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Frank Faulkner

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EDITOR’S INTRODUCTION

Welcome to the inaugural edition of the SIU Journal of Management, which is published by the School of Management at Shinawatra University in Thailand. This journal hopes to contribute to the generation of new knowledge in the sphere of management, broadly defined, while also addressing specific issues relevant to contemporary organizations and society. In this first issue, we have a diverse mix of papers addressing a variety of interesting and important topics.

Vision

Readers will no doubt have become familiar with the plethora of new academic journals, many of which have been devoted to the realm of management studies, broadly defined. Some journals are apparently being run as commercial enterprises and while I am in no position and have no desire to criticize entrepreneurial activities, I can equally say that we have a commitment to providing a high quality academic journal that is published on an open-access basis that means no charge will be made for accessing the journal and no charge will be made for publication in any form.

We also acknowledge that the move from printed journals to journals available purely in an online basis remains in a process of transition and that process is taking place unevenly across the academic world. We are committed to providing a good quality academic journal in the long-term so that, as certain milestones are passed, we gain the recognition that authors and readers value.

The vision for the paper follows the vision of the founding of the Graduate School of Management of Shinawatra University, which is
to contribute to evidence-based policy-making decisions, with a focus on the Mekong Region but, also, with a resolutely internationalist approach. I am pleased to note that the first issue includes papers which focus not just on the Mekong Region but also on China, India and Pakistan. Future issues will, it is planned, broaden the coverage to other parts of Asia and the world. To support this vision and to broaden the relevance of the journal to as wide a readership as possible, we will accept not just peer-reviewed research papers but also conference reports, invited conference papers and invited keynote papers, as well as case studies and book reviews. Further details are included at the end of this journal.

**Usage**

In line with normal usage in Thailand, the SIU Journal of Management will generally use British English rather than American English. However, internal consistency within a paper is preferred to rigid insistence on linguistic purity. In terms of the names of Southeast Asian and East Asian countries, the simple form of a country’s name has been preferred: hence, Vietnam rather than the Socialist Republic of Vietnam. The contemporaneous simple name of a country is also preferred: hence, it is now Myanmar and not Burma, although Burma and Siam might be used for those geographical territories that existed in the past.

For transcription of words from foreign languages, the complexity that is involved with this in the Mekong Region alone is very high and internal consistency within a paper is preferred, again, to overall consistency across the journal. This is likely to cause offence in some cases, which is regretted.
Acknowledgments

In conclusion, I would like to acknowledge support received in making the publication of this journal possible. Both current President Kittiratt Na-Ranong and Dean of the School of Management Dr Warren Wu have been very supportive of this effort. I would like to draw particular attention to the dedicated service of former President Professor Prida Wibulswas in establishing the academic tradition of Shinawatra University. Next, many thanks are due to the anonymous peer reviewers, without whom editing a journal would be impossible. Ajarn Boonta Wissawapaisal provided characteristically kind support from the library and Ajarn Dr Thiti Vacharasintopchais provided invaluable technical support in establishing the website system. Ms. Roxanne Jade Fitzpatrick provided helpful editorial assistance and the entirety of the administrative staff of the School of Management should also be acknowledged for their help and support.

John Walsh, Editor, SIU Journal of Management
China: The Elephant in Every Room

David McHardy Reid

Abstract

The entrance of China into the global economy has been one of the most important events of the last three decades of international business. The success of the Chinese economy has, however, contributed to some misunderstanding of the dynamics involved. In this paper, a leading expert on the Chinese economy draws upon decades of experience to consider the nature of Chinese growth, its impact on labour markets and the environment and the thorny problems of currency management and intellectual property rights.

Keywords: China, climate change, currency, intellectual property rights, international trade.

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1. China: The Elephant in Every Room

Since the People’s Republic of China (PRC) began to emerge from its self-imposed isolation in the late 1970s it has triggered several punctuations in the global economy and helped recalibrate the world order. Taken in context, the USA took about 100 years to surpass Britain as the world's No. 1, while in 30 years Japan rose to second place from the ruins of World War II. China has many of the advantages that the USA and Japan enjoyed in their ascents. Like the USA, it has land in abundance and a sizable domestic market to drive internal demand. As had Japan, China has a highly educated population, an undervalued currency and access to capital and technology. China also has a history of economic and technological supremacy, having been the world's largest economy for much of the 700 years starting around 1000 AD (Hutzler, 2005). Moreover, its elites are temperamentally prepared to resume this position.

These punctuations have affected manufacturing industries around the world. They offer serious challenges to the integrity of intellectual property ownership. The threat to the natural environment is severe and China’s significant economic success raises questions about the seeming unassailability of western democratic systems of government. Moreover, the questions they raise have far reaching policy implications for many countries and their governments. These challenges are extensive in nature and a considered and reasoned assessment is required for each.

The topic of China is gargantuan so I shall be able to succeed in doing little more than scratch the surface here. The paper begins with a brief review of some of the salient policy movements in China since 1978, when it determined to ‘come in from the Cold.’ Consideration is then given to the impact on manufacturing industries and then the risk to intellectual property ownership is explored. This is followed by a review of the environmental damage that is being wrought by China’s
unconstrained growth. Finally, some thoughts are offered regarding the implications of its authoritarian model of government.

2. China in from the Cold

Around 1978, an ideological reversal occurred. Under the guidance of its Paramount Leader Deng Xiaoping, China began to engage with the West. Its apparent embrace of western capitalism was excused by Deng’s aphorisms ‘... it doesn’t matter what colour the cat is as long as it catches the mouse’ and ‘Let some people get rich first.’ This embrace intensified after 1989, when the principal political objective became to contain social instability. That aim was pursued by loosening the economic framework while tightening political freedoms through exercising control of the political discourse.

To that end, high employment became a privileged objective. To fail to deliver jobs was believed to invite the spectre of social instability. And no sane person in the government or the Chinese Communist Party (CCP), at that time or since, wished to revisit the chaos of 1989. That view was informed and reinforced by the experience of the earlier chaos visited on China by the Cultural Revolution (1965–1976). These shifts of position ensured that many hundreds of millions of Chinese became available to join the world’s workforce. Chinese workers were cheap, on hand, hard working and keen to learn.

When China first began to toy with its economic catch-up process, many observers, including this author, saw it as a poor long-term bet. Looking through a western lens, China appeared seriously backward. Its state owned enterprises (SOEs) looked like muscle-bound behemoths not attuned to the challenges of serving customer needs while turning a profit. Subsequently, however, China’s manufacturing industry has been nurtured, supported and developed.

The objective of maintaining high rates of employment growth has been a driver for many policies, including bank lending. For example, the state-owned banks that supported the SOEs became embroiled in a
non-virtuous circle of spurious financing that saw the numbers of their non-performing loans (NPLs) mushroom. Some of the time the majority of China's banks became technically insolvent, as they were carrying twice as much value in NPLs as they held in equity (Pitsilis, Woetzel and Wong, 2004). Although NPLs have been a serious problem for China’s banking sector, around 60 percent were hived off to asset management companies. By 2006, they in turn had succeeded in selling off around 70 percent of these loans (Hoffman and Enright, 2008: 49).

The tumultuous years of political and social experimentation including collectivization then the Cultural Revolution culminated in a pent-up appetite for success. The PRC government supported a low-cost-labour strategy. It made available hundreds of millions of cheap workers eager for employment. It maintained favorable currency exchange rates, then restructured and made its SOEs more competitive as well as enabling a burgeoning private sector. This implicitly raises the question of how developed high cost economies such as the United States or some European Union (EU) countries might be able to compete with China in the same markets.

3. Export Industry

China has made a major impact in the export arena. Foreign invested enterprises (FIEs) in China were able to tap the pent-up appetite of the Chinese people to generate wealth and consume. For example, Walmart’s trade with China exploded to exceed that of China’s trade with Australia. Companies turned in droves to China-based suppliers as manufacturing sources. This gave rise to the cliché ‘China Price’, meaning that bidders for contracts needed to take account of the alternative sources of supply that were available to purchasers. Low cost exports, finished and assembled in free trade zones (FTZs), increased exponentially and took their toll on manufacturing industry around the world. Extant supply relationships and locale could be trumped by price: China’s price.
One of the oft-mentioned factors of China’s success in the export arena is that of an undervalued currency. Some of those arguing the case have posited that the RMB may be undervalued to the order of 40%. Much of the noise on the issue is, however, politically motivated and the underlying nature of the trade flows is improperly understood. One of the more outspoken on this issue is the senior senator of New York, Charles Schumer, "Both Democrats and Republicans in the Senate and the House, and the American people are just fed up when, up and down the line, China doesn't play by the rules and seeks unfair economic advantage" (Seib, 2011). His main accusation is that Beijing suppresses the value of its currency to give its exports an advantage and to undermine the efforts of foreign firms to sell in the Chinese market. For six years, he has offered legislation to prod administrations—first a Republican one, now a Democratic one—to move against China for currency manipulation. To his discredit, he plays to his Wall Street constituency and had not visited China before 2006. Nevertheless he and Senator Lindsay Graham threatened a plan to impose a 27.5% duty on Chinese imports.

There are many views relating to the currency issue. One perspective, for example, is that by using the Behavioral Equilibrium Exchange Rate (BEER) and Permanent Equilibrium Exchange Rate (PEER) models, Tao, Minsoo and Gan (2008) were able to demonstrate that the RMB was undervalued by approximately 15% from 2002:Q2 to 2003:Q4. This work showed the RMB to be overvalued during 1997:Q4-2002:Q2. Yet China experienced a huge trade surplus during that same period. This suggests that too much emphasis is placed on the currency dispute.

By focusing on the exchange rate, the Administration and Congress play with fire. They demonstrate a misunderstanding of how the deficit came into being. Simply put, China overinvested in industrial sectors in the 1990s while it was opening itself up to trade by acceding to the WTO. Chinese exports to the U.S. soared, especially as it began assembling Japanese, South Korean, Taiwanese and other countries' goods then attaching a "Made in China" label to them (The Wall
Street Journal, 2007). Many of these suppliers operate on precariously slim margins and are thus vulnerable to any shift in the exchange rate. Even Hon Hai Precision Industry Co., a Taiwanese contract manufacturer employing half a million workers, the company that makes Apple Inc.’s iPhone, showed itself to be vulnerable to business downturns by slipping into loss in 2010. (Ng and Poon, 2011). Threatened company cut backs as a result of a sudden currency alignment threaten job losses, which threatens social stability. No one inside or outside China should wish for that.

At least some of that surplus was the result of superior performance by competitive foreign enterprises that diverted trade flows through China by way of the manufacturing choices they made. The trade statistics show that China accounts for around 25% of the United States’ merchandise trade deficit, which is running at US$600 billion (The Economist, 2011d). Time series analysis shows a relative decline in the proportions of imports accounted for by South Korea, Taiwan, Malaysia and other so-called ‘Tigers.’ Yet tendentious politicians still cry foul. They argue China is becoming increasingly more of a problem as it supplies the seemingly endless appetite of the West for manufactured goods. What they miss, or chose to ignore, is that Taiwan and other Tigers have invested in manufacturing and supply chain activity in China and we are seeing a substitution of those imports that would have come directly from the Tiger countries but are now flowing indirectly from China. In fact, American multinationals are major investors in China and around 25 percent of the market value of these companies is based on their overseas arms. Ultimately, Kynge (2006: 125) explains, these values come at the expense of the industries and jobs that sustain Middle America.

Moreover, the trade statistics do not tell the story as it is. The data on bilateral trade are calculated assuming that the entire value of a traded good is created in the exporting country. It certainly does not apply in a global economy marked by increasingly complex supply chains. For example Xing and Detert (2010) use the iPhone as an example to show that even high-tech products invented by United States
companies will not increase US exports. On the contrary, they appear to exacerbate the US trade deficit. The reality, however, is clouded. With a product like the iPhone that is imported from China, USA import statistics capture the total value and ignore that the vast bulk of the value was previously imported into China from elsewhere, including the USA. Thus the merchandise trade deficit is overstated. This data treatment results in the iPhone increasing the measure of US-China trade deficit by US$2 billion. Yet this does not deter politicians from pointing fingers at China and calling it a ‘currency manipulator.’ The least expensive part of the process is often the part that is contributed in China: manufacturing and assembly. This portion Xing and Detert (2010) compute, adds only US$6.50 to the US$178.96 wholesale value of an iPhone. In the iPhone 4, more than a dozen integrated circuit chips account for about two-thirds of the cost of producing a single device (Barboza, 2010). The Xing and Detert study, according to a Wall Street Journal editorial ought to be required reading on Capitol Hill (The Wall Street Journal, 2011). Most importantly, it raises the question of how much anyone really knows about America's trade with China.

This is an issue that Dedrick, Kraemer and Linden (2010) have explored in some depth. In the Figure below a breakdown, drawn from a subsequent article by those authors, is provided of the cost of goods for an iPod priced at US$299. It illustrates that only a small proportion of the total value is added in China. Consequently, it is evident that trade per se has always benefited the US economy. So rather than launching a trade war with China over $6.50, a more sensible agenda for the US Congress would be to concentrate on policies that will help Americans and US companies better capitalize on the global economy (The Wall Street Journal, 2011). That may involve tax policies to reward investment and entrepreneurship, regulation that does not discourage manufacturing in America and free trade to let Americans import goods like iPhones that will spur new growth. Apple Inc. has become the world’s largest technology company by deploying this approach.
While China helped its exporters by keeping the value of its currency low, buying dollars from its exporters at a rate that was in effect pegged, those dollars were recycled to buy US Treasuries. China’s Treasury purchases helped keep American interest rates low and American consumers spending. However, sustaining such growth in exports was not as vital to China as many assumed since the value-added component of its exports accounted for a much smaller share of its GDP than the gross figure. The biggest driver of growth in China was investment (The Economist, 2009). The West misread this situation and failed to appreciate China’s strengths and vulnerabilities.
A prerequisite therefore going forward is to understand China better and construct smarter ‘work-arounds’ to retain leadership where it exists.

4. Corporatization

The reform of China’s SOEs was, MacMurray and Woetzel (1994) maintained, the single largest effort to change economic institutions ever undertaken. The scope of the program and the rapid pace at which it was implemented were without precedent. The changes affected more than 200,000 SOEs employing more than 100 million workers while generating roughly half China’s industrial output. The 15th Party Congress in September 1997 declared SOE reform to be a strategic priority. This consensual shift among the top leadership was later ratified during the March 1998 Ninth National People's Congress (NPC).

Zhu Rongji, then premier under Zhang Zemin, announced ambitious objectives to complete State-enterprise reforms within three years. This program, known as “grasping the large and letting go of the small,” allowed local governments to convert companies into worker cooperatives, set up management contracts with outside firms, divest whole or part of the equity of an SOE to new investors or even sell companies outright to foreign firms. “Letting go of the small” refers to privatization. “Grasping the large” refers to China’s industrial policy. At that time, significant state investments were made in these large firms.

This "grasping the large and letting go of the small" policy took pundits by surprise. The expectation was that China would privatize large profitable SOEs first. Those enterprises had near monopoly positions and could be privatized with little in the way of social consequences. They had relatively fewer employees and would likely fetch higher bids. The proceeds could then have been used to ameliorate the hardships that would follow when the unprofitable SOEs were to be divested (Roland, 2000: 248). However, the opposite
policy was implemented. It serves as an example of how China can make enormous bold decisions. Many of these decisions would be politically untenable in most democratic societies.

This corporatization program was poorly understood outside China. This was true at all levels. Seemingly, Zhu Rongji was appalled when President George Bush Snr. asked him how the privatization process was going. He replied that the corporatization program was a way of 'realizing state assets' (McGregor, 2010: 204).

Small SOEs were also unprofitable and could fetch only bargain prices. “Letting go of the small” maximized the social costs while minimizing the economic benefits (Huang, 2008: 169). Most important was the gradual reduction of preferential access to subsidized financial resources for SOEs—what economists call applying a "hard budget constraint" to those SOEs (Newfarmer and Liu, 1998). It represented a weakening of the non-virtuous circle of spurious financing.

