their savings and income for the business because they are responsible for managing the household finances. The OTOP project assumes that women will be able to
negotiate their mobility and responsibility in the household and community, once an opportunity for marketing is provided. What the cases of these two groups show is that such connection does not automatically happen.

Many women are not able to capture opportunities offered by OTOP because of their multiple responsibilities at home and their concerns for the community. They need to have a “balance of activities they engage in” (Della-Guista and Phillips, 2006) so as not to offend other community members on whose relationships they rely for their well-being in the community. They do not necessarily aim for business success but to maintain the group to feel useful for the community and family.

OTOP has been effective for business entrepreneurs but has had little effect in supporting women who are entangled in various relations and responsibilities in the household and society or to enable them to change their situation or to value, recognize and support the intangible benefits that these women obtain from group activities – that is, the Human Economy (Tinker, 1995). The cases of SL and TS demonstrated the various values that women’s small enterprises might hold. These cases shows that the present support of CBREs through OTOP can benefit those people who can adapt to market-oriented values. However, at the same time, it is important to note the importance and strength of groups that operate under the human economy and provide support to strengthen them. The OTOP project, in one sense, can again go back to OVOP to adapt its community development perspective so as to capture the dynamics of women’s CBREs.

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Insurance Broking in India – A Relationship Model Approach

Arup Mazumdar

Abstract

This paper discusses the challenges in the Indian insurance industry, the market forces and, hence, the need for competitive advantage for insurance brokers. A relationship marketing approach is suggested and a relationship model is proposed for this situation, while appropriate values are discussed that should sustain such a relationship.

Keywords: competitive advantage, India, insurance, relationship marketing

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1. Introduction: The Indian Insurance Industry – a Raft of Challenges

The insurance industry is a major component of the economy by virtue of the amount of premiums it collects, the scale of its investment and, more fundamentally, the essential social and economic role it plays by covering personal and business risks. Together with banking, insurance services add about 5.4% to the country’s GDP (Department of Economic Affairs, 2011). Interestingly, though the contribution of the services sector overall is a healthy 52% of the GDP and growing at 8.9% annually, India (12th) still lags behind Japan (2nd) and China (4th) in terms of ranking in service growth. There is, therefore, a need to come of age in terms of reforms as well as nourishing growth.

The Indian insurance industry is dominated by life insurance, with total premiums of US$57 billion, compared to non life insurance at US$8 billion for the period 2009-10, according to published figures by IRDA (Insurance Regulatory and Development Authority). The industry registered a healthy annual growth of 19.3% (Sigma Re, 2011). Inflation adjusted growth was at 7.6%. The growth is expected to slow down in 2010-11. Rising double digit inflation has been a cause for concern and has hampered growth. The current economic scenario in Europe is expected to further impact on the Indian industry. The insurance sector deployed a capital of US$7.8 billion out of which a significant amount, US$5.8 billion, came from the life insurance segment. Life insurance remains the main driver in the economy. Insurance penetration in percent of GDP at 5.2% remains a poor 6th compared to other Asian countries and below the world average of 7%. China is at 3.4% is 9th but has a higher GDP, lower inflation and dynamic growth factors, like liberalisation of their insurance industry (compared to India), which will bring it up the table in time.
The Indian insurance industry was liberalised in 2000 with the formation of the Insurance Regulatory and Development Authority (IRDA). This opened up the market for foreign players, although restricted in structure to joint venture (JV), with a maximum equity of 26%. Insurance broking regulations were introduced in 2002. Today, there are 25 general insurance companies, including the ECGC (Export Credit and Guarantee Corporation) and Agriculture Insurance Corporation of India, as well as two specialist Health Insurance companies and one reinsurance company. There are also 23 life insurance companies operating in the country (IRDA, 2011). There are 322 insurance brokers as at September 30th, 2011 (ibid.).

Further deregulation commenced in the insurance industry in 2007, when the insurance companies were allowed to fix the premiums for the tariff group of risks. These were, principally, fire, engineering and motor. These were to be based on a risk underwriting basis for each of the insurance companies. As a second step, the IRDA proposes to reduce the existing restrictions, which is eagerly awaited by the brokers.

The first step towards deregulation was welcomed by clients as premium rates plummeted because of intensive market competition among insurers. In fact, this might have contributed to a lack of capital among partners and certainly led to negative impacts on the balance sheets of at least some insurers. Today most general insurance companies are reported to make an underwriting loss, which means that their claims payout is in excess of their premium collections. In fact, measures of the losses reported were in the region of US$1 billion (IRDA, 2010). The life insurance sector also showed accumulated losses of US$3.7 billion, which is a figure that is expected to double in 2010-11 (CRISIL, 2011). Consequently, a consolidation phase is ripe in the insurance sector and it is expected that there will be some market-driven forces in play soon, including increase in investment for foreign players.
The regulator has also commented on the high expenses of the insurance companies and this is a matter that is being actively pursued with the insurance companies. There is now, therefore, a drive towards underwriting profits rather than depending on investment income to generate cash premiums. This is expected to drive up premiums and shore up balance sheets in due course.

The penetration by brokers into the insurance market is very poor, given that the market opened up for them as early as 2002. It is a poor 1.4% in the life insurance sector, which remains predominately agent-driven. Non life insurance is the sector in which brokers are principally active globally. In India, again as in the life insurance market, this remains an agency-dominated sector (54%), followed by the direct to the insurer segment, which measures 31%. This means that 85% of the business is determined by the insurer, leaving just 15% for the brokers (IRDA, 2010). In the current market, therefore, despite a measure of deregulation certain traditional views still prevail:

- Clients still prefer to deal with insurers directly; they are not comfortable with the concept of an intermediary. Market forces seem to encourage this behaviour and statistics further support it. This is also influenced by the long national history of regulated markets;
- Insurers also seem to leverage the situation by continuing to encourage a direct approach. They are yet to come to terms with the fact that brokers form a very efficient business channel in addition to the fact that they also help develop the market. The forces of a fully deregulated market would also ensure the need for brokers, for both clients as well as insurers.

In this scenario, insurance brokers, who hitherto have been seen as a “cost” to the client, would now be expected to subsidise further the expected hardening of the insurance market in the coming year.
Insurance broking today remains, therefore, a nascent industry with a low level of penetration as a result of market forces, including the slow pace of liberalisation of regulations governing the brokers. Purchasing of insurance today remains dependent, in the main, on the price basis alone. Consequently, brokers have little or no incentive to invest in knowledge and infrastructure. Most players would, in the main, look to similar business models already in operation, which offer similar services that lead to price sensitivity and operate on low margins. Several statistical indicators of select emerging countries have been collated in Table 1, which shows India’s low competitiveness with regard to insurance growth and density. While India is ranked fourth in terms of total market premiums for both the life and non-life sectors, it is at the bottom of the table in terms of density per capita. India, therefore, has scope for growth and needs to increase its market aggressively so as to measure up to other emerging economies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance premiums (US$ million)</th>
<th>Density per capita in US$</th>
<th>% GDP</th>
<th>Population in millions</th>
<th>GDP US$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>505,956</td>
<td>3,979</td>
<td>9.9</td>
<td>127</td>
<td>5,089</td>
</tr>
<tr>
<td>China</td>
<td>163,097</td>
<td>121</td>
<td>3.4</td>
<td>1,345</td>
<td>4,736</td>
</tr>
<tr>
<td>S Korea</td>
<td>91,963</td>
<td>1,890</td>
<td>10.4</td>
<td>49</td>
<td>882</td>
</tr>
<tr>
<td>India</td>
<td>65,085</td>
<td>54</td>
<td>5.2</td>
<td>1,198</td>
<td>1,255</td>
</tr>
<tr>
<td>Taiwan</td>
<td>63,647</td>
<td>2,752</td>
<td>16.8</td>
<td>23</td>
<td>379</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>23,201</td>
<td>3,304</td>
<td>11</td>
<td>7</td>
<td>211</td>
</tr>
<tr>
<td>Singapore</td>
<td>14,245</td>
<td>2,557</td>
<td>6.8</td>
<td>5</td>
<td>77</td>
</tr>
<tr>
<td>Thailand</td>
<td>10,460</td>
<td>154</td>
<td>4</td>
<td>68</td>
<td>264</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8,840</td>
<td>321</td>
<td>4.4</td>
<td>28</td>
<td>199</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7,285</td>
<td>32</td>
<td>1.3</td>
<td>230</td>
<td>541</td>
</tr>
</tbody>
</table>

Table 1. Statistical Indicators: Select Emerging Countries; source: Swiss Re, 2010.

In this current scenario, competition remains fierce for brokers in a market dominated by insurers who remain the first choice of customers, owing to their desire for dealing direct. Brokers also
remain handicapped due to the mostly undifferentiated product offerings and a not fully deregulated market.

There is, therefore, a need to create competitive advantage in the market for brokers through relationship building with a relationship marketing approach.

2. Theoretical Framework and Concept Development: the New Paradigm of Relationship Marketing

Relationship marketing (RM) arises from the core concepts of marketing, which was defined by the founder of modern marketing, Philip Kotler, as a “… social activity concerning two social units. These social units may be individuals, groups, organizations, companies or nations. There is a response or exchange which is desired and marketing is the process of eliciting the desired response through creation of values (Kotler, 1972).” RM moves away from the management school of thought of sales marketing and moves to the relationship aspect of the transaction.