By 2004, private companies and collectives were generating nearly half of China's industrial output but accounting for only 2.0% of all loans by value (Pitsilis et al., 2004). This misallocation of capital starves productive private enterprises of funding with the risk of prejudicing the economic growth that is necessary to be sustained for China's economy to absorb the millions of workers laid off from restructured SOEs and the many millions of migrant workers relocating from the rural areas.

5. Champions, Manufacturing and More

China offers low-cost manufacturing. The scale of its manufacturing activity has pressured international commodity prices. China’s manufacturing industry has been nurtured and supported by preferential financing and a currency peg that arguably results in the RMB being undervalued (Shaw and Fung, 2010; The Economist, 2010a). This should not come as a major surprise. As late as 1730,
historians say, China produced a third of the world's manufactured goods. Since by 2004 China was providing about 12% of world manufacturing (Hutzler, 2005), the country has some way to go yet to match its previous peak.

In 1991, the government selected 55 enterprise groups for experimentation, later expanding this list to 57 and expanding it again in 1997 to 120 (Institute of Industrial Economics, 2000). Toward the end of the second millennium, China had created 120 group enterprises, 47 of which were under the direct control of the State Council. Newfarmer and Liu (1998), citing global experience, suggest that these large group companies have rarely proven to be a viable way to restructure SOEs.

The "grasping the large and letting go the small" program resulted in three institutional forms, which together accounted for more than half of ownership changes: sales to domestic or foreign investors (11%); corporatization into a limited liability or joint stock company (8%); and stock cooperatives (35%). The result, in Shandong Province alone, was that 50% of small SOEs became stock cooperatives; in Jiangsu Province, more than 80% converted to similar structures; in Henan Province, 33%; and in Jilin Province, 40%. Low capitalization made it both easy and attractive to convert small SOEs into employee-owned companies. In many cases employees could afford to purchase the enterprises with their own savings. Occasionally, local governments ceded ownership at zero cost, provided that the new owners took over the enterprise’s debt servicing.

China became a member of the WTO at the end of 2001. At that time Beijing unveiled a policy guide to help SOEs become more competitive. The document, drafted by the State Council's State Economic and Trade Commission and seven government departments, was published shortly after Vice-Premier Wu Bangguo revealed that China would nurture up to 50 giant enterprises into internationally competitive companies within four years (Ng, 2002).
The policy narrative was that having joined the WTO, a severe competitive threat was posed to China's enterprises, making it more urgent to develop companies that could hold up against global competitors. According to the document, "In capital and technology-intensive sectors, Chinese enterprises are facing strong competition from large multinationals." It was emphasized that corporate growth should be based on market economy principles and warned against government-directed mergers regardless of complementary advantages (ibid.).

The guide encouraged SOEs to list on domestic and foreign stock markets and raise funds from multiple financing channels. Stock market listings were promoted as a means to allow the cold winds of capital markets to blow up the skirts of the long protected SOEs. The aim was to reform inefficient enterprises by utilizing the competitive behaviour of capital markets to stimulate China’s companies to become more efficient, responsible and transparent. The document urged SOEs to sell on international markets and establish overseas operations. Simpler approval procedures on export credit insurance, overseas investment and foreign exchange transactions were also urged.

Later, when China’s Lenovo acquired IBM’s personal computer division, it was hailed by many as evidence that China was following a capitalist path. Moreover, by accepting this challenge, it was perceived that China’s companies were able to compete with the best in the world. What was missed was that Lenovo was a foreign invested enterprise, Hong Kong based and controlled (Huang, 2008: 6). Lenovo’s success is not born from within China and it has succeeded by being allowed to access foreign institutions outside of China. It raised early seed money from family connections in Hong Kong and its subsequent Hong Kong IPO raised over US$12 million.

In contrast with this background of state assistance and encouragement, Western players are not without advantage. They ought at the least to draw on their many years of experience operating
in free market economies. Organizational learning should have been pervasive because of this experience. As a result, they should be able to exercise superior imagination in the competitive arena, requiring China to play “catch-up”, at least in the ideas zone.

6. Migrant Workers

The infrastructure in China has grown enormously over the last 20 years: highways, bridges, skyscrapers and the like are now evident in most of China’s cities. Migrant workers have largely provided the labour that created these developments. Some 225 million people have been prepared to leave their rural situations and their children to toil in the cities to build what seems like a new China (China View, 2009). Their employment is usually temporary and sensitive to economic fluctuations. Nevertheless, it is because of the interest and the willingness of these migrant workers to join the line among other willing workers that the ‘China price’ exists.

It appears that there is pact between people and government. Government delivers jobs and a better standard of living so people exhibit a degree of patience about what they do not have. Many live in hope and anticipation that they may be invited to join the line for employment in factories and construction sites. If they are lucky, they may quadruple their incomes overnight. In this way, the risks of social instability are managed. This has focused the government on achieving a growth rate of 9-10% (Kynge, 2006: 52). That rate of growth is necessary to create the 24 million new jobs each year on which social stability is predicated.

Migrant workers are a principal reason that foreign direct investment (FDI) has flowed into China. In 2010, FDI in China hit a record US$105 billion (Tsang, 2011). Yet migrant mobility is inhibited by the hukou registration system, which was originally designed to stop rural migrants flowing into the cities. It was a belief of Mao Zedong that “vagrants lack constructive qualities.” So in the early days of Communist rule, the authorities rounded up thousands of these
“vagrants” and sent them to camps. There they endured forced labour before being packed back to their villages (The Economist, 2011c).

Rapid industrial growth over the past three decades has required modification of the migration barriers to exploit the rural labour surplus. The *hukou*, however, still determines the migrant workers’ lot, from access to education, health care and housing to compensation payouts. To be classified as a peasant often means being treated as a second-class citizen. It also ensures that they remain cheap. Officials in recent years have frequently talked about “reforming” the system, by making it easier to acquire urban citizenship, though mainly in smaller cities. However, since late 2010, the official rhetoric has become more urgent. Policymakers are concerned that the country’s stimulus spending in response to the global financial crisis could run out of steam. *Hukou* reform, they believe, could boost rural-urban migration and with it the consumer spending China needs (The Economist, 2011c).

Migrant workers, however, are tolerated as a necessary evil. It approaches an apartheid system. They are sometimes referred to colloquially as a ‘rat tribe.’ After Beijing’s leaders discovered the city population to be two million more than official figures indicated they began erecting new barriers to entry for unskilled workers. In late 2010, plans were revealed to close down the improvised shelter dwellings used by migrants within a year (The Economist, 2011a). Officials also made it clear that much of the improvised basement accommodation would also have to go. The local media say the measures could affect more than one million people. Three years ago, before the Lunar New Year holiday, migrants were left lining up overnight in the cold and the rain outside the main Shanghai rail station as no one bothered to tell them that the travel tickets had already all been sold.

During 2011, officials in Beijing introduced draconian measures to ease the burgeoning traffic congestion. These included limiting the number of license plates issued to one-third of the number issued in
2010. To qualify for plates, migrants needed to have lived in the city for five years, with evidence that they have a job and have paid taxes. This, of course, bars most from buying a car. The new rules also ban out-of-town cars from entering much of the city during peak hours (*ibid.*). These Beijing policies do have their local critics. Landlords of underground housing have petitioned the government to reverse its policy. Even the state-controlled press has aired opposition. Some believe Beijing’s obsession with numerical limits has no scientific basis and that market forces should be allowed to prevail. Others maintain that the ban on underground housing would be in any case unenforceable.

Migrant workers had not previously been included in official urban unemployment statistics, although that has now changed. Starting in January 2011, rural *migrant workers* are counted in unemployment statistics (Wang, 2011). The Ministry of Human Resources and Social Security, in November 2010, issued a circular on establishing a national employment information monitoring system. Local employment service agencies are now required to collect and submit monthly reports on labour force information. These comprise basic personal data, household registration status, address changes, as well as employment and unemployment status.

Strikes and protests at factories are becoming more common. Labour disputes in Guangdong in the first quarter of 2009 rose by nearly 42% over the same period in 2008. In Zhejiang province, the annualized increase was almost 160% (*The Economist*, 2010b). China’s courts handled more than 280,000 labour disputes in 2008, according to Outlook Weekly, an official magazine. Disputes in the first half of 2009 were 30% higher than a year earlier.

This is significant for foreign investors. UNCTAD estimates that foreign invested enterprises (FIEs) have invested almost US$500 billion in China's capital stock. Their affiliates employ about 16 million people in the country. For a decade, this combination has dominated global manufacturing growth, exporting low-cost goods
from China's ports. Of China's 200 biggest exporters in 2009, 153 were firms with a foreign stake. However, the emerging unrest, it is feared, has put Chinese labour at odds with foreign capital (The Economist, 2010c).

These movements have spurred the development of western rural areas and companies are more prepared to move manufacturing and jobs to where the low cost workers already are rather than waiting for them to migrate east. The world's biggest contract manufacturer of electronics, Hon Hai Precision Industry Co., for example, is facing rising wages for its Chinese work force. Yet it retains faith in China as a manufacturing hub (Dean and Stein, 2010). Hon Hai is making a US$3.5 billion investment near Chengdu, in Sichuan Province. This is one of two complexes that will together employ half a million people.

7. Intellectual Property Challenges

Intellectual property (IP) accounts for 75% of the Fortune 100 companies’ total assets (Künzler and Payne, 2004; Reitzig, 2004). For USA manufacturing firms, the share comprising IP is 70% (Rivette and Kline, 2000). IP includes patents, industrial designs, utility models, marks, copyrights and other rights given to creators to protect their rights concerning their original ideas or works. The owner of IP has an exclusive ownership over the designated creation for a certain period of time depending on the type of IP concerned (Yang, 2003). The widespread violations of intellectual property rights (IPRs) and the lack of its enforcement has become a serious problem for the international community, especially in China. IP losses are estimated by determining the value of the dubious goods sold with the assumption that they are all sales lost to the IP owner.

According to US Department of Commerce estimates, American companies, as a result of counterfeiting and piracy, lose between US$20-24 billion annually. Japan’s losses are estimated to be even greater at US$34 billion. If sales lost by the European Union are
included, the cumulative losses for the three economic blocs approached US$80-100 billion in 2009 (Fishman, 2005).

The estimate of US$80–$100 billion annually may even err on the conservative side. The Organization for Economic Cooperation and Development (OECD) conducted analysis of international trade data (OECD, 2007) and concluded that up to US$200 billion of internationally traded products was counterfeit or pirated in 2005. This is larger than the annual Gross Domestic Product (GDP) of about 150 countries. Further, the amount does not include counterfeit and pirated products that are produced and consumed domestically. IPR violations also pose a problem for China; in the wake of its WTO entry, China found that many of its key trademarks had been registered internationally by arbitragers, thus blocking China’s international expansion (Reid and MacKinnon, 2010).

The attractions that China offers, both as a manufacturing base and as a growing market opportunity, have enabled Beijing to formulate policies that result in exchange of IP for market access. This is a serious long-term threat to many companies. China's appropriation and dissemination of the world's most valuable products and technologies is bringing about changes in the way many types of companies operate (Fishman, 2005). Even universities are being urged to tighten their IP procedures. Sir James Dyson, the industrial designer, alleged that Chinese students at UK universities are stealing scientific and technological secrets and passing them back to the motherland. He maintains "Bugs are left in PCs so that data continues to be transmitted after the students return home." (The Times of India, 2011). All types of companies, big and small, Chinese companies included, stand to lose from this freewheeling climate. In particular, the Chinese movie and music recording industries face the challenges from links to free downloads on the Baidu site, which is China’s most ubiquitous search engine.

China’s introduction of tough new IP regulations, together with increasing enforcement, in some small way ameliorates the perception
of China as a black hole into which IP is drawn. Irrespective of this, companies continue to take high technology to China (Scott, 2006). Intel, for example, broke new ground in 2008 with its US$2.4 billion investment in Dalian in northeast China. However, IP theft will continue on a blatant scale as long as the punishment dealt out to infringers of IPRs remains inadequate (Chapa and LeMaster, 2007; Seyoum, 2006). This IPR protection issue has far-reaching significance and it is a strategic issue for China. President Hu Jintao, on his 2006 visit to the USA, conveyed the view that the protection of IPRs is "essential" for China's development and its ability to build an economy based on innovation rather than low-cost manufacturing (McGregor, 2010). This message was a precursor to the later announcement of China’s National Intellectual Property Strategy (NIPS).

Irrespective of the existence of NIPS, the view of IP protection depends largely on who is talking. The AmCham 2010 white paper shows that from 2009 to 2010 the proportion of respondents perceiving IP protection to be ineffective rose from 60 to 63% (Amcham-China, 2010). Xinhua delivers a contrasting picture by reporting that about one-third of sellers of "Shanzhai" cell phones have left the business. This it attributes to price-cutting as well as the public's growing awareness of IPR issues. The heaviest blow came from China's determination to enhance IPR protection and develop indigenous innovation (Yang, Liu and Wang, 2011). They quote a sociologist, Ai Jun, who maintains the Shanzhai phenomenon is a period that China and other developing countries must go through in fostering their companies' innovative capacities: "It is a natural process to first imitate and then innovate."

In 2006, China released The National Medium- and Long-Term Plan for the Development of Science and Technology (2006-2020), which included a call for scientific advancement because "despite the size of

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1 Shorthand for fake or pirated products, also anything improvised or homemade
our economy, our country is not an economic power, primarily because of weak innovative capacity." At the 2011 NPC in Beijing, senior leaders repeated the China must innovate mantra time and again (BBC Monitoring Asia Pacific, 2011a, 2011b). Clearly, this is a policy that has momentum and top-level support. Meanwhile, expert testimony to the US Congress House Foreign Affairs Subcommittee insisted that China’s indigenous innovation policies are unlikely to achieve their objective of vaulting China to the forefront of global innovation. The costs, instead, will be extracted from the gains that American firms would otherwise enjoy in the Chinese market. It was asserted that contesting this policy should be a principal focus of U.S. commercial diplomacy with China (House Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade Hearing, 2011).

When the Japanese and European companies that pioneered high-speed rail agreed to build trains for China, they thought they'd be getting access to a booming new market and billions of dollars worth of contracts for the most ambitious rapid rail system in history. What they didn't count on was the need to compete with one-time JV partners: Chinese firms that adapted their technology and turned it against them a few years later (Shirouzu, 2010). In an interview I conducted with a senior executive of Siemens, a decade back, he explained that he was alerted in the early hours one Sunday morning that Chinese engineers from a JV partner were crawling over Siemens systems. It was explained away at the time as a management development training exercise that got out of hand. Following this, a senior government official announced from Beijing that they would not be going with the European bids for high speed rail contracts, nor would they go with the Japanese proposals. Instead, they would be proceeding with some recently acquired local technology.

Chinese companies have a voracious appetite for acquiring know-how and the rights to technology. It is possible that a radically different attitude to IP prevails in the Chinese culture (Yang, 2005). I attended a conference in 2010 where an executive from one of China’s top two
telecoms manufacturing companies confessed from the podium that previously they had acquired a Motorola base station, stripped it down and copied it. Currently, these kinds of companies are amassing patent portfolios at fast rates. Huawei, the world No.2 telecoms equipment company, is among the world’s leading patent applicants. Huawei's campus on the outskirts of Shenzhen boasts four soccer pitches, swimming pools, apartments for 3,000 families and a palatial research centre with Doric pillars and marbled interior (The Economist, 2005). Its products and solutions have been deployed in over 100 countries and have served 45 of the world's top 50 telecom operators, as well as one third of the world's population. Huawei has established 17 R&D centres around the world, including Silicon Valley, Dallas, Stockholm, Moscow and Bangalore (Huawei, not dated).

Huawei is also starting to impress abroad. According to François Paulus, head of the network division at Neuf Telecom, a French firm that uses Huawei's optical transmission equipment to sell voice, data and video services: "When we first saw Huawei we couldn't believe a Chinese company could match an occidental one - we were wrong. Their technology was better and they were 30% cheaper." (The Economist, 2005). The same article makes the point that Huawei and others are rising to China’s challenge of developing and acquiring global brands. Huawei is spending millions of dollars building its global brand position. Its print ads recount how its engineers toiled in the Algerian Sahara to install mobile-phone base stations "ahead of schedule and under budget."

China recognizes that it needs to do more than produce cheap goods and should develop and acquire its own brands. According to Frampton (2010), global chief executive of Interbrand, the leading brand consultancy, brands help foster deeper connections with customers and ensure sustainable growth and profitability, regardless of the economic climate. In their boom years, Chinese businesses focused more on business expansion than brand development and, although that paid off in the short-term, it has hindered them in the longer-term. There are lessons to learn from Japan and Korea that
suggest China should move from OEM to Brand Builder. Its country of origin image does not help. China has been hampered by a string of product quality issues and recalls across the world in recent years.

Interbrand's "Best Chinese Brands 2010" ranking shows the majority of brands on the table achieved a high EVA (Economic Value Added), seeing increases that range from 15-100% (in addition to the GDP growth of 10%), while their brand value nevertheless lagged behind. The value of the top 25 brands on the table only increased by 8% and the compound annual growth rate equaled around 2.5%. In addition to quality issues, Frampton (2010) raises the question of the "ability to stand the test of time" among the top 25 brands on the table: nine out of the top 25 are new entries to the ranking system.

To offset potential disadvantages compared to China, Western players need to retain brand and knowledge leadership where it exists. Above all, they need to protect these crucial positions and this will require superior imagination as well as style and design leadership.

8. Threat to the Natural Environment

China faces many challenges. The maintenance of social stability is only one of them. Almost as acute is the threat to its natural environment. The pollution generated in China is beyond comparison. China’s Ministry of Environmental Protection (MEPPRC) warns that 75% of the water in the country’s major river systems is unfit for human contact. The MEPPRC signals that China’s longest river, the Yangtze, will be dead in five years. Cancer rates among the population living alongside the Huai River are running at twice the national average (Yardley, 2004). Lake Tai, a famous beauty spot and an inspiration to poets and artists for centuries, was recognized as being seriously polluted by local industries and imperilling the health and livelihoods of those who live on and depend on the lake (Kahn, 2007). Jiangsu province in which the lake is located, announced plans to spend $14.5 million to ‘improve water quality and control polluters’. The government issued a statement claiming that within
five years, water quality will be restored by controlling the plant build-up in the lake, and within 8 to 10 years, the lake’s pollution problem will be completely resolved.

Premature deaths due to water and air pollution in China are running at close to one million per year (Ajemian and Reid, 2010). The USA is directly affected: much of the particulate pollution over Los Angeles originates in China (Kahn, 2007). However, in terms of cumulative emissions, China ranks 92nd in the world, though it is now the largest emitter of CO₂ (Ajemian and Reid, 2010). All these carbon emission contribute to the build up of Atmospheric Brown Clouds. These, at times cover much of Asia. Black Carbon precipitates from these clouds accelerate the thaw of Asian glaciers. Indian glaciers, on which its major rivers depend, are retracting at alarming rates. Similarly, the glaciers in the Tibetan plateau feed China’s major rivers.

The US Department of Energy’s Information Administration projects that world energy consumption will increase by 50% by 2030 (US Energy Information Administration, 2008). The same report indicates that China alone accounted for 71% of the increase in world coal consumption in the last year. This means China’s industrialization is playing a determining role in global warming (Ebray, 1996). Further, an emergent consensus holds that environmental degradation constitutes a security risk (Diamond, 2004; Levy, 1995). A critical two degree Celsius rise in temperature by this century’s end must be avoided if the planet is not to suffer the fate of extinction of many plant and animal species, the collapse of entire ecosystems and global GDP losses of 1-5% (Bales and Duke, 2008). Water and food shortages, rising sea levels and changing patterns of precipitation is likely to increase warfare in many parts of the Global South (Ott, 2001).

The Green GDP metric represents the economic growth rate minus its cost in resource depletion and environmental degradation. A calculation of Green GDP for Shaanxi province showed that its
‘growth’ was almost entirely at the expense of environmental degradation (Kynge, 2006: 151). China is trapped in a cycle of growth paid for by environmental degradation. Although it has made major investments in clean technology, so-called Cleantech, so far it has not been able to separate economic expansion from environmental pollution and the response so far from those primarily responsible for the build up of greenhouse gasses has been deemed inadequate. To break this environmental deadlock, it may be necessary for some sort of radical solution along the lines of Cleantech IP sharing, as suggested by Ajemian and Reid (2010).

9. The China Model

China has long demonstrated a penchant for big projects. The Great Wall is best known. Hundreds of thousands of subjects of the Qin (221-206 BC) dynasty were drafted to construct it. The human toll was immense. During the Tang dynasty (618-907 AD), Chinese workers reunified the north and south of the country by the creation of the Grand Canal (Ebray, 1996). More recently the Three Gorges dam project was pushed through against the advice of experts that forecast devastating environmental consequences. It is six times as long and eight times more powerful than the Hoover Dam, which is itself considered a wonder of the world (Kynge, 2006: 33). It will open up the city of Chongqing to ocean going vessels and boost the economic potential of the west of China. It is analogous to the introduction of the Erie Canal, which brought prosperity to western New York and its hinterland. All told, around 2.5 million people will have been relocated by the time the project reaches completion. The worry is that big projects, completed relatively quickly, require decisions and judgments to be made quickly and these can result in substantial mistakes. Some have longstanding social implications. Many of those relocated end up in new towns with attractive apartments provided together with a small compensation payment but, often, these people have no jobs and are in towns that lack any purpose other than being
relocation zones. When the compensation money runs out, the people involved are euphemistically referred to as “beggars in mansions.”

Outsiders may look at China’s efficiency with envy. Things change at an enviable pace. Not all projects are of the scale of the Three Gorges dam. Local governments, at provincial and city levels, with a view to creating a tax revenue stream later often resort to retrieving agricultural land to build industrial estates. These actions raise questions concerning fair compensation and other social justice issues. Frequently there are riotous civil disturbances associated with the concomitant ‘land grabs’ by local governments. According to Shirk (2008: 60), Chinese leaders worry about a twenty first century peasant revolt. Patience and tolerance exists but the system remains precarious. Most of these disturbances occur in rural areas and little information trickles outside China. There are perhaps 100,000 significant riots each year relating to social justice issues. Land seizures and pollution are the two main causes. Critics of China’s autocratic methods wonder whether democratic methods will ever be adopted, since there is clearly not universal enthusiasm for this. Many among the urban elites would not welcome a one-person one-vote arrangement as that would mean their preferences would be outweighed by those of the less-educated rural majority (ibid.).

We have seen how the industrial policy has been applied and how the export business is dominated by China. Its economy has mushroomed as a result of these policies. The city of Guangzhou has equivalent exports to Vietnam (Enright, Scott and Chang, 2005: 43). Guangdong province, with its population of 86 million, has a GDP equating to Indonesia with its population of 240 million (The Economist, 2011b).

China is not going away any time soon. Social justice relies on an equality of opportunity, irrespective of creed or geography. Wealth and opportunity will inevitably be spread. If western entrepreneurs and workers cannot match China’s costs, they need to accept further modifications to their expectations or develop more imaginative management strategies to maintain their higher living standards.
The world has seen how China has built up its soft power resources. During the George W. Bush administration, when the USA became bogged down with Iraq, China’s President Hu Jintao and Premier Wen Jiabao filled a foreign policy vacuum by making many trips to and around Asia, South America and Africa, extending aid and securing supplies of resources as well as building relationships. When Greece almost went into default in 2010, China, pointedly, was there to buy its debt. Subsequently, soon after, when China wanted to retrieve its citizens from the disorder in Libya, China was able to use Athens as a staging post. This example illustrates how its influence is growing and its reach is far.

China is motivated to keep its economic machine running. It barely dares dial down to conserve its natural resources or to limit the environmental damage that is being inflicted for fear of social disturbances. It is a matter of a relatively short time before China surpasses the GDP of the USA. Shukman (2011), reporting on a study by the Royal Society, the UK's national science academy, observes that “the country that invented the compass, gunpowder, paper and printing is set for a globally important comeback.” Published research output, a surrogate measure for research progress, is rising at a rapid rate. The study shows that China, after displacing the UK as the world's second leading producer of research, could go on to overtake the USA by 2013. Moreover, China could overtake the USA as the world’s largest economy if it maintains annual growth of 8% over the next 20 years, according to the World Bank’s chief economist ("China could overtake US economy by 2030: WBank," 2011). Something salient to ponder here is that since nine out of the top ten global brands are of US origin (Interbrand, 2011), to what extent is this leadership actually based on the fact that the United States is the leading economy? The implication is that when China surpasses the USA, its own brands may become the world leaders.

So, in the face of this economic challenge, how do developed countries like the USA, Germany, France and the United Kingdom compete? Perhaps, if it is not already too late, in the near term the
answer is for governments both to stress and to lead innovation. Companies must understand the world better, especially the part that is China. They must leverage their long-term learning to offer superior style and better design and, also, develop brands that are sought after. All these aims may need to be served by the use of contract manufacturing, probably in China. Future success will most likely be based on a China-West symbiosis. It is not a coincidence that Apple Inc.’s success is built on this formula.

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Study of Cross-Border Trading of Myanmar and Thailand: Reviewing the Unseen Importance of Maw Danung and Dan Singkorn Checkpoints

Sittichai Anantarangsri

Abstract

The trade volumes of cross border trade in many checkpoints between Myanmar and Thailand have continued to increase, since Thailand needs resources such as power, wooden and fishery products as industry inputs and its markets can provide the income and consumer products that Myanmar needs. International cooperation frameworks and the Joint Commission on Trade (JCT) between Myanmar and Thailand have shown the intentions of both sides to develop the cross border trade in ten western Thai provinces. Dan Singkorn in Prachuap Khiri Khan province is close to Maw Danung (Maw village), which possesses many natural resources such as forestry, ore, and fishery resources. Dan Singkorn has been a temporarily permitted checkpoint since 4th March, 1993. Although the trade volume of Dan Singkorn is much smaller compared with some of the permanent border crossing checkpoints, such as Mae Sai and Mae Sot, the current informal trade volumes between Maw Danung and Dan Singkorn are worth more than one hundred million Baht per year (approximately US$3.3 million). Major products include wild bamboo shoots, wooden furniture, wild animal products and natural medicinal plants. Other products from Myanmar are jade, jade bangles, incense and soap. Thai products included detergents, monosodium glutamate, plates, bowls, spoons, clothes, instant noodles and delicatessen items. Moreover, Maw Danung and Dan Singkorn are located in areas that are a short-cut for the shipping route between the Pacific and Indian
and Atlantic Oceans and so can avoid the piracy and congestion endemic in the Straits of Malacca. Cross-border cooperation has enhanced the infrastructure in the proximity of the checkpoint, for example, building and repairing the transportation route connecting Maw Danung to Myeik and the Dawei (Tavoy) deep sea port development, tax policies and so forth. However, there are two important constraints to growth, which are the fighting between the military government of Myanmar and various ethnic minority groups and environmental degradation and it seems these are being ignored. This paper examines the extent to which business activities can flourish in this border area despite the constraints identified.

**Key words:** Cross border Trade, Dan Singkorn, Maw Danung, Myeik

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1. Introduction

Thailand is involved in a number of cross-border cooperative frameworks with neighbouring countries, including the Greater Mekong Subregion (GMS), the Ayewaddy-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Mekong-Japan Agreement, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), the Emerald Triangle and the ASEAN Economic Community (AEC). Each of these agreements has been signed with the intention of strengthening the relationship and sense of trust between Thailand and the neighbouring countries to promote development and mutual benefits through employing various tax policies and improving the infrastructure, particularly the roads, railways, telecommunications, power plants and power transmission lines. The overall aim is to integrate countries as single markets and single production bases with the free flow of goods, services, investment, capital and skilled labour. Such flows and integration are, it should be noted, purely economic in nature. There is little if any enthusiasm for the spread of political union or for cross-border agreements on meaningful social and cultural issues.

Myanmar and Thailand represent a fine example of mutually dependent cross-border trade and interaction with complementary products and services. Myanmar offers such products as wood, seafood, metal ore, electric power and unskilled labour, all of which are used as important inputs in Thai industry, particularly in the furniture manufacturing and food processing and canning sectors. Myanmar also acts as a market for Thai goods, with a domestic population of approximately 58.8 million (although the accuracy of population estimates has been questioned (Mathieson, 2011)) and can be a gateway for Thai products into the other BIMSTEC countries (e.g. Bangladesh, Bhutan, India, Sri Lanka and Nepal), which have a massive combined population. Consequently, the 4th JTC (Joint Trade
Commission) of Myanmar and Thailand issued a plan to open trade checkpoints in various western Thai provinces, including Chiang Rai, Mae Hong Son, Chiang Mai, Tak, Kanchanaburi. Ratchaburi, Phetchaburi, Prachuap Khiri Khan, Chumphon and Ranong (Department of Export Promotion, 2010), with the mega-projects of the Dawei deep sea port, industrial estates and transborder corridor link (Myanmar Latest News, 2011). These developments have all increased the importance of cross-border trade between Thailand and Myanmar.

Dan Singkorn is located in Prachuap Khiri Khan province and has been a well-known route for combat and trade since ancient times, since it represents a convenient means of connecting the Gulf of Thailand and the Indian Ocean. It is also close to the village of Maw Danung, in the proximity of Myeik city in the Tanintharyi division of Myanmar (ศราวุฒิ ชูบางบ่อ, 2551: 2-3). These areas are rich in natural resources (Latt, 2000). High ranking officials in the Myanmar government have announced the intention to develop Myeik city and Thanintharyi generally by improving the communication, irrigation and trade infrastructure (Myeik, 2009; Shwe 2009). Many Thai local authorities and business enterprises are eager to open their checkpoints on this border because of the projected benefits of increased trade (เอ็มซีโอที, 2553), (จตุรพร สุขอินทร์, 2554). However, there is not much progress to be seen in the area of Dan Singkorn checkpoint, even though this been granted temporarily permitted checkpoint status since March 4th, 1993. The research reported on in this paper reviews the situation concerning cross-border trade in Dan Singkorn and aims to identify the issues that enhance and constrain the development of cross-border trade in this area.

2. Research Method

This paper reports on research conducted by a qualitative approach. The author visited Dan Singkorn to observe the situation personally and to document and analyse the actual situation there. Personal
interviews were conducted, on a convenience sampling basis, with five Burmese merchants, six Thai merchants and two immigration police officers. The researcher endeavoured to put the interviewees at ease and the discourse informal. Notes were taken after the interviews were completed retrospectively. Interview notes were supplemented by research observations made during the course of the trip and integrated with secondary data obtained from a variety of sources, including academic reports, journal papers, newspaper and magazine stories and governmental and non-governmental organization (NGO) reports. Once this initial visit had been properly documented and analysed, a framework of understanding was created using a content analysis approach. The researcher then returned to the Dan Singkorn region to conduct additional interviews with a view to exploring the theoretical concepts derived from the first phase of research and challenging their validity. The second phase of the research involved additional interviews with three further immigration police officers, five military officials (Thai) and three Burmese military officers, ten Burmese and Thai merchants and a scholar from Phetchaburi Rajabhat University. These interviews were again documented and then integrated with the existing material, with additional secondary data sources consulted based on the new information acquired during the second phase of research.

Content analysis techniques were then employed to review all the information obtained and itemizing individual units of analysis. The individual units were then gathered into coherent thematic groups for comparison and interpretation. Once the data were organized appropriately, various theoretical concepts crystallized from the different structures involved and these are described in the section on findings.
3. Overview of Cross-Border Trade between Myanmar and Thailand

The border between Myanmar and Thailand is some 2,400 km in length and people have crossed it back and forth for trade for many centuries. Since Myanmar achieved independence in 1948 its government has been mostly dominated by the military and economic management has mostly taken the form of a dirigiste socialist approach (Minoru: 1999). The central government has also been involved in a lengthy period of warfare with various ethnic minority groups who wish to achieve autonomy for themselves. Owing to problems with fighting and oppression, the volume of formal cross-border trade between the two countries has diminished, while the black market trade has increased significantly. Some ethnic minority groups have followed a Maoist strategy of establishing a parallel state within a state and have enforced their own tax regimes and to impose levies on trade movements involving the territories they believe to be their own (Lintner and Black, 2009). Some groups have also been involved in the manufacture and smuggling of narcotics and other products, in part to finance their own independence struggle and obtain weapons and materiel. However, since the 1980s, the military forces, the Tatmadaw, have begun to achieve some success in the various episodes of fighting and some groups have been brought to quiescence through negotiations (Chongkittavorn, 2011). As a result, the government has been able to redevelop the country and its infrastructure on a much more ambitious level (Preecharushh, 2009). Nevertheless, the junta has persisted with repressive social and political policies that make it one of the poorest countries in Asia (Callahan, 2009).