RM is defined as ‘the process of identifying and establishing, maintaining, enhancing and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, where this is done by a mutual giving and fulfillment of promises’ (Gronroos, 1997, 2002). The traditional 4Ps of the marketing toolbox approach (product, price, place and promotion) have given way to looking at marketing more as a social process. RM is still evolving but, as Kotler (1972) concluded: “… companies must move from a short –term transaction oriented goal to a long-term relationship building goal.”

RM has its origins in the Nordic school through the IMP, the Industrial Marketing and Purchasing Group, which was born in the 1970s and is still evolving today. Scholars from the Nordic countries have been prominent contributors to this field and their efforts have
been described as representing a paradigm shift in the field of marketing. According to Morgan and Hunt (1994), there is a clear distinction between ‘transactional’ and ‘relational’ approaches: “RM refers to all marketing activities directed towards establishing, developing and maintaining successful relationships.” This is still not an exact science and the conceptual foundations are at various stages of construction and testing. Sheth (1996) has observed that, for a discipline to emerge, scholarly work needs to be conducted in the field to develop the foundations and build the concepts and theories which explain the observed phenomena.

Consequently, there is a move towards looking at RM as a field for sustaining long term relationships through a move from the transactional to the relational. Customer relationships must not be assumed or taken for granted but should be developed and trust earned over an extended period of time, revolving around customer relationships (Gronroos, 1990).

In the service industry, short term relationships are operationally expensive and thus long term relationships are important (Gummesson, 1987). Berry (1983) introduced the concept of RM as opposed to transaction marketing as a means of describing such a long-term approach to marketing strategy. If long term relationships are maintained through a series of continuing exchanges, it is likely that the marketing costs be lowered (Gronroos, 1990).

Berry (2002) stated the importance of RM to service sector firms in terms of the ongoing periodic desire for services, the fact that the serviced customer controls the selection process of the services supplier and that other services suppliers are available and so switching is always an option for a dissatisfied customer. This is indeed the current scenario in insurance broking. He goes on to state the need for transactional competence and the generation of a tailored approach to the relationship, together with price, before the other relational social exchanges can take hold. He also states that a “new
customer only” approach is not marketing efficient and wasteful and thus advocates customer retention as a solution.

This is especially true for an emerging market such as India where insurance is just coming of age but is as yet not fully liberalized and there is considerable churn in the youthful market. Consolidation is awaited but yet fully to arrive. In an earlier paper, Berry (2002) observes that a service company is only as good as its people. Consequently, there is also a need for employees and stakeholders to be aware of the importance of the relationships embedded in the firm. The insurance broking industry in India, in particular, needs to meet with all these conditions.

Insurance broking is cyclical in nature with the cycle starting with prospecting to mandate to maintenance and in some cases (of failure) to dissolution. At each of the stages, there is a periodic desire for service – i.e. there are certain specific critical service moments. There are 310 insurance brokers licensed as of June 30th, 2011 (IRDA, 2011) and, therefore, there is a choice for clients on the supply side of the service and switching is an option.

In India, with the liberalization of the economy and the advent of globalization and international competition, relationship management has gained importance as a key and defining factor in bidding for business and keeping customers. Gronroos (1990) and Gummessson (1987) take a broader perspective and advocate that customer relationships ought to be the focus and dominant paradigm of marketing. In fact, Gummessson (1979) provides a very powerful argument to the value of RM, which he claims provide value to the firm, to the economy and to society as a whole as well as the individual.

To the firm: value is added through increased engagement and relationship duration and, hence, efficiencies leading to profitability. To the economy: value is added through a synthesis of all the
stakeholders which reduces instability overall. This paves the path towards further development and, ultimately, is of benefit to the consumer. To the individual: value is added by way of a joint offering customized for the client and leading to greater engagement by delivery of solutions rather than discrete products. This in turn leads to efficiencies within the social group in which people operate and, hence, overall benefit to the society.

RM is a driver to growth in a climate of intense competition in products, services and processes. This is very appropriate for an industry which is moving from a price-driven to a product-driven scenario and, as is the case for insurance broking, is gradually evolving into a solution-driven service. In some cases, clients are aligning themselves globally and, hence, are undergoing rapid change in their buying behaviour. In addition, they are now looking towards quality and integrated processes leading towards a seamless need-satisfaction continuum.

Extensive literature is available in support of a shift towards long-term relationships (Sheth and Parvatiyar, 2000) and the resulting customer profitability. Relationship marketers look at customer retention as an asset value which needs investment for longer and more sustained returns and which forms the underpinnings of RM (Ryals and Payne, 2001).

RM is distinct from Customer Relationship Management (CRM) in the hierarchy of things. If RM is the strategy, philosophy and marketing orientation emphasizing customer retention, then CRM involves management of the customer retention process (ibid.). Levitt (1983) likened this to a marriage metaphor in which the sale was the end of the courtship and the beginning or consummation of the marriage. Dwyer et al. (1987), meanwhile, extended this metaphor to one which featured an understanding of long term relationships both in industrial as well as consumer markets.
In a highly competitive environment, customer retention is more efficient than obtaining new customers. Recent research studies (e.g. Athanasopoulou, 2009) have concluded that it may be up to five times more expensive to develop new relationships than to maintain existing ones. Consequently, companies will have to strive to develop and maintain long term relationships and create customer loyalty and, thus, to increase profitability.

3. Methodology

Before considering the relationship model for insurance broking in India and its implications, it is important to analyse the industry structure and, also, to consider the dimensions that exist in a client-insurance broker relationship. For this purpose, it is necessary to specify a conceptual model of a client-insurance broker relationship model and then to describe the buyer-seller continuum, as well as relating this to lessons from the literature concerning how to create and sustain competitive advantage in such a situation.

In this case, the seminal work of Michael Porter and the five forces model of competitive strategy (1985) will be applied. This approach is capacious enough to accommodate the behavioural patterns evident in the Indian broking industry model, which in turn has implications for the nature and structure of the relationship of the buyer and seller. In the Indian market, this produces the following conceptual framework:

**Supplier Power (impact: low)**

- Low differentiation in inputs or Transactions
- Difference in relationship strengths only perceived value
- Concentration of insurance brokers hence supplier concentration
- Threat of forward integration by clients

**Threat of new entrants (impact: medium)**
• Capital requirement low
• Regulations restrict foreign investment only
• Domestic investment open
• Competence requirements medium

**Buyer Power (impact high)**

• Low switching costs
• Insurance broking perceived as an additional cost
• Perceived incentive in dealing direct
• Fear of non transparency in using an intermediary
• Price sensitivity
• Impact of quality performance

**Threat of Substitutes (impact: high)**

• Buyer propensity to approach insurer direct
• Insurance product differentiation limited as market still not fully deregulated
• Switching costs between products low
• Relative price performance of substitutes low
• Buyer experience of dealing with insurer direct
• Buyer familiarity with product suite (*ibid.*: 5).

When the industry structure is in flux, it can affect the profitability of the company unless the dynamic forces are properly understood. Porter’s five forces model is current and applicable today as a robust approach in enunciating the nuances of the Indian insurance industry and, especially, insurance broking. A company can outperform its rivals only if it can create a differentiation through a value which it
can preserve. This will in its natural course manifest itself into financial benefits (Porter, 1996).

4. Analysis

The industry trends that are more strategic in nature in that they affect industry structure are described as follows:

**Buyer Power: High**

Buyers intensify competition by forcing the industry to reduce prices, extracting higher quality of services and setting competitors against each other.

**Low switching costs**

Insurance is a financial exercise that is recreated or reproduced every year and yet is rarely if ever felt to be a priority in terms of impact on the stakeholders of the companies. Consequently, insurance purchase is not a critical item on the list. Some purchases are lender-driven but the criteria for purchase remain generally unchanged.

There is an adequate supply of insurance services available to the buyer. These are in the main the insurers, which have traditionally been the only provider for over 50 years in the market until insurance broking came about in 2002. The expectation of a differentiated service is, therefore, low due to lack of experience of alternates.

There is also a traditional intermediary that has been hitherto unregulated: that is, the consultant, who also has a historical presence and is a little more than an evolved agent. The consultant is almost always involved in a relationship game with, often, rather negligible professional advisory on offer as a value-added service.
The standard, generic or ‘vanilla’ insurance products, such as property or casualty insurance, are today little differentiated and, hence, there is no significant domain knowledge required to run a bidding process. This will change once the definitions are opened up by the IRDA.

- **Impact of quality performance**

- **Price sensitivity**

Thus far, the product offerings are by and large neutral to the client’s needs for quality of product or service. In a few cases, such as large infrastructure industries, the client professes to have full information about the products on offer and does not see the need for an independent advisory.

In addition, insurance currently is generally involved in reducing costs where possible.

- **Insurance Broking perceived as an additional cost**

- **Perceived incentive in dealing direct**

This is a direct result of the state of evolution of a market which has hitherto been traditional in nature and this has been encouraged by a resistance to change by many of the stakeholders.