Despite the length of the Thai-Myanmar border, there are only three permanent checkpoints: at Mae Sai in Chiang Rai province, at Mae Sot in Tak province and Muang in Ranong province. There are many more checkpoints with other neighbours even though the borders are generally much shorter. In part this reflects tension across the border,
especially when it comes to the large numbers of refugees who have come to the Thai side to avoid persecution. There are often incidents of gunfire and fighting concerned with local issues that have the potential to become episodes of cross-border conflict.

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Table 1: Number of Checkpoints between Thailand and Neighbouring Countries; source: ศราวุฒิ ชูบางบ่อ, 2551: 20.

Nevertheless, since 1988, border trade has been emphasized by both countries and they established a JCT to promote such trade and seek solutions for problems involved in the process. Both countries have also signed other international agreements to enhance cross-border trade and investment, some of which come under the supervision of the Association of Southeast Asian Nations (ASEAN). The value of the cross-border trade is also quite substantial: in 2008, Myanmar exports to Thailand were estimated at 112,369 million Baht and composed primarily (92%) of natural gas, with small proportions of lumber and processed woods (3%) and edible meat (2%). The value of exports from Thailand to Myanmar in the same year was estimated at 43,859 million Baht, with the major products being processed oil, consumer products, automotive parts, cosmetics, pharmaceutical products and textiles (Manarungsan, 2010).
4. Reviewing the Current Situation of Dan Singkorn Checkpoint

Dan Singkorn is located on one of thirty natural channel entrances in the Prachuap Khiri Kan province connecting it with Myanmar. It first received permission to become a temporarily permitted area checkpoint on March 4th, 1993, although it was later closed down on September 5th, 1997, owing to the fighting between government forces and the Karen army. Subsequently, the Thai government has permitted Burmese people to cross to the Thai side to buy consumer goods for personal consumption but has not permitted Thai people to enter Myanmar. However, during the Songkran festival, buses are organized to take both Thai and foreign tourists to Maw Danung to enjoy the water splashing events there and to visit the local temples. Bus fares cost 100 Baht each. However, Thai authorities have reportedly been active in developing the Dan Singkorn side of the border and are now awaiting confirmation from the Myanmar government before entering a new stage of openness (Tan Network, 2011). There are no regular immigration or customs offices in Maw Danung, only the offices of the local military representatives of the central military government, which operate and collect transit fees as required. Compared to the northern provinces of Chiang Rai and Mae Hong Son, there appear to be comparatively few problems here with either narcotics or illegal migrations because of the anti-drugs policy of the locally important Karen National Union (KNU) (KNU, 2010). Although there are many natural channels for border crossing in this region, migration is inhibited by the ethnic minority groups which control many of them, owing to ill-feeling between different groups. Passage is only possible by paying a fee and this restricts the number of Burmese aiming to enter Thailand illegally.

Nevertheless, migration from other parts of Myanmar to the Maw Danung area has continued to increase and has resulted in a much larger population level there than has been seen previously, especially in the years since designation as a temporary checkpoint area was
received. Currently, there appear to be more than one thousand people or two hundred households in the Maw Danung area. However, only a small percentage of these villagers cultivate crops for personal and family consumption and farm land is being sold because it is not very profitable. This is because of the high level of rainfall and the lack of agricultural knowledge among the people locally. Instead, many of the Burmese villagers have been acquiring and smuggling products such as wild bamboo shoots, wood and lumber, wild animals, medicinal products from naturally growing plants and animals which are then sold on the football pitch-sized market on the Thai side of the checkpoint. However, the most famous products here are the wild orchids that the Burmese villagers smuggle across on Friday afternoon and on Saturdays and Sundays. There are also some 40 shops selling orchids which are open seven days a week. Some Burmese villagers have claimed that the quantity of wild orchids in the border area has been declining and that the trade contravenes the Convention on the Elimination of Trade in Endangered Species (CITES) which Myanmar signed in 1997 and Thailand signed in 1983 (Cho, 2009). Some Burmese villages from Maw Danung have opened shops to sell soap, incense, cloth and sarongs, necklaces, rings and jade bangles. If they can earn money by this, the Burmese will generally spend that money on consumer goods such as rice, instant noodles, detergents, plates, bowls, basins and clothes either for personal consumption or for resale in closed villages not too far from Maw Danung.

The local military official at Maw Danung has full authority to govern the region and the Burmese side of the crossing and has the authority to close the crossing in the event of fighting between the government and the KNU or other groups or in the event of natural disaster. In addition, the condition of the roads connecting Maw Danung to Myeik and other regions in Myanmar is poor and it is especially hard to travel during the rainy season. To a certain extent, therefore, this makes the local military officials autonomous during such periods. The government has employed the Yuzuna construction company to repair the road between Maw Danung and Myeik, which is a distance
of some 180 km. Foreign business people and local villagers complain that they are required to pay fees to both the local military officials and the KNU. Any potential investment projects also need to be cleared with the local military authorities, who process applications and pass them to the central authorities as required. The applications will eventually be sent to Naypyidaw for final adjudication. Even if the foreign investors were to travel personally to Naypyidaw first, the central authorities will return the application back to the local military agent at Maw Danung for preliminary consideration.

5. Potential of Dan Singkorn

Although Table 2 below indicates that the trade volume of Dan Singkorn is much lower than other border checkpoints, such as Mae Sai and Mae Sot, the researcher estimates on the basis of the research conducted that the volume of informal trade would not be less than 100 million Baht annually. This is based on the number of orchid shops and the trade they contract on a daily basis. These shops have peak trade on Saturdays and Sundays and can receive income of one or two thousand Baht per day. In addition, some shops have agents in other locations, such as Chatuchak market in Bangkok, where outlets can earn as much as 100,000 Baht per week. The ten wooden furniture shops can apparently draw revenue of two million Baht per month or up to thirty million annually. To this should be added the value of consumer goods purchased by Burmese villagers for resale across the border. Hence, the figure of 100 million Baht does not seem unreasonable.

In addition to its proximity to Burmese resources, Dan Singkorn is also linked to several Thai ports, notably the one at Ranong, which offers access to the Indian and Atlantic Oceans and the African and western countries, as well as Laem Chabang in Prachuap Khiri Khan deep sea port for access to APEC countries. Container vessels from the Pacific Ocean can reach the BIMSTEC countries on the Indian Ocean within one day via deep sea ports including Laem Chabang and at Dawei in the new Burmese development. This enables the container
ships to avoid the threat of piracy in the Straits of Melaka (Pena, 2009) and the problem of port congestion in Singapore (Gardyyourship, 2009), thereby saving valuable time. This means there is considerable scope for the Dan Singkorn region to develop as an industrial area through the presence of complementary resources, improved infrastructure and also nearby tourist attractions, such as Hua Hin and Koh Samui, which will increase market demand for a variety of goods and services. Some Thai corporations are already taking advantage of this emerging area and its possibilities. For example, Italian-Thai Development PCL has obtained the coal concession in Maw Danung (บริษัท อิตาเลียนไทย ดีเวล๊อปเมนต์ จำกัด มาณ, 2551:9), while various entrepreneurs involved in the seafood industry in Ranong and other parts of the country have been keen to obtain access to Myanmar’s seafood resources, either by importing them through the checkpoint or by moving manufacturing facilities to the Burmese side. Infrastructure improvements mean that such products can quite conveniently be transported to Bangkok (ข่าวสด, 2553; หอการค้าไทย, 2553).

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<tr>
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</tr>
</thead>
<tbody>
<tr>
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<td>100-500</td>
<td>90-130</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
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<td>1,916-2,417</td>
<td>245</td>
<td>3,951</td>
</tr>
<tr>
<td>Mae Sot</td>
<td>586-1236</td>
<td>13,405-17,514</td>
<td>22,175</td>
<td>28,673</td>
</tr>
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Remark: the trade volume at Dan Singkorn declined steeply from hundred million to a few million Baht after Italian-Thai Development PCL completed its coal mining projects.
6. Discussion and Recommendations

It is evident that both countries will benefit from further development and opening of the Dan Singkorn checkpoint from an economic and commercial perspective. Pressing ahead under the framework of international cooperation agreements such as AEC, ACMECS or BIMSTEC would have the advantage of providing high level guidance for harmonizing such areas as cross-border roads, customs, governmental working systems and other forms of bureaucracy. However, this cannot meaningfully take place without cessation of the fighting between the Myanmar government and the ethnic minority forces. As it is, the Burmese authorities often close the checkpoint without notice because of the security situation and re-open it entirely in line with internal security systems and without consideration of the needs and desires of entrepreneurs or, of course, the general population. Consequently, investors cannot expect to receive guarantees for their investments or even to be protected from damage or destruction caused by the fighting. Many decades of severe repression by the Burmese government seem to have achieved little to benefit the majority of the people of the country, although of course a small minority of elite-connected individuals and families have benefited disproportionately from the unequal distribution of state resources. Reconciliation policies, for example with Khun Sa of the Shan State Army (SSA), have yielded better results. These days, only Tachilek in Shan State close to the Mae Sai checkpoint is regularly open without apparent internal security problems, unlike for example Myawaddy in the Kayin state and others, which suffer from unanticipated but frequent closures for unpredictable periods of time.

However, it is equally clear that focusing only on the economic aspect will be likely to lead to problems with environmental degradation and the over-exploitation of environmental resources, as has happened in many other parts of Thailand. The CITES was mentioned previously and it appears that little attention is currently being placed on ensuring that protection of the environment is taking place either by
government agencies or at the individual level. The unsustainable use of environmental resources will, eventually, lead not only to the loss of economic value of the region but will seriously and negatively affect the ability of people to make a living there. It has, for example, already been noted that the seafood resources of the Gulf of Thailand and the South China Sea have declined and caused exporters to seek out new sources (Murray, 2007; Paterson and Pernetta, 2008). Under-utilised and under-regulated Burmese towns would find their resources rapidly depleted if industrial scale extraction begins to take place with proper monitoring.

Finally, the issue of security will need to be seriously considered. Economic activities and the confidence of investors are seriously affected by the risk of disorder and violence. International agreements in the Southeast Asian region are customarily organized along the lines of non-interference in the internal political activities of any individual state and this is a provision to which the Myanmarese junta has long clung. The extent to which it will be possible to open the country successfully to international commerce without significant political change remains to be seen.

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Employees’ Perceptions about the Effectiveness of Performance Appraisals: The Case of Pakistan

Muhammad Kashif Saeed and Nosheen Shahbaz

Abstract

The current research investigates employees’ perceptions about the outcomes of performance appraisal and aims to identify the factors which can harm the successful implementation of performance appraisal. The sample of 120 employees at managerial level was selected on the basis of simple random sampling technique from the plastic furniture manufacturing organizations located in the province of Punjab in Pakistan. The findings suggest that the employees are aware of the useful outcomes of the performance appraisal but they lack knowledge in implementing an effective performance appraisal system. A significant difference in perceptions regarding the outcomes of performance appraisal was found among the respondents. The study will help policy makers in designing effective performance management systems for their organizations by minimizing the perceived risks and detriments to effective implementation of performance management systems.

Key Words: Performance appraisal, employee motivation, rewards.

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1. Introduction

Designing and implementing an effective performance management system has always been a serious issue among human resource (HR) managers. With an increase in competitive pressures, employers’ interest in distinguishing employees’ performance levels and improving poor performances by using performance appraisals in an efficient manner have become characteristic of effective organization management (Murphy and Margulies, 2004).

Numerous organizations, whether large or small, public or private, manufacturing or services, use performance appraisal as a tool to accomplish the goals of human resource management (HRM) with an aim to developing human capital (Fink and Longenecker, 1998). Performance appraisal implementation has been emerging as a strategic approach aimed at aligning human resource activities with organizational objectives and it has also positioned HRM as a key function at the forefront of corporate strategy. Organizations are seeking to evaluate and develop the competencies of their employees and setting reward criteria based on results by applying performance appraisal (Fletcher, 2001).

Despite the importance of performance appraisal as a strategic tool, organizational priorities in implementing HR systems are different. Small and Medium Enterprises (SMEs) in Pakistan tend primarily to improvise the administrative role of HR and there is an absence of formal HR policies and procedures. HR departments in Pakistani SMEs use traditional approaches to HR management such as informal recruitment, traditional compensation approaches and seniority-based promotion. There is a misconception among a large number of employees that performance appraisal does not play any role in
employees’ career planning and career growth. Yet employees are keen to have performance appraisal system implementations in their organizations and they expect that implementation of performance appraisal would be constructive. The Pakistani business environment has become challenging considering the fact that competition is increasing in many industries. Punjab is recognized to be the most progressive province of Pakistan because of its rich agricultural base, good infrastructure, effective transport system and majority of business oriented people, which provides excellent opportunities for investment in this region. Industry in Punjab contributes 60% to the economic development of the country as a whole. The industrial sector consists of quarrying (2.7%), mining (6.4%), gas distribution (6.7%), construction (6.4%), manufacturing (55.3%) (Pakistan Economic Survey, 2010). Value added major industrial groups of Punjab includes textiles (39%), leather goods (1%), sports and athletic goods (1%), food and beverages (24%), drugs and pharmaceuticals (2%), machinery(5%), industrial and other chemicals (13%) and paper and paper products (3%). The share of Punjabi operations in selected items of manufacturing in Pakistan is 69.2% for cotton yarn, sugar 76.8%, fertilizer 70%, cement 44%, paper and paper board 96.3%. SMEs in Punjab play a significant role in providing employment to males and females. They are a significant source of export earnings, generating 25% of export earning for the manufacturing sector, and they provide 99% of non-agricultural jobs. The Small and Medium Enterprise Development Authority (SMEDA) and Pakistan Small Industries Corporation (PSIC) are key players in developing the business environment of Punjab. The Provincial Government intends to develop the industrial sector through public and private partnerships and by improving the business climate for firms.
The service sector of Punjab contributes 53.9% to the economy and employs a significant portion of the province’s labour. Firms which contribute significantly to the service sector of Punjab include banking and insurance, transportation, real estate, telecommunications, hotels and restaurants, education, health, personal and household services and business services. Over the past five years, the province has been liberalized and this has contributed to the growth of a very competitive climate in almost all sectors, especially in the banking, telecommunications and manufacturing sectors. Despite this change in the business climate; little if any research work addressing issues regarding the performance of appraisal implementation has been noted. In Pakistan, public and private sector organizations are more aware of the outcomes and effectiveness of performance appraisal than the factors which can harm the success of performance appraisals. More research is needed to explore the outcomes of performance appraisal and its detriments in Pakistani organizations (Ishaq et al., 2009). The absence of reliable published data and the changing facets of HRM, especially in terms of performance management of employees, motivated the conduct of this research. The purpose of this research was to explore the employee perceptions about the outcomes of successful performance appraisals and to highlight the factors which hinder its effective implementation. The major limitation of the study is that it does not consider the differences in perceptions of employee at different hierarchical levels and is justified by the fact that this was due to time and access constraints for the purpose of study.
2. Literature Review

2.1. The Nature of Performance Appraisal

Performance appraisal aims at clarifying the employees’ work expectations, improving employee development, linking pay with performance and assessing workforce development (Mathis and Jackson, 1998). Appraisals which create feelings of justice and trust among employees result in increased employee motivation. Employees know about their strengths and weaknesses through performance appraisal implementation and it also help both employee and manager to improve on-the-job performance. Performance appraisal assists in human resource planning by analyzing training and development needs and by identifying high level performers in the organization. Employees become aware of the organization’s expectations after performance evaluation, which helps them in improving their performance so as to match the organization’s standards (de Waal, 2004).