- **Fear of non transparency in using an intermediary**

A variety of factors have contributed to this situation, in which cause and effect have become entangled. Historically, there have been no intermediaries apart from the consultant. Hence, the dealings have been direct with the insurers for all insurance related services. The consultant acted as a facilitator rather than an independent advisory. Licensed insurance brokers in the market today do not all demonstrate the skills required for clients who want their services and are similar to the consultant of old. This problem has been exacerbated by the fact
that the insurance broker’s services are packaged as all or nothing. Consequently, the client is unable to select the product or knowledge desired but must accept a package. The IRDA regulations are silent on fee-based services. As a result, insurance brokers are not pushed to upgrade their skills and so offer differential services.

**Threat of Substitutes: High**

All firms in the industry are competing and, hence, any price-performance substitute will adversely affect the industry. In the Indian market, there is fierce competition to survive among the approximately 320 licensed insurance brokers. The 23 General Insurers and 25 Life insurers also compete in this space. Clients perceive direct dealing with the insurers to be a viable substitute to using insurance brokers due to the reasons enumerated before. As a result, clients perceive that insurers perform the same function as an insurance broker without an appreciable marginal utility, at least at the transaction level. It is, therefore, very evident that the relational level needs to be explored thoroughly to create the differential required among the competing providers and product offerings. This should lead to the following actions:

- **Buyer propensity to approach insurer direct**

- **Insurance product differentiation limited as market still not fully deregulated**

- **Switching costs between products low**

- **Relative price performance of substitutes low**

The reasons are similar to those mentioned under the reasons for low switching cists by the buyer.

- **Buyer experience of dealing with insurer direct**
This also relates to the client’s fear of non transparency when dealing with an intermediary.

- Buyer familiarity with product suite

The traditional market for insurance was serviced by insurers without any competition whatsoever until the market opened up in 2000 to foreign players. This resulted in some better practices and, in rare cases, new product offerings, though regulated. Insurers followed Adam Smith’s dictum by quickly banding together to deal directly with clients. Insurance brokers were shown as being expensive and a platform set by the IRDA in a draconian regulation system which offered a discount to clients if they placed orders direct. This was repealed by the IRDA in 2007 but the practice of discouraging the use of brokers still continues.

Bargaining Power of Suppliers: Low

- Low differentiation in inputs or transactions and difference in relationship strength is the only perceived value

- Concentration of insurance brokers and, hence, supplier concentration

The insurance brokers form the supplier group. The scope of services is determined by the IRDA and a strict Code of Conduct is enforced. The IRDA has mandated commission rates for insurance brokers, which are to be paid for by insurers. This has brought to the forefront the concept of “loading” the broker’s commission on the premium and, therefore, placement of business through the broker is deemed more expensive than going direct. The service package from the broker is bundled as an all or nothing package. The client often does not require the whole package and would like to pay for only the services desired. For instance, the client may need the broker to do the bidding document leading up to the negotiation or use the claims
handling services only. Here the client would rather pay a fee and would be reimbursed by obtaining a cheaper rate by going direct. Current IRDA regulations are silent on this. As a result of the mandated rates, most brokers have not worked hard to build differentiated services and sold them separately. The client, therefore, does not see any demonstrably different offering from the insurance broking firms as a group. For the purposes of this study, consideration of foreign brokers (which are JVs with Indian partners) is not considered.

- Threat of forward integration by clients

The traditional insurance market before the reforms started in 2000 was characterised by insurers being the only insurance resource in the market. As a result, many companies had to build their own insurance teams in an effort to take an independent look at the market. Many large infrastructure and manufacturing companies have acquired significant knowledge of their products through years of use and handling claims on their own. Consequently, any independent advisory needs to have a significantly robust product offering as well as service inputs to make a strategic difference to their products. Insurance brokers with this sort of embedded experience are indeed few.

Currently, survival is largely made possible through altering the level of buyer power in the future. One means of seeking to achieve this is to foster differentiation. It is here that the buyer’s decision is influenced in a manner which is more than being just transactional. This is where RM takes hold and, therefore, indicates the need for a relationship-based approach.

In the context in which competitive strategy takes hold, societal expectations and values that drive an individual are critical. This is an important parameter which makes or breaks relationships and need to be factored in as a part of the competitive strategy of a firm. Industry
structure has already been discussed and the company’s strengths and weaknesses are internal factors which will not be considered here. This study is focused on a social group comprising of insurance brokers and its interaction with clients as part of another social group and encompasses such factors as the personal values of the key implementers and broader societal expectations.

5. A Relationship Model in Insurance Broking

A growing body of literature deals with long-term buyer–seller relationships as a prerequisite for competitive strategy (Beloucif and Waddell, 2000). Currently, there is no suitable model depicting the true nature of the exchange between insurance broker and client. Consequently, a conceptual buyer-seller model has been developed to set out the relationship pattern in the stages of the business-to-business relationship (see Figure 2 below). This model presupposes a three-stage relationship in terms of interaction between insurance broker and client. Most quantitative approaches to relationship have suffered from being too static, i.e. episodic and frozen and perhaps applicable to just that particular moment in time (Schurr, 2007). This approach, therefore, is qualitative in nature in terms of building a theory of relationships that caters for the need of sustainable, long-term relationships. The specifications of this model follow:

Stage 1

Like all professional services, initial prospects are usually obtained through a referral program. This is the beginning of the pre-relationship stage. The initial visit should yield sufficient information for a viable proposal for the client to be constructed suitable for the insurance broking assignment.
It is important to note here that transactional competency is demonstrated through appropriate communication, which is usually through a one-to-one meeting with the operating department of the company being targeted. Here, the scope of services is detailed and, if possible, some useful inputs which are of a strategic nature are given as an illustration of competency. The broker should through this initial contact determine the intentions of the client to engage the services offered. Consequently, the presentation and talk need to be focused and the client should get a feeling that the meeting is useful and that the exchange is beneficial.

At this stage, the client is also considering various relationship parameters, such as commitment and trust. It is important to mention that, in India, from the perspective of the transaction, insurance brokers offer the same scope of services for the standard, mandated fees. Hence, in a sense the first impression is always the lasting impression. A service such as insurance is at best a promise and can be validated only once used. The insurance broker, through this approach and the code of conduct has to show prudence in the approach to the risk posed by the client. On the other hand, the broker must also be sensitive to the client’s behaviour. If the client’s approach demonstrates risky behaviour, a prudent insurance broker would not be looking towards a long-term relationship. Some instances could be the client’s approach to cut costs in the first instance. The client may also not part with critical information in a bid to test the acumen or integrity of the insurance broker. The insurance broker in this instance is working on assumptions which may well not be true and could result in wrong advice and result in a serious failure in service. The client may also sue for receiving the wrong advice!

Stage 2

This is a very critical stage in the relationship phase. The insurance broker at this stage makes a business presentation with a view to winning the business for submission to the decision-makers, who
often comprise both the concerned department and a representative from finance, who customarily has decision-making powers.

IMP Group researchers came to the conclusion that the cooperative model for a buyer-seller interchange was a better representation of the facts than the traditional, adversarial model. Here, the individual’s goals, attitudes and experiences, influence the behaviour and outcome of the interchange episode. At this stage, interpersonal sales characteristics come into play, such as attributes like ethics, trust and commitment (Anderson and Weitz, 1998) are on view (Sheth and Parvatiyar, 2000). As stated earlier, the exchange at this stage happens at both the transactional and relational levels.

Trust is needed in situations where the buyer seeks consultation and recommendation on matters which may otherwise lead to great financial loss. Morgan and Hunt (1994) talk of reliability and integrity as a prerequisite for trust within the relationship. Reliability is generated through rational thinking, while integrity derives from an emotional response. Commitment is a related element in a buyer-seller relationship and is the desire to keep the relationship going. At this stage, it is demonstrated by, for instance, ensuring that the best human resources together with a senior representative attend any meetings. Consequently, besides presenting a successful transactional brief, it will also be necessary to demonstrate a commitment by way of decisions in support. After all, it is very common in this industry to employ local mapping with the service deliverer in a company which has multiple locations.
Figure 3. Stages of a Client–Insurance Broker relationship; source: adapted by the author from Beloucif et al., 2004.

Stage 1: Information gathering, Marketing and Communication

Stage 2: Explanation and requirement of technical skills to aid evaluation.

Stage 3: Negotiation skills and deep understanding of the Client’s needs.

Discussion

Prospect

Discussions to Proceed

Mandate

Existing

Satisfied?

No

Yes

Yes

No

Yes

No

New

Yes

Prospect

Discussions to Proceed

Mandate

Yes

Client

Maintenance

Client

LONG-TERM RELATIONSHIP

Relationship Stages

Relation to Stages
The individual’s attitudes, goals and experiences influence the behaviour within the interchange episodes (Sheth, 2000). Content messages are not the only ones that are exchanged during this interaction, as relational statements about how the parties feel towards each other and attitudes involving one or more dimensions are also involved (Adler and Rooman, 2006).

The relevance of interpersonal interaction in buyer-seller relationships was first brought to attention by Dwyer et al. (1987). Relational behaviour is important when the products lack standardization, as in insurance broking solutions, and also where the risk is perceived as high (Keith et al., 2004; Noordeweier et al., 1990; Jap, 2001). It is suggested that interpersonal satisfaction increases buyer-seller commitment and contributes to the development of long-term inter-firm relationships.

Insurance broking as a service industry is risky and there is a high risk of misselling. This is a situation where a solution has been put together, as an example, where the broking commission is highest. Insurance brokers, therefore, need to be very ethical in their approach. As per the law they, are also required to purchase an adequate level of insurance to cover professional negligence. The client can also demonstrate risky behaviour by, for example, treating this only as a financial transaction and downplaying or ignoring options which are more in line with the company’s risk profile and opting for a cheap solution. The client, therefore, remains open to risks which would otherwise be insurable.

**Stage 3**

The mandate is now in hand and the broker should evaluate the risk profile of the customer and approach the insurer and re-insurer markets as appropriate. The prospect has now become a client. The broker will in the first instance ask for as much information as can be obtained, including information concerning the proposal form for each
form of insurance which is sought to be proposed. Here, attributes like trust will be important for the customer to reveal the company’s operating conditions. The customer is likely to be interested in determining ethical behaviour and the degree of commitment to be demonstrated. This is particularly important as there may be a need to reveal areas of risk in the company which are not documented elsewhere or perhaps have surfaced in the immediate term. All the time, there are successive meetings and exchanges of correspondence and documentation and development of the market presentation. This may take up to two to three months and involve large risks and exposure. There will be physical inspection as well of the assets which are insured or sought to be insured. The result would be a broking slip, which is an underwriting submission to insurers/re insurers, as the case may be, for them to respond. This exercise calls for persuasion and negotiation skills as well as exhibition of relational intentions, as the client as well as the insurer/re-insurer is persuaded to understand the risk profile and what can and cannot be insured. The expertise of the broker has a direct effect in creating the platform for a solid relationship (Damperat and Jolibert, 2009).

Once the market presentation is made and the result is analysed, the quotes together with the recommendations are presented and discussed with the client. If the relationship and trust and commitment are not exhibited by this stage, the client may chose to ignore the broker and talk directly with the insurer. In fact, the biggest challenge in today’s market is to persuade the client that the broker is indeed working to the client’s interests. This is quite often seen as a leap of faith. Market dynamics, as advised earlier, and the insurer’s attempt to wrest control of the account will be seen to be at play here.

It is, indeed, regrettable if the broker has not endeared the company to the insurer or to the client due to less than correct behaviour. As mentioned earlier, this is a combination of a lack of maturity in the market and a result of the era of regulation. Consequently, it is essential to demonstrate ethical behaviour. The client would, in
essence, be looking to get the best deal and, with proper information, will be able to accept recommendations and negotiate on price. A client who does not understand the risks, which is often the case, will negotiate only on the price basis alone and opt for the cheapest deal on existing terms.

In the former case, it is ethical to discuss and disclose the commission which the broker is entitled to receive, if so requested by the client. In most cases, the client would appreciate this transparency and leave it to the broker to ‘subsidise’ the final cost if required. There are cases where the insurer will approach the client directly and ‘offer’ a lower price for a direct deal. Although this is not permitted by IRDA regulations, the market practice nevertheless exists. In such cases, clients are likely to defer to the approach of the broker in this case, since it represents a cost saving. This is, in itself, an indication of the strength of the relationship.

On the other hand, the client may personally exhibit risky behaviour by ignoring the broker’s recommendations and placing the insurance direct, thereby falling prey to price subsidy. This behaviour then becomes transactional and does not build long-term relationships. This would approximate more the nature of a short-term relationship strategy in which price minimisation is the main purpose and the deal is transactional in nature. This is more appropriate for customers whose value perspectives are not affected so much by the service provider/customer relationship (Keith et al., 2004).

After the placement has occurred through the broker, the maintenance phase begins. Although this is a mandated, year-long service agreement according to the law, the success of this is entirely demonstrated by how well the relationship has been handled. As detailed earlier, this implies continued success both on the transactional and relational fronts. This is perhaps the next most difficult service requirement for a broker. Clients may be service
efficient or service inefficient. The latter happens when the earnings are low in comparison to the service requirement for that client.

The reputation of a broker is cemented by the successful handling of such claims as and when they arise. This is one of the service deliverables. When a loss occurs, the client turns to the broker for support in not only handling and negotiating the claim but also from the point of view of seeking reassurance that matters will be handled in the client’s best interests. Again, this is a significant time for enhancing the relationship and the broker needs to exhibit qualities such as compassion, candour, empathy, integrity, dependability and responsible behaviour. It is important to steer clear of dubious ‘work around’ solutions to settle claims which are not ethical and may be called to account. If the broker has performed well at the time of binding the insurance policies, it will be possible to argue clearly with the insurer in favour of the customer as to what is due. As all losses are not insurable, for example business risks, then it falls upon the broker to clearly and sympathetically enunciate this to the client. A study by Elsingerich and Bell (2006) suggests that customer education and allocation of resources for problem resolution are likely to deepen relationships.

The insurance broking relationship is cyclical and the reward for a sustained relationship is the invitation to participate in the mandate in the renewal year. It is quite clear, therefore, that a relationship exchange process, together with competitive transaction acumen, enhances the longer term relationship attributes like trust, ethics and commitment, which are the platform on which the relationship is built.

6. Discussion and Conclusions

The managerial implications of this situation include the need to bring about focus in investing in relationship-building activities in insurance broking as a means towards building competitive advantage. It illustrates some of the antecedents which need to be nurtured in terms
of relationship-building at the industry level. Trust represents an important factor here and has a role to play in marketing success.

The insurance industry and, in particular, the insurance broker is expected to benefit from this study in terms of being to apply more than a transactional approach to sustain a long term client-insurance broker relationship. This is essential in a nascent market like India, both to enhance the scope of insurance broking and, also, to protect the interests of the client. With this is a need for self-governance for which the regulator IRDA needs to transform power to the Insurance Broker’s Association of India (IBAI).

The market should be deregulated soon, with regard to both wordings and price. Clients would benefit from being able to decide how much they wish to pay the broker, either by fee or by agreed commission. As a result, as the market matures, insurers would find that the brokers are a good and efficient aggregator for business, instead of a threat.

7. Bibliography


Thailand and the Inflow of FDI under the ASEAN Economic Community (AEC)

Sittichai Anantarangsi

Abstract

The economy of Thailand has been tied to the world’s economic system for many decades; Thailand acts as an important production base for distributing products to the global market and 70% of Thailand’s GDP is derived from the export sector. However, competition in the global market is likely to intensify and this has helped prompt Thailand to sign several Free Trade Agreements (FTAs) in a bid to sustain its competitiveness in continuing to attract inflows of foreign direct investment (FDI). The ASEAN Economic Community (AEC) is one development that the Royal Thai Government (RTG) has taken very seriously. Following the pattern of the Economic Union (EU), the AEC is intended to create both a single market and a single production base. The RTG has made great play about the benefits the country can expect to obtain from the AEC as a result of being a regional production and distribution hub. However, interviews with Thai executives and major foreign investors in the country, including some from Japan and China, revealed that they are not interested in Thailand so much because of location but because of the market size, access to resources and the availability of business alliances, such as Keiretsu (系列). Consequently, they may prefer to use Thailand as a headquarter site rather than a production base because of the increasing competitiveness in terms of labour costs and availability of resources and technology in the CLMV countries (i.e. Cambodia, Laos, Myanmar and Vietnam), not to mention the overall business environments of Malaysia and Singapore. Thailand requires, therefore, a period of intensive reflection with a view to understanding the important factors that inspire enhanced FDI flows. Rather than simply positioning itself a production base, Thailand should consider
itself a gateway to the CLMV nations and a centre for agricultural and bio-agricultural products, of which the Kingdom is already a major exporter. Thai expertise with respect to CLMV systems and organisations may also prove to be an important benefit. It would also be beneficial for Thailand to position itself as a trade partner rather than a competitor both inside the AEC and beyond.

Keywords: AEC, ASEAN Economic Community, FDI, Inwards Investment, Thailand

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1. Introduction

Although some Thai people seem to resent the fact that globalization challenges their concept of economic nationalism and their fear that the processes of trade liberalization will lead to the loss of local jobs, globalization nevertheless represents an important part of the national agenda. Indeed, Thailand’s economy is particularly strongly interlinked with the global economy by virtue of its reliance upon export-oriented manufacturing industries and international, inbound tourism. In 2010, approximately 70% of Thailand’s GDP resulted from the export of goods and services, indicating a strong recovery from the Asian Financial Crisis of 1997 (U.S. Department of State, 2011). Table 1 below shows the growth in GDP from 2006-10 and the changes in imports and exports to that level of GDP. The volatility of the Thai economy with respect to the international economic environment is shown clearly.

<table>
<thead>
<tr>
<th>Thailand</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand's GDP Growth</td>
<td>5.1</td>
<td>5</td>
<td>2.5</td>
<td>-2.3</td>
<td>7.8</td>
</tr>
<tr>
<td>Export % to Thailand's GDP</td>
<td>74</td>
<td>73</td>
<td>76</td>
<td>68</td>
<td>71</td>
</tr>
<tr>
<td>Import % to Thailand's GDP</td>
<td>70</td>
<td>65</td>
<td>74</td>
<td>58</td>
<td>64</td>
</tr>
</tbody>
</table>

Table 1: The Relationship of Imports & Exports to the GDP of Thailand, 2006-10; source: World Bank, 2011a, 2011b, 2011c.