2.2. Performance Appraisal and Organizational Commitment

The relationship of employee and manager is strengthened the exchange of ideas while evaluating the performance of employees (Walsh and Fisher., 2005). In the study of Kuvaas (2010), the perceived effectiveness of performance appraisal is found to have a positive relationship with work performance and organizational commitment. Further, employees’ perceptions about the politics of performance appraisal are negatively related to job performance and positively related to turnover intentions. This is the major reason employees resist in implementing the performance management
systems (Poon, 2004). In other words, they fear punishment for a poor performance appraisal and mistrust the prospect of reward for a positive performance appraisal.

Employee satisfaction with performance appraisal feedback also has a positive relationship with job satisfaction and organizational commitment, while being negatively related to turnover intentions (Jawahar and Hemmasi, 2006). The performance appraisal can succeed in obtaining intended results but it often fails to do so. Employees who receive performance appraisals that they believe to be negative become dissatisfied with their jobs and exhibit less commitment to their organization, compared with those employees who consider that their appraisals exhibit them in a good light (Ahmed et al., 2010).

2.3. Performance Management in the Workplace

Commonly identified issues which hinder the success of performance appraisals include; employees’ lack of understanding of the performance appraisal process, fear of unexpected results, concern for change in the relationship with the supervisor, threat of poor self-image and fear of change. The issues for managers while appraising the performance of their employees include: managers’ discomfort while discussing performance results, fear of unexpected results, time consuming processes and concern for the fostering of poor relationships with employees (Egdorf, 2006). Clearly, there are behavioural issues involved in administering performance appraisals in any society and this is intensified in the Pakistani context, for reasons explained below.
2.4. Performance Management in Pakistan

It is reported that performance management systems have been dysfunctional when implemented in the SMEs of Pakistan. The major reason for this ineffectiveness concerns the individual manager’s ability to provide timely and accurate feedback to employees. Furthermore, employees generally do not actively participate in performance assessment procedures (Menon et al., 2010). An analysis of performance appraisal systems in semi-Governmental organizations of Pakistan revealed a lack of required knowledge and skills, management support, personal benefits and uneasiness on behalf of employees while giving or receiving feedback and concluded that these are all detriments to the implementation of performance appraisal systems (Ahmed et al., 2010). Managers were found to have different views from employees about the factors which can harm the effectiveness of performance appraisals. There were also some perceptual gaps identified among male and female managers (Ishaq et al., 2009). The efficient implementation of performance management mechanisms includes: goal setting, managers’ training concerning performance management, reward systems, employee training and development, while it was also found that performance reviews in the organization can resolve some performance appraisal challenges. Although, some work is reported that addresses the issues involved in implementing performance management systems, it is clear that more focused work is suggested, either directed towards public or the private sector organizations of Pakistan (Aslam and Sarwar, 2010). The current research aims to remedy at least some part of this lack.
3. Research Objectives

After careful review of the literature, the researchers decided upon the following research objectives for the study:

What are the employees’ perceptions towards the outcome of the implementation of performance appraisals, effective or otherwise?

What are the factors that can negatively affect the successful implementation of the performance appraisals?

As described in the previous section, these questions will be answered in the specific context of the business environment of Pakistan. To a certain extent, therefore, the results obtained will indicate that location-specific effects have been captured, while other aspects of the results will be more generalisable. As described in the conclusion, the issue of broadening the results is an issue for the future research agenda.

4. Methodology

The core objectives of the study were to report on employees’ perceptions about the performance and importance of appraisal management systems and to highlight the constraints to effective performance management systems and so, for the purpose of the study, a quantitative method was adopted. The conceptual issues had been identified (see above) and so it was necessary to test the relationships between those variables by means of a quantitative approach. To this end, data were collected through a questionnaire, which was developed after consultation with experts of in the relevant field and guided by existing literature on the subject. The
questionnaire was designed with a view to making it easy for respondents to answer all question and, thereby, ensure maximum and accurate feedback while reducing the possibility of non-response bias.

The questionnaire as finally constituted comprised of two parts. The first part concerned demographic issues (e.g. age, gender, job designation and managerial experience) and then questions related to performance appraisals. The second part concerned the outcomes of effective and fair performance appraisals as well as the constraints to effective implementation of performance appraisal in Pakistan. The employees surveyed were working in plastic furniture manufacturing organizations located in the city of Gujranwala in the Punjab Province of Pakistan and the respondents were chosen on the basis of a simple random sampling technique. This approach was selected over other techniques due to the difficulty of data collection from employees while they are on job. Randomly selecting employees made it easy for the research team to contact them as well as collect the resultant feedback in a timely manner. A total of 150 questionnaires were delivered and 137 respondents provided feedback, for an initial response rate of 91.3%, which is very high for research of this nature. Subsequent analysis indicated that, of the 137 returned questionnaires, among the data forms received, 120 usable questionnaires were processed, for a final response rate of 80%, which is again a high level of response. Indeed, the sample size and the response rate are acceptable according to a variety of sources in published work in measuring HRM performance in organizations.

The statements in the questionnaire were measured on Likert scales, ranging from 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree.
The current research is limited to private organizations within a specific private industrial sector of the Punjab Province of Pakistan. This is because of various time and access factors, not the least of which is the enormous difficulty involved in obtaining good access to the opinions of public sector managers in Pakistan. To some extent, Pakistani society works on a similar neo-Confucianist basis as many Chinese-influenced East Asian societies do and, consequently, issues of face, status and entitlement effectively prevent close questioning of high officials by researchers. It is not impossible to obtain access to such officials but only when equal status on the behalf of the research team may be claimed is it practicable to attempt. In any case, the opinions of private sector Pakistani employees have also been little researched and they too deserve their opportunity to be heard. While the current research study is not unflawed, therefore, it can nevertheless claim to be a meaningful contribution to understanding of the issues in the specific research context identified.

Once collected, checked and entered into the appropriate computer program, the data were subjected to a variety of tests in order to try to answer the research questions posed. First, Bartlett’s Test of Sphericity and the Kaiser-Meyer-Olkin (KMO) Test of Sampling Adequacy were employed to determine the acceptability of the sample. Subsequent testing involved finding means, frequency distributions, standard deviations and other statistical tests, such as are described in the following section.

Table 1 depicts the reliability analysis of the research study: the KMO Test exceeds 0.6, which is considered to be acceptable (whereas 0.5 is considered to be poor) and is adjudged to be more than adequate for a study of this nature (Brace et al., 2006).
KMO and Bartlett's Test

<table>
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<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
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<tr>
<td>Bartlett's Test of Sphericity</td>
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</tr>
<tr>
<td>Approximate Chi-Square</td>
<td></td>
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<tr>
<td>DF</td>
<td>231</td>
</tr>
<tr>
<td>Significance.</td>
<td>0.000</td>
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Table 1: KMO and Bartlett’s Test of Sphericity; source: original research

In terms of demographic factors, the sample showed a majority of male respondents (79.2%), as might be expected, together with a minority of managers compared to first-line managers (38.5% compared to 61.5%). For age, 20.6% were between 20-29, 31.5% were between 30-39, 36.2% were between 40-49 and 11.5% were above this age (49+). These results are congruent with what might be expected: the majority of senior workers in the Pakistani workplace are male and tend to increase with age (i.e. seniority-based promotion) until such time as illness, incapacity or retirement effects start to become evident (i.e. employees aged 50+). This is to some extent borne out by the length of managerial experience that respondents had obtained: 39.2% had 1-5 years of managerial experience, 21.5% had 5-10 years of such experience, 18.5% had 10-15 years of experience and the remaining 20% had more than this level of experience.

5. Findings

Table 2, below, indicates the means and standard deviations of the Likert Scale questions which were intended to determine the opinions of respondents concerning the nature of their perceptions of HRM
techniques in their workplaces, specifically with regard to performance appraisal (n = 120 in all cases).

Mean scores were calculated by awarding a points value to each response, from 5 for ‘strongly agree’ down to 1 for ‘strongly disagree.’ The higher the mean score, therefore, the more that respondents agreed with the statement. The figures for standard deviation (SD) indicate the degree to which responses varied from each other; the higher the figure for SD, the more variation in the responses and, therefore, the more disagreement there was among respondents. So, a score such as 0.096 for ‘irritation due to performance appraisal’ indicates that nearly all respondents agreed with the mean score of 3.29. By contrast, the SD of 1.205 for ‘making it difficult for employee to leave the organization’ indicates a comparatively wide range of opinions and, presumably, experiences.

On the whole, the respondents agreed quite strongly with the issues surrounding the outcomes of positive performance appraisals, with a mean score of 4.02, which is higher than the mean score of 3.24 concerning the constraints to the effectiveness of performance appraisal. There is always a possible issue with groups of respondents who have been only rarely if ever asked for their opinions that they will feel suspicious or uncertain about how their responses would be received. In any case, people tend to be more positive in public discourse than they may occasionally be in private because of, in this case, gratitude for keeping the job involved or reliance upon it.
One important factor to emerge from these results is from the case of ‘employees’ knowledge about how they are doing’ (4.36) since this is a germane measure of how people envisage the future and their role in the organization. Regular and accurate feedback during the non-evaluation periods provides deeper insights into the performance of employees.
Employees perceive that the effective implementations of appraisals can increase the confidence of those employees, which will lead to more accurate performance. The mean value for ‘improvement in employee’s performance’ was 4.12, which may be considered to be a high score in this regard. Employee turnover is considered to be a challenge for organizations today as a large number of employees are voluntarily leaving organizations in Pakistan, perhaps because of the dynamic nature of the jobs marketplace there at the moment. The results indicate that employees perceive that the effective implementation of appraisals can prove to be a contributing factor in reducing the turnover (mean score of 3.5) to a reasonable extent. Organizations provide training to motivate their employees but the results of this study show that effective implementation of performance appraisals can increase the motivation and morale of the employees which can help in developing a pool of productive employees in the workforce over all.

Despite the positive outcomes of performance appraisals, there are some detriments which can affect the implementation of performance management systems. The organizational politics is believed to affect the effectiveness of appraisals as some employees will be favored unduly over others by exhibiting negative biases with a mean value of 3.92. Competition among employees is considered as a detriment by the functional managers as it can reduce the coherence among the working groups. The competition among employees was presented with a mean value of 3.53. the effectiveness of appraisals can also be hurt by the inconsistency of the criteria used to evaluate the jobs. With mean value of 3.9, this factor grabs the highest attention in the list of constraints to the effectiveness of appraisals. Rewards are a great source of motivating employees but these can prove to decrease motivation in circumstances where those employees having poor
performance records are equally rewarded. This mean value for this factor was 3.25.

6. Conclusion

The performance appraisal has been an issue of major concern with its long lasting impacts on the employees’ job performance, which in turn, leads to the organizational performance. This interpretation justifies the strategic role of the performance appraisal and also provides a strong reason to why companies must focus on the effective execution of performance appraisals. In Pakistan, there is limited number of private sector organizations who are able to effectively execute the performance appraisal systems. Those who use this system are confined to the traditional approach of performance appraisal. Research reveals that employees become aware of their performance after passing through the mechanism of performance appraisal. The condition for such positive outcomes is that the performance appraisal system must be effective. The results are very much encouraging from the employee’s perspective as most of the respondents have this realization that effective execution of performance appraisal systems can benefit them in many ways. But some work needs to be done in minimizing the detriments to the efficiency of performance management systems. The market competition has injected a culture of competing against each other among employees. Especially, in target oriented jobs like sales and marketing where in an effort to achieve the targets, people ignore the human factor. The organizations should focus on the principle of ‘justice’ and ‘fairness’ while designing and implementing performance management programmes for employees by ensuring that only ‘good performers’ are rewarded. The management of the companies must also consider the fact that there must be criterion
validity rather than inconsistencies which limit the employee’s ability to work for the organization with full zeal and zest. The developmental plans must be communicated to the employees to ensure proper coordination as doing this will reduce the ‘irritations’ employees feel when their performance is appraised in regular intervals. This also entails that proper communication of the performance management systems must be there so that employees better able to understand the importance of performance management systems. The future studies can be directed towards public sector organizations and a different set of results is expected.

7. References


The Impact of Theravada Buddhist Values on Work Practices in Southeast Asia

Scott A. Hipsher

Abstract

It is proposed there is no clear separation between religious values and cultural values, and therefore it is proposed values associated with religious practices can have an important impact on secular activities, including business practices. An exploratory study to examine the impact of whether values associated with Theravada Buddhism have on organizational business practices within the countries of Cambodia, Laos PDR and Thailand was conducted. The study supports the propositions that paternalistic management is preferred, there is limited use of long term strategic planning, flexibility and informal practices are frequently employed, the drive for success is often tempered by other factors and there is a an emphasis on the individual within firms in the region. A linkage between these business practices and values associated with Theravada Buddhism is proposed. Deeper research is encouraged to explore further the extent of the effect that religious values have on business practices within this region of Southeast Asia.

Keywords: Theravada Buddhism, Southeast Asia, cultural values, business practices

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1. Introduction

In conducting comparative analyses of business environments, many differentiating factors are often studied. These factors include culture, level of economic development, political systems and policies, availability of nature resources, and educational and legal systems (e.g. Han et al., 2010; Lederman, 2010; McGahan and Victer, 2010). However the role of religion and religious values are rarely examined in detail. The influence of religion on both individual behaviour within a work place and on overall business environments has been often acknowledged, although for many individuals these secular behaviours and values are often thought of as natural and the connection with their religious foundations go unnoticed (Ali and Gibbs, 1998).

At the individual level, Kutcher et al. (2010) found strong religious beliefs were correlated with improved ability to cope with stress in the workplace. Vitell’s (2009) research supported the proposition that an individual’s religious values will affect ethical behaviour. Doran and Natale (2011) reported that religious beliefs in some situations appear to influence consumer behaviour, while Cole’s (2009) research indicates that an individual’s religious values can have an effect on that individual’s views about organizational justice.

At the macro level, the dominant religion of a region or country has often been found to have an impact on the overall business environment. There appears to be a correlation between the dominant religion in a country and the level of corruption, although other factors, specifically low GDP per capita, also appear to play an even more important role in contributing to high levels of corruption (Samanta et al., 2010). In addition, it has been found values associated with Christianity influence business practices in Western countries (Anderson et al., 2000; Cornwell et al., 2005); while it also has been reported that Islamic values shape the business environments in many countries where Islam is the dominant religion (Abbasi et al., 1989; Ali and Al-Owaihan, 2008). Confucian philosophy has been attributed with an influence on modern business practices in
Chinese and East Asian firms (Yan and Sorenson, 2004), while Rarick (2009) argued, “Many philosophical orientations have shaped Chinese management theory including the Confucianists, the Legalists, and the communists. Chinese management theory is a blend of all of these orientations, yet at its core, shaped by Dao.” By extension it is thought it is likely Theravada Buddhist values influence business environments and practices in mainland Southeast Asia.

It could be argued religious practices and values play a less important role in daily life than they once did as it has been found the level and intensity of the role of religion in daily life generally decreases as incomes rise and economies develop (Barro and McCleary, 2003; McCleary and Barro, 2006). However, it is believed that religious values and cultural values are strongly intertwined and traditional cultural values do not automatically fade away as societies become more secular. For example, fewer Europeans are attending church than in the past, but some of the values associated with Christianity, for example the concept of providing for those less fortunate, remain strong throughout Europe.

Although the nations of Southeast Asia and ASEAN are often lumped together due to geographical proximity, there are also distinct divisions within the region that can be made based on religious traditions. The Philippines is predominantly Catholic; Indonesia, Malaysia and Brunei are considered Islamic countries; Singapore is strongly influenced by Chinese and Confucian values; Vietnam is a unique country influenced by a variety of religions and ideas including Mahayana Buddhism and Catholicism; while Myanmar, Cambodia, Laos PDR and Thailand have traditionally been centres of Theravada Buddhism. These differences in religious traditions make it difficult to think to Southeast Asia/ASEAN as a single region culturally.

On the other hand all countries of the region share some similarities. For example the importance of the role of individuals of Chinese ancestry in the business environments of all of Southeast Asia has often been discussed (Clarke, 1998; Naisbitt, 1997; Shapiro et al., 2003; Suehiro and
Wailerdsak, 2004; Tsang, 2001) and a case could be made that Chinese cultural values dominate the business environments of the region. However, due to cultural assimilation of the ethnic Chinese in the region and the need to operate within a broader cultural environment, it is believed the values of the dominant religion of a country of Southeast Asian will have a major impact on business practices within that particular country.

2. Theravada Buddhist Southeast Asia

The majority of the population in four different countries in Southeast Asia share the religious traditions of Theravada Buddhism: Cambodia, Laos, Myanmar and Thailand. The population of the region comprising these four countries is over 142 million, while the GDP per capita in the region is approximately $1,880 on average. However, the level of development differs considerably and income is not evenly distributed. With around 46% of the region’s population, Thailand contributed 91% of the region’s GDP, while Myanmar, with slightly less than 40% of the region’s population, contributes only slightly more than 4% of the region’s GDP (Asian Development Bank, 2008: 12).

In general, the Theravada Buddhist countries of Southeast Asia have lagged behind some of the other countries of Southeast Asia in economic development and in creating environments that promote business growth. Kao et al. (2008), in a comparative study of the competitiveness of business environments of the 10 ASEAN nations, listed Thailand third, which suggests that economic prosperity and practicing Theravada Buddhism are not incompatible, but the other three nations of the region where Theravada Buddhism is dominate were assigned the bottom three places. In addition, neither political stability nor “democracy” has been consistently seen throughout these four countries (Hipsher, 2010a). The political and economic challenges these four nations have faced are not unique to the region and are shared by many economically developing nations and these challenges cannot be assumed to have been caused by these countries’ religious traditions. However, Jackson (2003: 245)
noticed, “doctrinal Buddhism provides a weak basis for democratic principles.”

Theravada Buddhism’s introduction and spread throughout Mainland Southeast Asia remains somewhat of a mystery. It has been proposed that Theravada Buddhism was first introduced into the region during the reign of the Indian King/Emperor Asoka in the 3rd century BCE (Carbine, 2004: 101), although most likely it was introduced at a much later date, and spread from present day Myanmar to the rest of the region (Stuart-Fox, 2003: 69). As Tai speakers began to migrate into the previously Khmer controlled regions of today’s Laos and Thailand, they brought both their language and their religion, Theravada Buddhism, into the area (Evans, 2002: 7). Although the city of Angkor and its famous temple, Angkor Wat, were built by followers of Hindu philosophy, when the Chinese Envoy Zhou Daguan visited the city in 1296-7 conversion to Theravada Buddhism had already taken place (Chandler, 2000: 69–71; Sharrock, 2009; Tully, 2005), although the causes of this conversion are still being debated by historians.

Theravada Buddhism is often thought of as more of a philosophy than a religion and, according to Buddhist doctrine, the Buddha is not a god or a supernatural being. In theory, Theravada Buddhism “has no dogmas, superstitions, necessary rituals, mediating priests or blind faith in an unknown (and unknowable) God” (King, 1964: 2). However, daily practices of most followers are mixed with animist beliefs including “praying” for intervention in daily life by the Buddha, saints, or spirits, and other practices and beliefs which have similarities with practices of other religions; there is a significant difference in the philosophy found in the Buddhist canons studied by scholars and daily religious practices of the people of the region (Jackson, 2003; Schober, 1989).

Theravada Buddhism, also referred to as Southern Buddhism, is one of the two main branches of Buddhism, the other being Mahayana Buddhism which spread across Northern Asia through Tibet, China, Korea and Japan. Theravada is a Pali word meaning “Way of the Elders” or
“Doctrine of the Elders” (Dhammapia 2003: 10). Theravada Buddhism is generally thought of as being a purer form of Buddhism which is more closely aligned with the teachings of the Buddha and there are fewer variations in practices or ideology when compared to Mahayana Buddhism.

3. Theravada Buddhism’s Impact on Secular Life

It is proposed that values associated with religious ideology have a major impact on secular and business activities. For example, Weber (1930) found the “Protestant work ethic” was based on values found in Protestant religious teachings and there were distinct differences in how Protestants and Catholics approached and practiced business. Weber found that Protestant values were more aligned with modern capitalism and therefore Protestant Northern Europe developed economically faster than did the Catholic regions in Southern Europe. Also, it was found in areas of Europe where there was a mix of Protestants and Catholics, more entrepreneurs and successful business people were Protestant as opposed to being Catholic. Weber felt there was less emphasis in Protestant teachings on “God’s will” and being content with one’s station in life than there was in Catholic teachings at the time of the development of the modern capitalist system. More emphasis on controlling one’s own destiny as opposed to relying on fate to determine one’s life might have resulted in more individual effort and risk taking in secular activities amongst Protestants.

Many have noticed a similar phenomenon in Southeast Asia with the Chinese minorities, much like the Protestants in past centuries in Europe, dominating in most areas of business throughout the region throughout the last century and a half (Aribarg, 2005; Hill, 2002: 136–7; Linter 2008: 176; Montesano, 2005). Chanthanom’s (1998: 272) following statement about Thailand is representative of much of what is written about the role of ethnic Chinese in the business environment of the region:
“Chinese in Thailand were the prime movers in Thai economic development. They controlled modern banking and marketing systems throughout the country. This is because the Thais considered commerce ruthless and sinful acts for good Buddhists, and a lower class status job which the educated Thais are not attracted to (ibid.).”

The most basic philosophy of Theravada Buddhism is found in the Four Noble Truths. The First Noble Truth states suffering is unavoidable, everyone suffers. The second identifies desire as the cause of suffering, while the third states the elimination of desire will lead to elimination of suffering and the fourth prescribes the path to achieve the elimination of desire (Sumedho, 1992).

It could be argued a religion/philosophy which stresses the elimination of desire as its primary goal may be more compatible with environments of happiness, peace and tranquility as opposed to the fast-paced competitive environments in which modern businesses thrive. In fact, many scholars speculated that Theravada Buddhist values have limited economic growth in the region (Piker, 1993). On the other hand, Thailand was one of the fastest growing economies in the world in the 1980s and early 90s indicating economic development and practicing Theravada Buddhism are not automatically incompatible.

4. Propositions

It is proposed that Theravada Buddhist values will impact on business values in five distinct ways. It is expected firms found in the region will generally be (1) hierarchical but paternalistic in nature; and have (2) flexibility; (3) an external locus of control; (4) moderation in ambition and (5) a focus on the individual.

*Karma (Kamma)* is an important concept in Theravada Buddhism. This concept is related to the idea of reincarnation and stresses that one’s current station in life is primarily the result of the amount of “good” one
has done in previous lives. The belief in karma (kamma) has a tendency to reinforce the existing social order and make people more accepting of hierarchies in society (Jackson, 2003; King, 1964: 64, 231; Stuart-Fox, 2003: 32). However, the acceptance of the legitimacy of existing hierarchies is moderated to some extent by a social obligation of the leaders of society to act in the best interests of those with whom they have a hierarchical relationship (Persons, 2008; Rehbein, 2007a: 45). These factors might lead to the preference for a paternalistic style of management.

Proposition 1. One would expect to see a preference for a paternalistic management style in the region.

Theravada Buddhist teachings stress the importance of the impermanence of everything and the ever-changing nature of the world. King (1964: 37) explains: “For practical purposes, Buddhism views the universe as an eternal process in which worlds, and individuals in them, rise and pass away in endless succession and in infinite numbers.” Planning requires the belief in one’s ability to predict the future; therefore one would expect to see less planning being done by individuals who have a strong sense of the impermanence of the existing conditions in the world and would instead rely more on flexibility. It is proposed one would see less long term strategic planning in organizations in Theravada Buddhist societies than in most other societies; instead, organizations would be expected to be structured and managed with an emphasis on flexibility. Also flexibility would be expected to be demonstrated by more use of informal systems with more arbitrary decision-making as opposed to more formalized systems of management.

The concept of karma (kamma) indicates that the current situation is a result of the past and, therefore, one has little control over one’s current situation and this can lead to a reliance on fate: “Buddhists tend to be very accepting of whatever befalls them” (Cole, 2009). However, this lack of control is not absolute and Buddhist doctrine stresses that individuals have some level of control over the present and some control over their future
in both their current and future lives (Harvey, 2007). Consequently, one would expect to see individuals influenced by Theravada Buddhist values to have more of an external locus of control than in some other societies and rely more on informality and flexibility than on formal structures and long term planning.

*Proposition 2.* Firms in the region will rely mostly on informal and personal management practices in HR.

*Proposition 3.* Firms in the region will rely more on informal oral instructions as opposed to formal written rules and regulations.

*Proposition 4.* Firms in the region will make limited use of formal long term strategic planning.

This external locus of control would also be expected to be reflected in less long-term planning and in moderation of ambition. If one has a belief that one’s life is significantly affected by one’s *karma* (*kamma*) that cannot be changed, then one would not be expected to work tirelessly for success if the individual felt success or failure has been pre-ordained to a considerable extent. This external locus of control would be expected to be associated with moderating ambition.

One of the fundamental aspects of Theravada Buddhist teaching, and the one which may have the most impact on secular life, is the concept of the middle path and avoiding extremes. Increasing one’s store of *karma* (*kamma*) in order to improve one’s position in the next life, which for most lay Buddhists is their real religious goal as opposed to achieving *nirvana/nibbana* (Crosby, 2006, Schober, 1989: 30), does not require one to go through life without sin and lead a life of perfection. Additionally, in Theravada Buddhist teachings, one cannot ask for forgiveness and have all the bad deeds one has done washed away. Instead, the good one has done in one’s life is measured against the bad. No one is expected to be perfect, but bad deeds can only be counter balanced with good actions. It could be argued this feature of Theravada Buddhist teachings allow individuals to
pursue material possessions through business or secular activities as long as this pursuit is not an all-consuming passion and the negative that comes from these worldly activities are counter-balanced by religious actions such as giving alms and meditation.

The concept of the middle path initially referred to the idea of Buddhist monks avoiding the extremes of living a completely austere life and one of worldliness, but it also has relevance in secular life as one is generally expected to avoid the extremes of a single-minded drive for material success and laziness. Business and financial success is important to many individuals in the region, but the all consuming drive to achieve may be less common in countries with majority Theravada Buddhist populations than in some other regions of the world.

Buddhist teachings emphasize that life is not for a single lifetime, but for a multitude of lifetimes, one following the other. In general, one is not expected to reach the ultimate goal of achieving nirvana/nibbana in one’s current lifetime, but making enough merit to move one small step closer to the ultimate goal would be considered a success. This belief can often lead to a feeling of time being abundant, which creates a lack of urgency in individuals (King, 1964: 35–6). Theravada Buddhism stresses the importance of advancement, but rushing to achieve a goal is not required, as long as progress, even in small steps, is made one will eventually achieve the ultimate prize. Professional success is important in these countries, but it is rarely the all-consuming passion sometimes found in some other locations. Extreme success generally requires extreme dedication, drive and ambition. One does not generally win a Nobel Prize in physics, an Olympic Gold medal, or create a Fortune 500 company from the ground up by taking the middle path of avoiding extremes. Consequently, one would expect to see few companies from the region becoming world leaders in their industry and ambitions for professional success to be relatively moderate.
**Proposition 5.** Working environments in the region will focus more on cooperation and quality of life and less on competition and quantity of life in comparison to firms from Western and East Asian countries.

Within Theravada Buddhism, the path to enlightenment is an individual one, which must be learned from within. Therefore, while the countries in the area are generally considered part of collectivist Asia according to Hofstede’s (1980, 1983) dimensions of culture, there is also a streak of individualism and independence found in individuals from these countries that may differ to some extent from other collectivist societies. It is possible this emphasis on the individual nature of enlightenment may also influence the individualistic and personal nature of the management of the firms in the region. This feature may explain the motivation of many micro-entrepreneurs in the region to remain self-employed even when self-employment does not provide as many financial gains as working in a factory or in another occupation (Hipsher, 2009).

**Proposition 6.** There will be minimal separation between individual owners and the management found in firms in the region.

### 5. Exploratory Study

An exploratory study was conducted that examined these six propositions and the effect of Theravada Buddhist values on business practices in Cambodia, Laos and Thailand. Three locally-owned firms in each location were examined, while one firm in Thailand owned and operated by individuals from outside the region was also examined for comparison. Semi-structured interviews were conducted and classifications were assigned.

The firms studied were:

Cambodia firm 1 - a beverage company operating as part of a family-owned conglomerate.

Cambodian firm 2 - a family-owned tailor shop
Cambodian firm 3 - a Thai-owned hotel and restaurant focusing on servicing Thai tourists

Laos firm 1 - a fitness centre operating as part of a family-owned conglomerate

Laos firm 2 - a manufacturer of religious and cultural items

Laos firm 3 - a producer of wood furniture and artistic creations

Thai firm 1 - a steel company

Thai firm 2 – a grocery store

Thai firm 3 - importer of pharmaceutical products

Thai firm 4 – foreign-owned educational provider

<table>
<thead>
<tr>
<th>Company</th>
<th>Management Style</th>
<th>HR Practices</th>
<th>Operational Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia firm 1</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Cambodia firm 2</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Cambodia firm 3</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Laos firm 1</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Laos firm 2</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Laos firm 3</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Thai firm 1</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Thai firm 2</td>
<td>Paternalistic</td>
<td>Informal</td>
<td>Mostly oral</td>
</tr>
<tr>
<td>Thai firm 3</td>
<td>Paternalistic</td>
<td>Informal with some formal</td>
<td>Combination oral and written training</td>
</tr>
<tr>
<td>Thai firm 4</td>
<td>Participatory</td>
<td>Informal with some formal</td>
<td>Combination oral and written training</td>
</tr>
</tbody>
</table>

Table 1: Typology of Firms Examined; source: original research

All of the locally owned firms displayed a paternalistic management style. For example, some of the firms in all three countries supplied meals free of charge for their employees. Also, none of the management of the
locally owned firms appeared to engage with employees to make decisions jointly to any significant extent and neither employees nor management of these firms appeared to be pushing for radical change. The hierarchical but paternalistic management styles were consistent with values associated with the belief in karma/kamma. However, Thai firm 4, which was primarily managed by a western manager with western employees, claimed to use a more participatory management style.

It was also discovered most of the firms did not rely on formal HR management systems. Recruitment and selection were mostly done through personal contacts of the owner or employees. For example, Cambodian firm 2, a tailor shop, was located in a city while most employees came for the same village in the countryside and, when new staff members were needed, the current employees contacted families and friends back in the village to find suitable candidates. None of the firms had a formal performance appraisal system and only Thai firms 3 and 4 made use of any formal training. However, all of the firms made use of informal on-the-job training. Only Thai firm 4 had a formal compensation system where pay rates were calculated by formula, while in the locally-owned firms each individual employee’s pay was at the discretion of the management or owners. Generally, relationships between the owners or managers and employees were personal and informal. There was found to be little in the way of formal structure, rules and regulations; instead, the firms made extensive use of informal and flexible structures and business practices.

Many of the owners/managers of the firms displayed considerable ambition, but none of the firms engaged in formal long-term strategic planning. Also, a number of the owner and managers of the firms had contingency plans to move into other businesses if their current business ran into problems and the firms thought about the long-term. Many of the owners and managers talked about ideas they had for the future but, instead of making fixed plans, the focus of some of the firms appeared to be more on flexibility and a willingness to move into different business directions. Surprisingly, while most of the businesses were fairly small
scale, many of the owners also operated small businesses in other industries. The one exception to displaying strategic flexibility was Lao firm 2 which was in a traditional industry making cultural and religious items with the government and local temples (wats) being their primary customers. However, this firm did demonstrate considerable operational flexibility and displayed the ability to respond to the needs of specific customers for customized products.