Table 2 below demonstrates the importance of exports to the Thai economy, since it shows that it is export-oriented products which dominate production. By contrast, leading imports tend to be inputs into the production process or else intermediate or semi-finished goods sent to Thailand for final assembly. Clearly, the role of inwards FDI is important in these forms of production since it is closely associated with the processing of semi-finished goods (Magic, 2003; Kohpaiboon, 2006). At the end of 2010, the total annual inflow of FDI amounted to some 141,763 million Baht and it has been adjudged that
FDI has enhanced the economy of Thailand for several decades (Bank of Thailand, 2011).

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Export Value</th>
<th>Imports</th>
<th>Import value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Computers, parts and equipment</td>
<td>596,677.7</td>
<td>Crude oil</td>
<td>762,474.4</td>
</tr>
<tr>
<td>2</td>
<td>Cars, parts and equipment</td>
<td>561,108.8</td>
<td>Machineries and parts</td>
<td>535,241.7</td>
</tr>
<tr>
<td>3</td>
<td>Gems and jewelry decorations</td>
<td>366,818.3</td>
<td>Chemicals</td>
<td>403,161.8</td>
</tr>
<tr>
<td>4</td>
<td>Electric circuits</td>
<td>255,322.1</td>
<td>Electric machineries and parts</td>
<td>389,188.1</td>
</tr>
<tr>
<td>5</td>
<td>Rubbers</td>
<td>249,262.5</td>
<td>Iron, steel and its products</td>
<td>375,048.4</td>
</tr>
<tr>
<td>6</td>
<td>Oils</td>
<td>223,131.9</td>
<td>Electric circuits</td>
<td>344,836.4</td>
</tr>
<tr>
<td>7</td>
<td>Products from rubbers</td>
<td>203,428.1</td>
<td>Gems, silver and gold bars</td>
<td>319,317.7</td>
</tr>
<tr>
<td>8</td>
<td>Plastic chips</td>
<td>200,326.0</td>
<td>Computers, parts and equipment</td>
<td>261,197.7</td>
</tr>
<tr>
<td>9</td>
<td>Chemicals</td>
<td>182,464.7</td>
<td>Scrap metals &amp; other metallic ores</td>
<td>240,358.4</td>
</tr>
<tr>
<td>10</td>
<td>Rice</td>
<td>168,193.1</td>
<td>Auto parts and equipment</td>
<td>189,094.9</td>
</tr>
<tr>
<td></td>
<td>Total export value in 2010</td>
<td>3,006,733.2</td>
<td>Total import value 2010</td>
<td>3,819,919.6</td>
</tr>
</tbody>
</table>

Table 2: Top Ten Imports and Exports of Thailand, 2010; source: Ministry of Commerce, 2011.
The processes of globalization are intensifying and one result has been the increase in competitiveness of actual and potential competitors to Thailand, including China, India and Vietnam, which all have lower production costs (OECD, 2011; Chiang Mai University, 2011). Thailand has signed a number of bilateral and multilateral FTAs in part to try to respond to the increased competition, including the ASEAN Free Trade Area (AFTA), Japan-Thailand Economic Partnership Agreement (JTEPA), Thai-Peru Free Trade Agreement, Thailand-Australia Free Trade Agreement (TAFTA), Thailand-India Free Trade Agreement, European Free Trade Association (EFTA) and the Greater Mekong Sub-region and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Thailand hopes to lower its costs of production, increase exports and attract more FDI (Department of Trade Negotiation, 2010).

At present, most of the attention of the Royal Thai Government (RTG) in this area is focused on the ASEAN Economic Community (AEC), which not only aims to waive duties and reduce tariffs, as is evident from other FTAs, but also to integrate the markets of ASEAN into a single production and consumption base. It is anticipated that the AEC will attract additional inwards investment from both international and domestic investors from within and without ASEAN. In particular, it is hoped that Thailand will attract investment because of its existing infrastructure, proximity to China and positioning as the centre of the AEC. However, it is not known whether the reality will match the rhetoric about prospects for the future and testing this forms the basis of the research reported on here.

2. Methodology

This research paper reports on the experiences of the author in conducting qualitative research, with supplementary ethnographic observation, in the countries of the Greater Mekong Subregion (GMS) over the course of several years. Observations have been further complemented by secondary sources including academic papers,
official reports, books and media content. The combination of these sources prompted the initial research question, which concerned the nature of the discourse of the RTG on the positive nature of the AEC. Subsequent research was involved with furthering knowledge about FDI and its potential impact as a result of the AEC. Research then turned to a series of personal interviews with 30 Thai executives who had acted as key informants for the author previously. These interviews were conducted by telephone using the Thai language. Extensive note-taking during the interviews was followed by preparation of intensive research reports converted into English. In addition, the author interviewed a further 30 business investors in the GMS who were mostly from China and Japan and who had invested in Myanmar, Thailand, Laos and southern China. Many of these executives had been contracted initially during the author’s exporting of mangosteens from Nakhon Sri Thammarat in southern Thailand to Yunnan province of China between 2008-10.

Finally, the author conducted additional interviews with officials of the RTG’s Ministry of Labour and relevant university faculty members. Purposive sampling was used to identify Thai executives and RTG officers, while convenience or accidental sampling was used to locate foreign investors in the GMS.

As this research involved qualitative techniques, it used semi-structured question agendas, which enabled respondents to construct a dialogue relating to issues of the most relevance to those respondents rather than having an agenda imposed upon them from the outside. This method enabled the author to become immersed in the data as it was collected and then create and test hypotheses as they emerged. Content analysis techniques have been used to examine the data set collected and the results of the research, in part, are reported in the present paper.
3. What is the AEC?

The concept of the AEC is to create an area of economic integration in which a single production base will promote manufacturing, movement of capital and labour to meet the opportunities provided by newly-created comparative advantages and, also, boost domestic incomes and consumption. Other FTAs in ASEAN have coincided with increases in trade flows both within the region and with other parts of the world. The comparative success of FTAs elsewhere in the world, at least as measured at the aggregate level, have led to the bringing forward of the AEC from 2020 to a projected 2015 (Anantarangsi, 2011).

In fact, the concept and working method of the AEC resemble the single market concept of the European Economic Community (EEC) or European Community (EC) (Hunt, 2011). The objectives of the AEC are: (a) to be a single market and production base; (b) to be a highly competitive economic region; (c) to be a region of equitable economic development and (d) to be a region that is fully integrated into the global economy. Objective (a) will be completed by the free movement of products, materials, services, labour, capital and investment. Objective (b) will be completed by promulgating measures such as competition policies, consumer protection, intellectual property rights (IPR), infrastructure development, taxation, and E-Commerce or the e-ASEAN Framework Agreement. Objective (c) will be completed by following measures such as SME development and the Initiative for ASEAN Integration (IAI). Objective (d) will be completed by measures such as the coherent approach towards external economic relations and enhanced participation in global supply networks (Association of Southeast Asian Nations, 2008: 6 & 26). All countries in the AEC have their own potential to share with and strengthen the others. The countries of the AEC may be classified into three groups, as follows:
Table 3: Comparing the Potential of Countries in the AEC; source: Department of Trade Negotiations, 2011.

The way in which the AEC can act as a single market is demonstrated in Figure 1 (below). Cheaper inputs from other AEC members (e.g. labour from Myanmar, dyes from the Philippines and buttons from Vietnam) enable Thai-produced shirts to reduce costs for subsequent consumption or export. As a consequence, firms in all countries can utilize cheaper production methods for producing goods and services that should improve the efficient allocation of resources and enhance competitiveness throughout the region. Of course, that will require some attention to structural adjustment in cases where jobs and investment will inevitably be lost. Economies of scale, scope and learning should also flow from this process.

Figure 1: The Concept of the Single Production Base; source: author’s own composition
Moreover, the larger size of the AEC market should be able both to attract more inwards FDI from non-ASEAN countries and enhance inter-ASEAN trade and investment flows. In general, most economic benefits can be expected to flow to Singapore, owing to its competitive infrastructure and environment, and the more populous countries. The precedent of China indicates the types of benefits that it is anticipated that the AEC will bring (Ali & Guo, 2005).

4. Perspectives of Thai People to Thailand under the AEC

Over the last few years, the RTG has taken several steps towards preparing the country for the AEC. These include facilitating the construction of the North-South and East-West Economic Corridors and generally improving transportation links with neighbouring countries (Pakarat, 2010). On January 1st, 2010, the ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) reduced tariff barriers to zero in a total of 98.6% of all merchandise exports traded under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT-AFTA) (Vejjajiva, 2011). Further, Thailand has also been subjected to a great deal of propaganda about the importance of the AEC to Thailand via various media channels, such as television, radio and educational institutions, with the intention of encouraging people to prepare themselves and their organizations for the forthcoming environmental change.