<table>
<thead>
<tr>
<th>Company</th>
<th>Formal long-term strategic planning</th>
<th>Working environment</th>
<th>Separation of owners/managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia firm 1</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Cambodia firm 2</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Cambodia firm 3</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Laos firm 1</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Laos firm 2</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Laos firm 3</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Thai firm 1</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Thai firm 2</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Thai firm 3</td>
<td>No</td>
<td>Cooperative</td>
<td>No</td>
</tr>
<tr>
<td>Thai firm 4</td>
<td>No</td>
<td>Cooperative/competitive</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 2: Management Characteristics of Sample; source: original research

While many of the owner and managers of the firms displayed considerable ambition, the working environments of the firms were not especially fast-paced or stressful. Workers were expected to work but there was little evidence of an emphasis on deadlines and competition between workers. As reported by Kainzbauer (2009), sanuk, or fun, is an important element of work in Thailand and, by extension, other countries in the region and it is very difficult to retain workers if the environment is
stressful and does not meet the social needs of the workers. The firms seemed to take a “middle path” attitude towards workers. Work and success were important, but so were social relations, enjoyment of the job itself and interactions with other employees.

There was no separation between ownership and management in any of the firms studied. All of the firms were primarily financed by the owners and the owners and families of the owners made up the top management of all the firms. In most cases, Lao firm 2 being somewhat of an exception as this firm had previously been a state-owned enterprise, the companies in many ways were less like organizations and more like extensions of the owners. For example, Lao firm 3 was managed by the owner, who was also the firm’s primary product designer as well as being the chief sales person. It has been found that in the region many individuals prefer entrepreneurship, even on a small scale, to paid employment and one of the primary reasons is the freedom it gives the individual (Hatcher and Terjesen, 2007; Paulson and Townsend, 2005). Freedom and being able to run the business and work in accordance with one’s preferences were found to be important for the owners and managers of the firms examined in this study.

6. Small and Family-Owned Firms

Other studies in the Theravada Buddhist countries in Southeast Asia have also found that businesses are often informal, entrepreneurial, moderate in ambition and practice a paternalistic style of management (Hatcher and Terjesen, 2007; Hawks, 2005; Holmes et al., 1996; Paulson and Townsend, 2005; Rehbein, 2007b; Southiseng and Walsh, 2010). However, before jumping to the conclusion that the features found in the companies studied can be attributed to the religious environment found in the region, it needs to be acknowledged the firms studied were primarily small firms which were family owned or entrepreneurial organizations where there was no separation between ownership and management. Many similar qualities have been found in these types of firms in different locations. Informal business practice appear common in small family-
owned and entrepreneurial firms in many locations (Luthans and Ibrayeva, 2006; Shapiro et al., 2003; Van de Ven, 2004; Wu and Choi, 2004) as does the moderation of ambition towards maximizing profits in order to gain intangible benefits (Choo and Wong, 2006; Hipsher, 2010b; Pinfold, 2001). In addition, Kundu and Katz (2003) reported that it was normal for small entrepreneurial firms to take on the individual characteristics of the owner. Consequently, the ownership structures and size of the firms are likely to contribute to the firms being studied having these attributes.

On the other hand, there may be some differences between firms in this region and in other developing economies. For example, Duong and Swierczek (2008) found both differences and similarities in managerial attitudes between Vietnamese and Thai managers. One of the differences was that Vietnamese managers were reported to place more focus on long-term planning than did Thai managers, which is consistent with the propositions found in this study. More research is encouraged to determine the extent of impact religious values have on business practices in Southeast Asia and other parts of the world.

7. Conclusions

In making cross-cultural comparisons it is very tempting to become judgmental and make assumptions that richer is better and the sole purpose of a nation’s economy or an individual firm is to maximize profits. Even the use of common phrases such as ‘developed,’ ‘modern’ and ‘newly industrialized’ can be used to place nations in a hierarchical order with the wealthiest on top (Chanthanom, 1998). Although ambition and striving for accomplishments are normally thought of as extremely positive qualities in western societies, Theravada Buddhism teaches that ambition and desire are the root causes of suffering. It is not being inferred that all managers and business owners in the region are devoid of desire for material possessions and social position but it is likely these desires are tempered to some extent by religious values resulting in approaching more closely the middle path as opposed to having extreme desires for success.
Work is an important part of life in the region; however, it has been observed that individuals in the region often place higher priorities on quality of life as opposed to a sole focus on economic success. For example, Rehbein (2007a: 65) reported that most agricultural workers in Laos viewed using new technology as a labour saving tool to help increase the amount of leisure they had as opposed to being used to increase productivity and profits. Holmes *et al.* (1996) found in Thailand that the maintenance of cordial relationships and a good work environment often takes priority over efficiency and, therefore, the decision made is often the one that is the most popular as opposed to the one that will increase productivity the most.

Business practices are deemed to be effective when helping to achieve business objectives and, while profits are important in all business activities, there might be additional social goals for both the owners and workers within organizations in the Theravada Buddhist countries of Southeast Asia resulting in additional emphasis being placed on different aspects of business than is often assumed in the academic literature. A straight comparison of business practices and results from different regions might not be the most useful; instead, it might be a good idea to take into account the objectives of individuals within the organizations and society at large before making determination of the effectiveness of specific business practices.

Business owners and managers who are followers of Theravada Buddhism, much like the followers of other religions, often face what on the surface appears to be an ethical dilemma between secular and religious duties. This apparent conflict is often framed as being a choice between choosing to do ‘good’ religious practices or ‘bad’ or selfish business practices designed to maximize profits. Yet research has consistently shown a correlation between a lively private sector and economic growth, employment opportunities and poverty reduction (Pietrobelli, 2007; Son, 2010; Warr, 2007) and, therefore, a case could be made that there is no automatic contradiction between being a good Buddhist and a good entrepreneur or manager as long as one stays on the middle path.
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CONFERENCE REPORT
Since its launch in Thailand in 2007, the International Colloquium on Business and Management – or “the ICBM” as it is now known – has grown into a vibrant and well-attended annual event, focusing primarily on South East Asian business affairs. This year, the conference was on the theme of “Business Education and Poverty Reduction,” and attracted more than 100 delegates from over 30 countries.

The keynote presentation has always been a highlight at ICBM events. Past speakers have included Professor John C. Groth of Texas AandM University, USA. Dr Foo Check Teck of Nanyang Technological University, Singapore, Professor Herman Van den Bosch of Open Universiteit Netherlands, and Dr Evangelos Afendras, formerly of Sultan Qaboos University, Oman.

The Key Note Speaker this year was Dr Al Rosenbloom of Dominican University, USA, who presented a talk entitled, “Crossing the Chasm: The Challenges of Including Poverty Issues in Business Schools.” In this session, Dr Rosenbloom discussed his engagement with sustainability issues, and showed how he now integrates poverty reduction initiatives into his teaching, learning and research activities. For those looking for a thought-provoking and informative keynote speaker, there is none better – or more topical - than Dr Al Rosenbloom.

The conference theme attracted a number of high quality papers, which explored the ways in which business and business education can become more socially responsive. Among these, several papers
focused specifically on the question of how tourism can reduce or alleviate poverty. A memorable presentation on this subject was made by Dr Peter W. O’Brien, of International College, I-Shou University, Taiwan, whose paper “Business, Management and Poverty Reduction: A Role for Slum Tourism?” subsequently won a Best Paper Prize.

Since its inception, the ICBM series has attracted a core of regular participants, who add immeasurably to the events. Notable among these, Dr John Walsh again showcased the fascinating research being done by PhD students at Shinawatra University, on South East Asian business and tourism issues. John Walsh also chaired several key sessions, in his characteristically wise and entertaining way.

Another regular contributor to the series over the years has been Dr Frank Faulkner of the University of Derby, UK, who presented a highly creative and insightful paper - "Strictly in Confidence: Thai Economic Virility, Internal Angst, and the Market. So – What’s Next, Then?" – which typifies Dr Faulkner’s ability to capture complex, emerging issues, and characterize them in interesting, counter-intuitive ways.

Other notable sessions, included that of Dr Ceyhun Elci, who presented a novel and potentially significant paper on the topic of "International Bio-Economic Contamination Analysis and Country Welfare Impacts: An Empirical Assessment," which looked at biological risk in international trade flows. This paper subsequently won the second Best Paper award. His colleague from South Bank University in the UK, Dr Laurence Fisher, presented another rigorously researched and highly relevant piece of research, titled "The Characteristics Common to Successful Anglo/Thai Industrial Joint Ventures." Dr Elci and Dr Fisher are also regular participants at the ICBM conferences.

The ICBM events are not only highly informative affairs, but they can also be very entertaining. Recent episodes included a presenter
unexpectedly breaking into song and performing a startling “cockroach dance,” which left the audience speechless. There was also an early morning, audio-visual presentation on the business of “death metal,” which left an indelible memory with those who witnessed it. Mostly, however, the conferences are simply good humoured, enjoyable events, where ideas are shared and new friends are made.

This was such an event. Supported by sponsorship from Balamand University, Lebanon, and Emerald Journals, UK, this year’s ICBM provided a forum for people to come together and discuss poverty reduction and business issues within a South East Asian context. It is hoped that the animated and enlightening discussions at the conference, will now lead to further innovative research into poverty reduction and South East Asian affairs.

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ICBM website: http://www.icbmbangkok.com

Editor’s Note: I am pleased to be able to include a version of Dr Faulkner’s paper in this volume. While publication cannot replicate Dr Faulkner’s unique style of delivery, it can at least provide a sampling of his mode of thinking.
INVITED CONFERENCE PAPER


Frank Faulkner

**Abstract**

This paper will examine the concept of confidence as it relates to economics, and will also apply it to the Thai paradigm. The reasoning for taking this approach is to understand and rationalize Thai economic dynamism in a period of relative global economic austerity, and also in the context of domestic and regional unease. This is of particular resonance when juxtaposed with significant internal and external pressures that may have a direct bearing on how the Thai national economy performs now and into the future. With these issues discussed and established, the paper will then offer some analysis of the likely implications for future socio-economic development.

**Keywords:** Thailand; confidence; economics; security; society.

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1. Introduction

It is by now accepted that the general global economic recovery has been somewhat sluggish and uncertain of late in some of the leading G20 economies. That said, the emergence of the East as the putative leading economic powerhouse that has effectively broken the 500-year domination of the Euro-centric-and North American hegemony, suggests a clear departure from the established *status quo* and one that offers a re-alignment of global trading terms for the foreseeable future.

From a Thai micro-perspective, the contemporary economic trend has pointed to figures suggesting that the economy is achieving not too far from double-digit growth, whilst countries like the United Kingdom (UK) struggle to achieve one per cent growth, even in a relatively stable political condition. Moreover, what is remarkable about the Thai model is that these levels of progression have occurred in the aftermath of severe socio-political internecine strife, which it is accepted is, as yet, far from resolved. Given that wealth creation within a ‘trickle down’ context could theoretically contribute towards eventual Thai social stability, and perhaps go some way towards providing prophylactic measures against future socio-political insecurity, this paper will examine how such a model of economic development will be affected by likely future events.

This issue of security also extends to Thailand’s external regional security concerns, and the fact that localised or regional conflict can have a deleterious effect on economic performance, as stock markets and shareholders may suffer from confidence volatility and in light of the now well-documented, recent and on-going seismic events in the Middle East. Despite periodic ceasefires, the protracted border skirmishes with Cambodia evidently fall into that category, albeit on a far smaller scale, but which may erupt into a much larger conflagration should initiatives at rapprochement not be undertaken by both sides. Initially, however, this study intends to investigate the
concept of confidence as it relates to the matters in question, prior to applying the analysis to the indicated micro- and macro-levels of investigation. The paper also intends to offer a short prognosis of the likely prospects for Thailand in the short term, and in so doing will contextualise the analysis with reference to the above considerations.

2. In Confidence …

*Popular support for the capitalist society of Hong Kong has, on the whole, remained robust despite its heavy battering by the Asian financial turmoil. The free market is still the article of faith of Hongkongers. Demands for governmental intervention in the economy are qualified by public ambivalence about its effectiveness. Hongkongers remain fairly optimistic about the economic recovery of Hong Kong and its competitiveness in a global economy (Lau, 2003).*

When contemplating periodic overtly economic crises from a purely ‘confidence’ perspective, Kobayashi postulates that variably approached reform may be a hindrance, in that ‘…forbearance of economic reform impedes the rebuilding of the confidence during a financial crisis’ (Kobayashi, 2007). Conversely, other scholars argue that the actions of (especially) governmental entities act in a more positive manner and that ‘…the decisions designed to build confidence or instil a “spirit of reform” on the part of the government can interact with the decisions of economic agents … opening up the interesting possibility of multiple [both top-down and bottom-up] equilibria’ (Haaparanta and Pirtillä, 2007).

In some senses, all of the above might mirror the recent situation in Thailand, in a socio-political way rather than merely economic, but without detracting from the obvious influence of financially viable factors. However, the effects of anomie cannot be discounted as this indicates the salience of economic vitality allied to socio-political issues to securing the local consumer base’s optimism in national
economic virility, and the nexus of social stability that goes with it. However, the problematique is to ensure that national security is in place first and foremost, so that we may assume, in time, confidence also returns to cement the social gains presumably made in the wake of upheaval and internal unrest.

Specific again to the idea of confidence, news commentators, in times of relative economic austerity, regale television and radio audiences with gloomy sound bites regarding the seeming desertification of the global high street, where consumers are conspicuous by their absence. These reports are also often punctuated by the mantra of a ‘lack of consumer confidence’ that describes a malaise eroding national prosperity and that has a ‘knock on’ effect pervading vendor and shopper alike. As for what we actually mean by the word ‘confidence,’ this is a multi-dimensional word loaded with meaning, as Luhmann (1988; 1989) originally expounded, and taken up in later years by Siegrist et al. (2005: 147), in that confidence is defined as ‘… the belief, based on experience or evidence, that certain future events will occur as expected,’ and that it is also ‘based on high levels of familiarity’ and can be found in ‘just about anything.’

Applying these thoughts to this paper, it would be tempting, it would appear, to resort to an examination of overtly psychological factors to explain quite why confidence deserts the markets and those that inhabit it, but there is a belief that this may only partially explain the dynamics that determine consumer and producer patterns on a geographical scale. The inference, here, is that the economic prognosis is bleak and restoration depends upon a number of, as yet, indeterminate variables. Otherwise, confidence would not be frequently absent, logically. So, and as Lau reminds us from the perspective of the wider economic sphere that this paper deals with, ‘East Asian countries struck by the [1997] economic crisis have coped with it in different ways, depending on their political-economic configurations and the economic role of the state’ (Lau, 2003). There
is a belief that, whatever the economic outlook, then, that confidence has an historical precedent and that it will return eventually.

Now, this may well be attributed to a particular mindset, one that, unlike in other regions, is able to shrug off the gloom and despond of collapsing markets, and be able to re-establish commercial vigour in a relatively short space of time. This may, or may not, be equally applied to interventionist tendencies by the home government as Lau indicates (2003):

“It is to be expected that in economic hard times people would demand more economic intervention from the government. During Hong Kong’s unprecedented economic down turn, it is thus natural to look to the government of Tung Chee-hwa for help. It can even be said that by deliberately fostering the image of a caring paternalistic government Tung has unwittingly raised public expectation of what the government can do for them (ibid.).”

Even in an avowedly hyper-capitalist market, there is a belief that the public sector can and, indeed does, play a vital part in restoring market confidence and, where necessary, bail out errant private sector adventurism, as has been evident in the West since 2007. Moreover, the issue of confidence is intimately bound up with supply-side economics, quality and availability of products. This, also, includes country-specific shocks (for example, shortages of local dairy and textile produce) and differing reactions to said occurrences.

Explicitly referring to Thailand as the subjective paradigm in this paper, as Fischer (2003: 209) notes, the matter of confidence can be a fragile affair, notably after the crisis that engulfed Southeast and East Asian economies in the late 1990s, and Thailand devaluing the Baht, which triggered the onset of the contagion that spread throughout the region (Thayer, 2004). This ‘contagion,’ as Fischer would further have it, badly affected currency markets leading almost inexorably to
‘debt service costs increasing,’ which led in turn to residents ‘rushing to hedge their external liabilities’ amid a general ‘suffering of a [pronounced] loss of confidence,’ with a concomitantly steep depreciation of their currencies. Such, seemingly, is the nature of an implosion of national self-assurance; Thailand ran up a significant 8% per cent of GDP deficit, thus resorting to calling in the IMF to help out (Fischer, 2003: 209), and analysis of that will now continue to open up relevant study on a country-pertinent basis.