The research confirmed that executives had certainly received information about the AEC, although with mixed results. Many respondents felt that the information had not had a very strong impact upon their business intentions, particularly in the case of SME entrepreneurs, who did not have much intention or ability to expand their level of investment. On the other hand, respondents who were members of trade federations tended to have a different response, since they were more receptive to information in that it was clearer to them how changes would affect members of their network of
stakeholders. This was evident particularly in terms of firms in Thailand being able to obtain cheaper material inputs and labour that would sustain competitiveness in international markets, while the country would also become a more attractive place for investment because of reduced tax rates and tariffs resulting from a variety of FTAs that have been signed and enacted. It was also believed that Thailand was well situated in relation to southern China and CLMV countries, which would provide some of those cheaper inputs and also represented future markets for manufactured items. However, the extensive concentration on the manufacturing sector can be problematic in that it places additional pressure on the environment, which might be manifested in unwelcome impacts upon important sectors of the economy, such as tourism and fishing. Similar developments in Japan from 1960-80 represent an instructive example (Hayes, 2008: 129-133).

To date, the AEC 2015 plan has facilitated labour mobility in the region in seven professions: engineering, nursing, architecture, surveying, medicine, dentistry and accountancy, as part of a pilot scheme with a view to expanding the number of professions in the future (EIC, 2011: 13). Some respondents were concerned that the free movement of labour would have the negative effect, from their perspective, that skilled workers would leave for places offering better remuneration, notably Singapore and Malaysia. Further, it was felt that if the free movement provisions were to be extended to unskilled and semi-skilled positions, including welders, carpenters, masons, electrical and engine mechanics, then there would be no guarantee that it would be Thai workers who would benefit, since imported labour might be more wage competitive than them. As a result, this might depress local markets and diminish consumption of manufactured items. Additionally, investors might choose to train unskilled foreign labour to make them semi-skilled at their own expense rather than employ Thai alternatives. Thai workers seeking to travel overseas to other ASEAN countries might also struggle for employment because of their comparatively poor language skills and the importance of
English as the medium of communication in most other markets. Poor skills in Mandarin might also prove to be problematic. By contrast, incoming workers with good language skills might be able to obtain employment as tour guides, teachers and so forth, thereby displacing current Thai incumbents.

5. Perspectives of Foreign Investors Concerning Thailand under the AEC

Although official discourse claims that Thailand is an attractive market because of its location, research among foreign investors suggests that the more important factors are resource-seeking (e.g. for cheap labour and materials) and market-seeking. Japanese automobile companies have, for example, come to dominate the Thai market for just these reasons and Keiretsu (系列) have brought with them in investing in the country their suppliers and business partners, including suppliers of steel, machinery and spare parts, as well as service providers, such as insurance and transportation agents and customs brokerage.

In the case of China, it was found that most Chinese investors were interested in obtaining resources (e.g. rubber for automobile production) for manufacturing items destined for distribution in China, as well as opening the Thai market for subsequent exports. Chinese investors believe that Thailand represents a market of suitable size for exploitation in a number of different sectors. By comparison, using Thailand as a hub for future re-exportation of products into additional markets is considered to be of comparatively minor importance. This is because Chinese goods can already be exported across the Pacific Ocean to countries in North and South America via its eastern seaports. There is no need for China to use Thai ports, therefore, although there would be an advantage in exporting to countries within ASEAN since production or at least assembly in Thailand would take advantage of agreements such as the AEC. However, there is the additional threat that Chinese companies might
prefer to export their products directly from Malaysian ports or Singapore or, even, via the newly opening deep sea port in Dawei (Tavoy) in Myanmar. In respect of Myanmar, respondents noted that the level of political stability there is improving and that recently the Karen National Union (KNU) and the Shan State Army-South (SSA-South) have committed to informal agreements with the central government to hold a ceasefire (Naing, 2011), while the leader of the National League for Democracy (NLD) has agreed to participate in the forthcoming elections (Loyn, 2011).

Of course, it was also noted that although Thailand has signed a number of FTAs, so too have other, potentially rival countries, notably Singapore and Malaysia. In addition, it was observed that, with the enhanced transportation infrastructure represented by the Asian Highway Network, it was possible to move many resources from CLMV countries directly to China without having to cross Thai territory. Thailand’s supposed centrality to the AEC is not, therefore, as solid as has been portrayed. There have also been various other factors which have reduced the attractiveness of Thailand, including the apparently chronic political instability following the military coup of 2006 and the violent crackdown on pro-democracy demonstrators in 2010, not to mention the catastrophic flooding of 2011, which have claimed a death toll of more than 750 people. It has been reported that flooding and its management, with the possibility of further climate-induced disasters, has seriously eroded investor confidence (Enjoji, 2011).

6. Discussion

There is evidently a gap between the vision of Thailand under the AEC as promoted by the RTG and the vision as seen by foreign investors, both of the country at the present and in the future. To some extent, this does not really matter as the purpose of the government’s communications is not to educate investors, who are generally well-enough informed about economic and commercial issues in any case.
Instead, the RTG is communicating with its people, who are not so well informed and have, over recent years, been subject to a sustained campaign of anti-FTA, anti-globalization rhetoric issued by right wing interests who are able to use a variety of official media channels. It is well-established that, in furthering the spread of capitalism in Thailand, FTAs lead to Schumpeterian creative destruction which causes the creation of both winners and losers. Anti-FTA rhetoric has focused almost entirely on the likely losers of the process and, indeed, has represented the winners as being greedy corporations behaving in a non-Thai manner. In contributing a generally positive message to this debate, then, the RTG is aiming to correct some level of misconception.

Even so, it may be argued that insufficient attention is being paid at the national level to preparing people and organizations for the negative aspects of the AEC by warning them of what might happen in the future. However, such work is being accomplished to a certain extent at the Ministerial level, by for example the Ministries of Labour and of Commerce, working at different levels.

Insufficient attention is being paid to improving the quality of the labour force to take advantage of opportunities and threats emerging from the AEC, while more effort might be expended on encouraging entrepreneurs to plan properly for the future. This is due, at least to some extent, by the fragmented and occasionally overlapping nature of the agencies and institutions of the RTG and the problematic recent political past. The present government, democratically elected in 2011, has been wrestling with the problems caused by the floods, the obstructions to progress within various institutions and finding the most appropriate means towards progressing towards truth and reconciliation. The process of shoring up democracy against the threat of future military action has also proved debilitating. As a result, there is room for future improvements.
7. Recommendations

For Thailand to take its place as a competitive location for inwards FDI under the AEC, it will be necessary for all levels of commercial society to take proper and accurate stock of their current and future situation. This should be a genuine effort. It is instructive to compare Thailand with Singapore in this respect. Although it is only a small island with a limited population, Singapore nevertheless is capable of attracting large amounts of inward FDI by virtue of having developed a skilled labour force with an infrastructure capable of sustaining production of high-quality, high-technology goods and services. Moreover, Singapore has taken steps to ensure that IPR are protected, irrespective of whether they belong to Singaporean citizens or people from elsewhere (Trade Chakra, 2011; Maskus, 1997). In addition, there is a need to take serious steps with respect to environmental protection; otherwise, there are threats of significant natural disasters such as those caused by environmental deterioration in Japan from the 1960-70s and the prospect of further catastrophic flooding in Thailand.

With respect to the CLMV countries, while these tend to be full of natural resources, the people tend to suffer from lack of knowledge and technical capacity, as well as connections to local and international markets. In all of these areas, Thai executives are well-placed to supply the need, owing to their extensive experience and, in many cases, expertise. Additionally, the Thai Baht is well-established as an acceptable currency in the CLMV countries and this too facilitates international exchanges. Consequently, instead of aiming to attract inward FDI and becoming a transnational production base, Thailand would be better advised to position itself as a trade centre and gateway for distributing products in the region and acquiring materials from CLMV countries for subsequent assembly and value-adding activities and re-exporting. This probably involves coordination and management as much as actual manufacturing or processing. This approach might have the added benefit of stimulating
FDI flows into Thailand in any case. A precedent, of sorts, is to be found in the case of Hong Kong, which has benefited by acting as the trade centre and gateway to the Chinese production and consumption markets. Co-ordination of production activities might also help in reducing present conflicts in terms of prices of competing agricultural products from Thailand and Vietnam.

Finally, both the RTG and other state agencies should foster the idea that business enterprises might act as partners rather than competitors in international markets. Keiretsu (系列) and certain other business organizations have already demonstrated their willingness to act as business partners rather than competitors, particularly when it comes to an intra-regional context. If properly managed, then partnerships can in fact sharpen competitiveness in the areas of marketing, supply chain management, financing and co-ordinating knowledge of local stakeholders. Business cooperation may, to a certain extent, even help in the overall level of friendship and partnership between the AEC members at the national level, which will in turn promote national and regional competitiveness.

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CONFERENCE REPORT

International Conference on Management Cases (ICMC), 2011, Greater Noida, India

Professors GD Sardana and Tojo Thatchenkery

A Brief on ICMC 2011

The case pedagogy is a powerful approach in management development. Its main advantage is that it is a “question-oriented” as opposed to solution-based approach. ILO (Case Method in Management Development, 1980) observes that the case method is based on the belief that participants in management education and training programmes can efficiently improve their understanding of the management process and enhance their competence by studying, contemplating and discussing actual situations. In its quest for continued excellence and research orientation in management education, and in its endeavour to be a partner in the spread of knowledge, BIMTECH (Birla Institute of Management Technology) took the initiative of organizing an International Conference on Management Cases 2011 on December 1-2nd, 2011 at its campus in Greater Noida. The initiative was formally approved by the Ministry of Human Resource Development, Government of India, and jointly organized by BIMTECH and the School of Public Policy, George Mason University, Arlington, Virginia, USA. It took shape with the singular objective of creating a platform for academics, practitioners in management, research scholars and students of management studies to share their experiences on decision making in management related issues through cases, case studies and research cases.

The conference was structured around unique features: only previously unpublished cases from live situations, undisguised, and with permission to use primary sources of data and information were to be accepted. The conference also tied up with eight international
journals of repute for consideration of select cases from the conference for publication in regular or special issues.

ICMC2011 received a huge response. Over 100 manuscripts were received from eminent scholars, academics, practitioners and research scholars. A strenuous double blind review process followed and finally we selected 62 case studies. These came from Australia, France, Finland, Germany, Japan, Mexico, Nepal, Poland, Sweden, Thailand, the USA and India. Some of the distinguished academicians, researchers, and practitioners who contributed research papers and graced the conference with their presence included Professors Gary Stockport (University of Western Australia), Paul Lapoule (Novacia, Paris) Hanna Lehtimaki (University of Tampere, Finland), Roland Livingston (Webster College, USA); Louise Shelley (George Mason University, USA), Anthony Smith, Debra King, Richard Meyers, Elizabeth Mast (all from Eastern Mennonite University, Virginia, USA), and Monica Thiel (United States Department of Agriculture, USA) and Jason Boundry (San Francisco State University, USA). Participants also included Christian Linder (University of Stuttgart, Germany); Dhruv Gautam (Kathmandu University, Nepal); Nishant Kumar (Stockholm University, Sweden). From the east, those who participated included John Walsh (Shinawatra University, Thailand); Iijima Masaki (Aichi Gakuin University, Japan) and Hiro Mitsuyama (Fuki Byora Co., Japan). A large number of very senior academics and research scholars from Colorado Technical University, USA also attended and these included Professor Joanne Preston (Dean of Research and Doctoral Programmes), Daphne DePorres, Monty Miller, Michael Peterson, Melanie Lawler, Wanda Tisby Cousar, Ron Newton and Mamta Trivedi, as well as Monica Thiel (PhD candidate, University of Tilburg, The Netherlands).

The strength of participation from India was also impressive and included distinguished names from industry and academia, such as Dr. Dinesh Likhi (Director Mishra Dhatu Nigam, Hyderabad); Smita
Mazumdar (School of Business Management, NMIMS University), Saroj Koul (Dean, Jindal School of Management); KM Mital (Director, Gift School of Human Values and Management Ethos, New Delhi); V.L Narasimham (University of Petroleum and Energy Studies); Sriparna Basu (Amity School of Management); Anuja Pande (All India Management Association), Poonam Sharma (Jaipuria School of Management, Greater Noida), Alok Goel (IIT, Roorkee); Surabhi Singh(IMS, Noida); G.C.Nag (IBS, Mumbai), Harjit Singh (Galgotia University, Greater Noida); Ashutosh Sarkar (NSHM College of Management Technology, Kolkata) and Roma Chauhan (IILM, Greater Noida). Our own BIMTECH fraternity did not lag behind and also came up with excellent papers. The presenters included the following faculty members: Professor Dey, Gagan Katiyar, G.N.Patel, Manosi Choudhury, Smriti Pande and our very brilliant students Ashish Makwana, Geetika Dham, Tijo Eldho George, Stuti Arora, Annie Matoo, Charu Saxena and Lakshmi Ninan.

Figure 1: Attendees at ICMC 2011
The Inaugural Session

ICMC2011 got off to an auspicious start by invoking the blessings of Saraswati, the goddess of learning, when attending dignitaries lit the lamp of knowledge. Professor Harivansh Chaturvedi (Director of BIMTECH), presiding over the function, welcomed the dignitaries and distinguished delegates. Tracing the history of BIMTECH and the involvement of the House of Birlas in the cause of education, he referred to various BIMTECH initiatives to further case writing. He hoped that the next two days would provide an opportunity to interact and to add to the realm of knowledge.

Dr. Sugata Ghosh, Vice President, Sage Publications, India, Guest of Honour, presented in his very inimitable style a scholarly case on the insights and decision-making faced by the printing industry.

Shri A.C. Chaturvedi, Executive Director (Power Management Institute & Chief Knowledge Officer, NTPC Ltd.), graced the event as the Chief Guest of the inaugural ceremony. In his keynote address, he complimented BIMTECH for this intensive industry-academia collaboration. Talking about the varied, many faceted benefits of a case study, he mentioned that through this method: “… faculty receive intellectual stimulation, providing them with ongoing opportunities for continuous education. Field cases, conducted in tandem with a host company or organization, connect faculty directly with practice. The method places great emphasis on innovation and review. Also, it is a continuous intellectual challenge for instructors as it requires both a mastery of case details and the ability effectively to lead a discussion whose direction is always partly unpredictable because it is driven by students’ expertise, preparation and passions.”

Earlier, Prof. G.D. Sardana (BIMTECH, Conference Co-Chair) briefed the delegates on the objectives of the conference, provided an outline of the structure of the conference and its schedule for the presentation of the cases.
The formal release of the set of two volumes of the conference book followed. Professor Sardana announced that the two books would be entitled: Building Competencies for Sustainability and Organizational Excellence, and Positive Initiatives for Organizational Change and Transformation. They are published by Macmillan, New Delhi.

The books featured all 62 cases accepted for the conference in full text. The cases represent a collection of cutting-edge practice and the latest research regarding the critical task of creating sustainable organizational practices for a world that works for all. The second volume focuses on the role of positive organizational behaviour for creating transformational change.

Figure 2: The Conference Book in Two Volumes Is Released.

The inaugural session came to a close with a vote of thanks from Professor Tojo Thatchenkery (Professor and Director of the Organization Development and Knowledge Management Programme at the School of Public Policy, George Mason University, Virginia,
USA and Conference Co-Chair). Professor Thatchenkery expressed the hope that the conference would go from strength to strength. He thanked BIMTECH for its excellent preparations and the hospitality.

The Plenary Sessions

A plenary session was organized for each day of the conference. Devoted to contemporary issues, these sessions were thought-provoking and created considerable and informed debate among the audience. The keynote addresses came from the well-known authorities on the subjects and the audience remained spellbound during the presentations.

The first day plenary session saw keynote speeches from two celebrities, Dr. Dinesh Kumar Likhi (Director, Production and Marketing, Mishra Dhatu Nigam Limited, Hyderabad, India) and Professor Louise Shelley (Director, Terrorism, Transnational Crime and Corruption Center, School of Public Policy, George Mason University). The session was very ably chaired by Professor Anupam Verma and delved into the theme of Ethics and Organizational Sustainability: Comparative Perspectives. Speaking first, Professor Shelley traced ethics in business in the USA and outside. Her suggested solutions warmed many Indian hearts; these included the “… greater involvement of civil society - this is a new focus for civil society; greater media training for journalists with expertise in financial issues, so they have the capacity to investigate.” Dr. Likhi took up at length the issues concerning sustainability of organizations and encompassed such areas as effectiveness, capacity building and capacity development, interfacing resource development domains, and sensitivity to the world around linking ethics, the human element and governance. A plenary session with a theme on organizational transformation was chaired on the second day by Professor Thatchenkery. In his initial remarks, he referred to the importance of tools such as Appreciative Intelligence and human relations in organizational transformation. The celebrity keynote addresses were
delivered by Professor Roland Livingston (Webster College, USA), who spoke on the topic of “The Power of the Heart and Head in Managing Change” and Hanna Lehtimaki (University of Tempere, Finland) who took up the case of Nokia Tyres, while explaining the research process and the principles behind the notable successes that company has achieved.

**Concurrent Technical Sessions**

Sixty two cases were presented and discussed in 15 concurrent technical sessions spread over two days. The sessions were organized on such themes as Strategies for Organizational Excellence, Competencies and Organizing for Transformation, Strategic Sustainability Issues, Monitoring Performance, Focus on Appreciative Intelligence and Positive Psychology, Social Networks and Organizational Change. Each of the cases was allocated a minimum of 15 minutes for presentation by the authors and another 15-20 minutes for discussion and response to queries. The conference ended with a well attended Valedictory session. This session was used as an ‘Open Space’ for delegates to express their opinions.
BOOK REVIEWS
Cashing In across the Golden Triangle: Thailand’s Northern Border Trade with China, Laos, and Myanmar

Thein Swe and Paul Chambers


ISBN: 978-616-90053-4-6

192 + XX pages

Reviewed by: John Walsh, Editor, SIU Journal of Management, School of Management, Shinawatra University, Thailand.

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Borders continue to be important in the contemporary world: they represent the points at which differently configured geographic states meet each other and, where capitalism is given rein to do so, differences can be used to yield profit. Where multiple borders meet in a compressed area, the opportunities for profit necessarily multiply. Profits may be measured not just in an economic sense but also from political and social perspectives. The Golden Triangle is an obvious example of the various differences that can be seen within a comparatively narrow patch of ground. The place where China and Thailand meet Laos and Myanmar is one that has witnessed illegal drug smuggling, human trafficking, the to and fro of armed insurgents and the cautious movements of traders and their caravans that have, over the course of centuries, transported Burmese gems and trade, salt, manufactured goods and information. In the twenty-first century, the Golden Triangle Region has become a focal point for the Asian Development Bank’s Asian Highway Network and the long-term attempt to turn the battlefield of mainland Southeast Asia into a marketplace.

Through a comparatively narrow strip of land bordering the River Mekong, therefore, the interstate R3A and R3B roads represent important means of moving goods and people across the borders and into new territories. Building infrastructure to link distant places has the effect of spreading capitalism. The roads bring the market to the peasants and the peasants to the market. In Schumpeterian fashion, the advance of capitalism is the advance of the processes of creative destruction that make for winners and losers and the reinvention of social relations as market or economic relations. People go to bed one night next to a forest which has for recorded history been a place of commonly held and used resources and wake up in a world in which the forest has an owner and a barrier and tollbooth prevent the previously customary free access to it. When this occurs in an area in which government agencies can properly monitor what is happening and enforce regulations to protect the vulnerable and rectify market failures, the spread of capitalism can be managed and taxed to pay for
its excesses. However, where the spread of capitalism takes place in a region such as the Golden Triangle, where government agencies are notable by their absence or lack of capacity and the rule of law is only occasionally available, cowboy capitalism takes over and it is a case of the devil taking the hindmost.

To rectify the problems of cowboy capitalism, one of the most important first steps to take will involve the gathering of proper information and, in this book, Swe and Chambers have added a great deal to the level of knowledge about the nature and extent of commercial operations taking place in the defined region. Drawing upon a programme of qualitative in-depth, personal interviews to supplement the personal observations and the secondary data, the authors provide baseline data on transportation costs on different roads, the problems of Chiang Saen shipping facilities, the types of goods transported across borders and the role of the Chinese in promoting casino-development. Most of the chapters of this short book (the text itself consumes just 140 pages with numerous charts and tables) are involved with the transmission of data and they do their job very well, if with the occasional stylistic lapse.

There is also an attempt to frame the text within the paradigm of postclassical realism, in an early chapter with peremptorily dismisses half a dozen other possible means of approaching the situation. This chapter is less satisfying in that at least some of the rejected approaches are dealt with in too dismissive a fashion. Further, the concept of postclassical realism rarely returns in the text subsequently. Instead, it becomes clear that it is corporations and individuals which are taking advantage of the freedom from governmental oversight to create their own little fiefdoms and palaces of excess. It is certainly true that the governments are present and do take some definite actions (e.g. the Chinese authorities only release water from dams when they want to assist their own ships on the way downstream and do not reveal to outsiders (including Thai captains trying to make the journey in the opposite direction) when the releases might be scheduled to occur). However, these kinds of actions might be
characterized – and often are in the case of Thailand – the result of private deals between office holders and private sector individuals or organizations. It might be argued that, to some extent, these corporations are enacting state-level developmental goals but, if they are doing so, then they are also displaying a great deal of autonomy in their decision-making.

Overall, this is a fascinating account of an area and a subject that is of considerable interest to the study of mainland Southeast Asia. It is, also, nicely produced by the Mekong Press, which is gaining a reputation for being a leader in the production of important knowledge about the eponymous region. The book is, therefore, highly recommended for those interested in the social and economic development of the region.

John Walsh, Shinawatra University.
Uneven Development: Nature, Capital and the Production of Space
Neil Smith
Third edition with a new afterword and a foreword by David Harvey
323 + XVII pages.
The Enigma of Capital and the Crises of Capitalism

David Harvey

Updated version


312 + VIII pages.

Reviewed by John Walsh, Editor, SIU Journal of Management, School of Management, Shinawatra University, Thailand.

In its recently released 2011 World of Work report, the ILO observed that the ongoing economic crisis that broke in 2008 has led to a shortfall of some 80 million jobs and that the previous level of employment would not be regained before 2015. Only one country among the developed nations, however, had produced a national plan for jobs – the USA, where of course ideologues are doing their best to obstruct any improvement in the national economy as a means of undermining the situation of the president. Just about everywhere else, especially in Europe, the vicious idiocy of austerity was being dressed up as the responsible solution to the crisis, as if the cure for a patient who has just lost one leg would be to amputate the other. The crisis was provoked by the banking crisis: under-regulated finance industries found new ways to raise ever more money by ratcheting up

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the risk inherent in their complex instruments while simultaneously pretending to themselves that the risk had somehow disappeared through the power of numbers: this inevitably exploded. If it were just a case that a few banksters had got their fingers burnt, then that would be something with which most people could live. However, that was not the case since not only has a globalised world meant that ownership and risk are spread throughout the world but also more and more unwitting individuals have been induced to take part in the scheme by being convinced to buy mortgages they could not afford under, often, what appear to be false pretences. How has all of this happened?

There are two issues, according to Smith and Harvey. The first relates to the uneven development of space under capitalism and the second relates to the need for surplus capital absorption. Uneven development relates to the differences evident in the world and, hence, the different types of activity that might flourish in various places. This might appear on the face of it (and is described as such by technological determinants among others) to be a ‘natural’ process and part, therefore, of a natural order which should be obeyed. However, as Smith points out at length, there is precious little left in the world which can be considered ‘natural’ in the sense that it has not been created or manipulated by humanity over the years. Indeed, the process of capitalism itself acts to change nature – as Lefebvre has it, it is complicit in the production of space as a commodity and that commodity is then exploited for whatever profits may be available. Smith describes the processes by which this happens at three scales: the global, the national and the urban level. Given globalization, it is probably easier to imagine the processes at the level of a city. Capital is sloshing around, moving from place to place where profits are for the time being highest and transforming the space as it goes. This can be seen in the large cities of just about every developed country of the world: small governmental centres become transformed into industrial powerhouses and then recreated by the process of gentrification. In
each case, creative destruction ends up in driving out the residents of the place where profits are available, using force if necessary.

Meanwhile, Harvey argues that, from historical data, a compound annual growth rate of 3% is necessary for capitalism to continue on its relentless way – and it must be relentless because capital only exists in the form of movement or as a process. Money sitting in a sock under the bed is not capital because it is not doing anything. It must be continually reinvested and reused, ever more rapidly. This is, after all, the distinction usually drawn between capitalism and between earlier forms of economic activity: capitalism requires the ceaseless accumulation of more capital. It does not cease and, indeed, it must not cease or else predatory competitors will seize the day to usurp the position held as part of the endless struggle of creative destruction. Harvey argues that the efficiency with which capital accumulation has become so high, propelled by technology, globalization and compliant political regimes, that an important problem has now become the need to find productive new uses for all of the capital obtained. After all, money not in use is not capital. This is why the poor and working people of America, so long ignored by the capitalist investors whose only interest was in getting them out of the way if they were not active in their factories or mines or slaughterhouses, have become useful targets for the circulation of capital: they were sold mortgages they could not possibly repay and their debts shuffled off the books and on to somewhere else, where that might be no longer mattered as long as the game of musical chairs continued.

Smith and Harvey are very much related in their arguments and in their professional relationship. Harvey provides a foreword to the new edition of Smith’s work and goes further with the theory of uneven development than he does. Both share certain ideological assumptions rooted in Marxism that represent a powerful challenge to the existing capitalist system. Curiously, however, despite their mutual interest in the way that capitalism creates new forms of space for exploitation, neither really engages with the concept of cyberspace or its new divisions and configurations. Harvey’s work is more rooted in the
desire to bring about social change and to provide suggestions as to how and in which ways opposition to capitalism might come about – in which way he is prescient given the emergence of the Occupy Movement mushrooming around the world. Smith’s is more conceptual in nature. Both offer a great deal of ammunition for those interested in constructing a coherent critique of the contemporary economic order. However, one cautionary note is necessary: those of us approaching these subjects from other disciplines will be surprised by the apparent lack of evidence and chewing over past research and literature involved in these books. They are not works of invention, of course, but they do come from a different tradition of production.
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Please send all correspondence to the editor at jcwalsh@siu.ac.th
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ABOUT SHINAWATRA UNIVERSITY

Historical Background

The idea of establishing a private university to support private sector development in Thailand and the region was initiated in 1996 by Dr. Thaksin Shinawatra and Professor Dr. Purachai Piumsombun. This was followed by the design development of an environmentally friendly campus by Dr. Soontorn Boonyatikarn in 1997. A year later, the innovative plans were presented to Her Royal Highness Princess Mahachakri Sirindhorn, and then to the Ministry of Universities which granted the license for operation towards the end of 1999. The first Shinawatra University Council Meeting was held on May 19th, 2000, marking the initial milestone of the long road to becoming an accomplished private university. In September 2002, the first batch of students was admitted, and the venture of creating and nurturing a prospective university had begun.
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The University’s coat of arms represents the sun, which symbolizes the source of knowledge. It radiates an abundance of ingenuity and innovation through research. It contributes to the foundations of learning including ethical, moral, physical, and religious aspects.

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- 100% graduate employment with very high average salaries.
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