The country has a remarkable propensity for injecting a keen sense of vitality into its commercial and social life; accordingly Thailand continually reminds us of how it confounds Western economic predictions and performance indicators, by recording impressive growth markers as initially alluded to above, despite the somewhat gloomy climate that has bedevilled markets elsewhere for the past three or four years or so. That said, the Thai economy has not been without its detractors, nor indeed has it succeeded in escaping the vagaries of see-saw economics that are usually depicted as ‘boom and bust’ episodes between high and low, or non-existent growth. However, as Warr (2000) notes with perhaps a hint of borrowed nostalgia, the ‘Thai economy had been the fastest growing in the world’ in the decade leading up to 1995 prior to a marked nosedive when Thailand’s growth was close to zero in 1997.

At that time the Thai currency, the Baht, lost 14% of its value (Chomsisengthet and Kandil, 2007: 454, 455) against the US Dollar and the country recorded a negative percentage growth rate of 5.6% in the second quarter of 1998 as export markets shrivelled. That said, Thailand demonstrated an emphatic ability to recover from the 1997 crisis (Anwar and Gupta, 2006), in sharp contrast to, for example, Indonesia, which still appeared to be gripped by economic inertia as it struggled to shrug off the debilitating effects of a major downturn.
This, it is observed, took place against a backdrop of the ‘necessary evil’ of government and market capitalism. Further, *The Economist* (2009) seemingly endorses this view with analysis of the antics of Indian-born banker Rakesh Saxena, who apparently helped preside over the implosion of the Bangkok Bank of Commerce insolvency imbroglio, in 1996.

Following closely on the heels of this ominous portent for Thai economic fortunes, it was put forward at the time by a number of analysts that the crisis in Thailand, which was the first domino to fall in the greater Asian economic sphere, ‘will get worse before it gets better’ (Julian, 2000). Ryan broadly agrees with this, but takes a slightly different angle of approach; he takes the view that the Asian ‘economic miracle’ (the realisable concept of which he seriously doubts, in any event) was more to do with the machinations of ‘authoritarian governments’ ability to achieve and maintain massive resource mobilisation programs’ (and presumably as such outside the politico-economic scope of *de facto* democracies), and ‘workplace unionisation was firmly discouraged by legislation’ (thereby removing another tier of likely checks and balances) and that ‘The twin causes of the financial and economic collapse in Thailand, Indonesia and Malaysia were their growing current account deficits and rising real exchange rates, problems which authorities could have alleviated by taking the necessary exchange rate devaluation option suggested by the IMF’ (Ryan, 2000).

Now, a full decade after the malaises that hobbled Thai economic performance, the growth indicators from the IMF look forward to a 7% expansion of the economy, easily outpacing regional competitors like Malaysia, Indonesia and the Philippines (*The Economist*, 2010). Taken in the context of the unrest that convulsed the country in early 2010, this upsurge in performance is all the more notable. However, one may not rest too easily as the country’s ‘troubles’ are far from resolved and many parts of Thailand remained uneasy and under a continuous state of emergency imposed by Prime Minister Abhisit
Vejjajivva that has only recently been lifted. He, it is noted, is doubtless working with one eye on the electoral calendar, and is constrained by law that says he must call elections by the end of 2011 at the latest. Moreover, from Ahbisit’s perspective, he may well gain confidence from the return of tourists, a trickle of investments and growth that has propelled the expansion of welfare schemes for the poorer citizenry. As such, he may be tempted to call an early election on the back of encouraging economic activity.

Moreover, and as stated earlier, positive economic virility has to be taken in the context of social cohesion; Thai infrastructural expansion must be addressed against a backdrop of severe internal strife, huge social schisms that have occasionally threatened to cleave the country asunder and which, even to this day, remain largely unresolved. Quite how severe is the level of disaffection that, for example, Red Shirt (RS) protesters retain, remains unknown; it is unlikely that this will become clear at this juncture, and that in the final analysis an accurate picture of the anger directed at the perceived venality of the ruling élites by the RS may not emerge until the constraining State of Emergency’s recent withdrawal can be measured with regard to long-term effect; that is, what is calm today may be a maelstrom tomorrow. Throw into this hotchpotch of intrigue the éminence grise of former Prime Minister Thaksin Shinawatra, and the overall scenario remains confusingly opaque. What is not in doubt, however, is that he is still a ‘potent symbol for millions of disaffected Thais’ (The Economist, 2010). Indeed, it is noted that Thaksin has been, according to some sources at least, strenuously attempting to ‘upstage’ Prime Minister Ahbisit by organising relief supplies to flood-affected areas even as Ahbisit travelled to Lop Buri to preside over operations to help flood victims (The Nation, 21st October, 2010). Thaksin-Ahbisit issues notwithstanding, what remains clear is that Thailand requires stability in order to promote sustained growth and increased prosperity. Whilst this is not a ‘personality’ matter per se, there is nonetheless a degree of disaffection in Bangkok with Thaksin’s modus operandi conducted outside Thailand’s borders,
Persisting now with a more upbeat, positive bias with due regard to a flagship sector of Thailand’s general economy, the paper briefly notes the criticality of tourism and its management to Thai economic performance. The inclusion of this sector is a significant economic barometer of the continued good health of the country and is thus worthy of exploring in the context of the nation’s business fortunes here briefly. Consequently, this highly important sector has depended on a number of factors as outlined in the tourism strategy, as Higham (2000) explains:

- Foreign currency income to increase *by no less than* 14 per cent year-on-year;
- Foreign tourist arrivals to increase *by no less than* 6 per cent year on year;
- The number of Thais holidaying domestically to increase *by no less than* 2 per cent per year.

Naturally, continued robust growth depends on good management of the tourist infrastructure and how well the sector is marketed and promoted. The record has been, lamentably, poor in some ways; part of the blame for this has been squarely laid at the door of the Tourism Authority of Thailand (TAT), which had seemingly approached this business with little forward planning or indeed without thinking the issues through clearly enough.

As Higham (2000: 138) further notes, part of the problem had been that TAT had been criticized for ‘committing too many resources to tourism promotion’ without behaving with due care and attention to the impact of the sector on the country’s natural habitats, and being ‘unethical and morally reprehensible’ in terms of commercialization and marketing. Critically, however, there is the contentious over-promotion and under-managing of this vital national economic enterprise. Quite what this says about the uniquely Thai approach to
economic confidence is open to question; it would be crass of the authorities to misinterpret and over-state the issues of tourism sector vitality. Further, in the final analysis TAT, and indeed the larger economic sphere, cannot assume that tourists will continue to arrive in ever larger numbers despite an upturn after the instability that periodically plagues the country. Perhaps they would do well to observe the emergence of similar, and markedly cheaper, tourism destinations in the southeastern Asian region.

Conversely, according to Baker and Phongpaichit (2008: 149) Thailand’s tourism industry is now extremely well established in comparison to the disorganised infrastructure that existed as recently as the late 1950s, but which received a fortunate (if that be the word) boost as a direct result of Thailand’s role in the Vietnam War, with the country being chosen as the preferred place for American GIs seeking ‘R and R’ away from the combat zone and now has a famous (or, infamous) sex tourism industry that enjoys a truly global footprint. So, despite the apparent inconsistencies of performance by the like of the TAT, the health of tourism in Thailand should continue unabated subject, of course, to a perception that the country can keep its internal security situation in order with no further instances of social unrest. The likelihood of that happening however is at best moot, and at worst not worthy of serious consideration.

Examining the figures over a period of time, the criticality of inward investment provided by the tourism industry makes absorbing reading; according to The Nation newspaper (Sritama, 2010), the TAT projected that the industry attracted some 14.4 million visitors in 2010, and that the upward trajectory may suggest that 15 million people would vacation in the country in 2011, bringing in some one trillion Baht in revenue. However, this is mere speculation at this time, and should be considered as such. As this paper will now show, however, Thailand has other security complications to contemplate.
4. Pressure Exertion: Further Questions from Within and Without

It may be noteworthy that Thailand has other, potentially destabilising matters to address besides the RS conundrum; whilst these currently dwell in the realms of possible barriers to growth and concomitant prosperity, there exists, nonetheless, likely problems that are being stored up for the future unless the political will is found to resolve them permanently. Firstly, this paper will examine the ‘running sore’ that is the protracted separatist insurgency in the extreme south, along the border that Thailand shares with Malaysia. Limited to a region distinctly remote from Bangkok, certainly in the geographical (and arguably political) senses, the southern provincial trouble has bedevilled Thailand ‘over the past century’ and has not been settled because, as McCargo further reminds us, the issue of legitimacy has not yet been firmly established one way or the other (McCargo, 2009: 183).

What this means, in effect, is that ethnic Patani Malays (noting the distinct revised spelling away from the Thai ‘Pattani’, and further observing the symbolism of the spelt word in local political semiotics) routinely question the legality of Thai sovereignty, and have engaged in periodic rebellion to provoke Bangkok into a response set against ‘inept repression’ by a succession of Thai administrations. Moreover, the Machiavellian overtures conducted by Bangkok have used ‘two simple overlapping strategies: co-opt and control Islamic leaders and teachers, and co-opt and control the Malay-Muslim elite’ (ibid.: 183). Clumsy and ill-considered as such initiatives may be, what is now evident amounts to an on-going so-called ‘low-intensity conflict’ that, if not brought to a peaceful end, may escalate in the manner of recent United Front for Democracy against Dictatorship (UDD) RS protests but, obviously, in recognition that there are fundamental differences in the aims and character of both these phenomena.
In terms of exogenous threats, chronic armed insurgency has occupied several Thai governments. After the Second World War, the emphasis shifted from out-and-out armed confrontation to a new type of warfare, in which operations were carried out by sub-state actors, and have often been prosecuted within, rather than between, states. That said, it is nonetheless accepted that inter-state conflict is still a significant factor in international relations and, in this paper, is certainly the case with Thai-Cambodian interactions. Thailand had recognised that with the easing of the Communist threat in the 1980s, there still remained the issue of Vietnamese occupation of large tracts of Cambodia, and the possible destabilising nature of such an incursion. For bi-lateral relations between Bangkok and Phnom Penh, however, the vexing issue of opaque borders between the two countries continues to sour affairs. The history of antipathetic dealings between the two entities is long, labyrinthine and bloody, as Baker and Phongpaichit observe:

“Bangkok first extended informal control into Western Cambodia, and then in 1833 the king despatched an army to take the territory or else turn Cambodia into forest, only the land, the mountains, the rivers and the canals are to be left. You are to carry off Khmer [Cambodian] families to be [forcibly] resettled in Thai territory, do not leave any behind. It would be good to treat Cambodia as we did Vientiane [during the war of 1827-28, when Thai armies sacked the Lao capital] (Baker and Phongpaichit, 2008: 28-29).”

History is replete with similar incursions between neighbouring countries of the greater Mekong region, as the aforementioned briefly shows but, for the purposes of this paper, the intention will be to concentrate on current issues. The contemporary complication concerns the ownership of the 11th century Preah Vihear temple complex that sits alongside the long-disputed border between Thailand and Cambodia. Such is the unusual nature of this quarrel, that the World Court ruled in 1962 that the temple itself is under the
ownership of Cambodia, whilst the entrance lies in Thailand. It is further noted that the issue of borders is exacerbated because the exact lines of demarcation cannot be finally ascertained due to the presence of landmines along the border after years of war in Cambodia. Until the mines are removed, the area remains contestable.

The current round of unrest lies partly with chauvinistic, nationalist fanfaronades on both sides of the border, and with domestic consumption of bellicose rhetoric in mind. Tensions have risen markedly over the past few years, with incursions, shelling and fatalities incurred by both sides. As recently as this April, fighting again broke out between the two nations with six fatalities recorded in the bloodiest clash since the United Nations (UN) appealed to both side to exercise restraint and impose a ceasefire in February, 2011. It is noted, pointedly, that the latest outbreak of violence took place over 100 kilometres away from the Preah Vihear complex, thus emphasising the dangers of escalation to the socio-economic livelihoods of both the belligerents, as stated above.

Much in line with Zhou Enlai’s proclamation that it is too early to discern the outcomes of the French Revolution, the endgame of Thailand’s economic woes are still being played out and this was detected quite early (Phongpaichit and Baker, 1999) even though little of note may be predicted at this juncture. However, and as Hewison notes, succeeding years have brought about significant change and, rather than adhering to neo-liberal instincts regarding how the market operates in Thailand:

“… the critical element of understanding the political outcomes of the economic crisis and recovery are not to be found in neo-liberal policies, but in the responses of domestic economic and political forces … The importance of shaping the way the market will operate in Thailand has seen an attempt to reshape Thailand’s social contract in a way that is quite different from what might have been expected when the
economic crisis hit Thailand and a neo-liberal revolution seemed possible (Hewison, 2005: 326-327)."

To be sure, Hewison’s thoughts might seem, *prima facie*, to be at variance with events in early 2010, when any ideas of a ‘social contract’ burned on the bonfires. It is, furthermore, fairly certain that the occasionally presumptuous presence of the Thai armed forces will make itself felt in the future should yet another crisis occur. Given the current stand-off between the Government and the RS factions, this is a distinct likelihood.

5. Conclusions

Thailand, in recent decades, has displayed some of the characteristics that typify so-called ‘boom and bust’ economics, and not unlike other economies around the world, has encountered a degree of difficulty in coming to terms with the realities of economic reversals of fortune. However, unlike most advanced industrialized economies or those aspiring to first-rank status, the nation has struggled with chronic social unrest, and the convulsions of frequent coups d’état in a political climate often dominated by overweening military influence. Moreover, and based on current trends, it is difficult to see how Thailand can escape the spiral of relative if uneasy calm counterpointed by crises that threaten socio-economic cohesion.

Taken a step further in a wider geographical context, Thailand’s often vitriolic relationship with Cambodia shows no sign of disappearing, as events during early 2011 demonstrate. Part of the problem lies with near hyper-nationalist rhetoric on both sides designed, at least, for domestic audiences. That said, and bearing the events of April in mind, this conflict exhibits tendencies towards a widening theatre of war that may directly inform the future of Thailand’s economic fortunes should the situation escalate much further and for any continued length of time. The prognosis does not look particularly good at this juncture, occasional ceasefires notwithstanding. For the
long-term security of both countries, it is absolutely necessary for both parties to engage with durable conflict resolution measures.

Moreover, Thailand’s perceived ‘legitimate’ security interests have to be contextualised in the shaping of the global war on terror as it applies in the greater Mekong region, and indeed further afield in south Asia (noting the associated problems emerging in the Philippines, for example). Of more immediate concern to Bangkok remains the protracted, and seemingly intractable, situation in the southern provinces that shows no signs of diminishing any time soon. Whilst this may seem remote and of little moment to the geographical bulk of Thailand, it nonetheless presents a dilemma that will require permanent solutions eventually.

As may be imagined, the fragility of economic confidence against a backdrop of chronic unrest suggests a plethora of uneasy times for the Kingdom, as recovery historically tends to suffer from the slings and arrows of social unrest. Like most other industrialized or industrializing economies, Thailand is at the mercy of downturns in national self-assurance, which, one assumes, follows a cyclic path and eventually returns to what may be termed normality. As this paper explained earlier, the concept is expounded by, for example, Siegrist et al. (2005) who offer the view that confidence is there within the context of certainty, in terms of future predictions. This may, indeed, be the case where historical patterns indicate stability; in Thailand’s paradigm, this is far from assured as events in early 2010 indicate. The prognosis is far from optimistic, as the outcomes of the unrest clearly suggest.

Returning to a brief discussion of the apparent primacy of the East as would-be economic hegemon led by China, Thailand’s position as the Southeast Asian region’s second-largest economy might point to increased economic prosperity. Should this be realised, it would surely help to foster the kind of socio-economic constancy that has proved to be so elusive up to now. Much depends on how the country
approaches the structural inequalities that have blighted Thai political discourse over recent decades, and which have directly and indirectly led to eruptions of violence and subsequent economic malaises. In any event, much will depend on how China’s economic progress impacts on the greater east and southeast Asian regions, certainly in terms of economic inter-dependence, and any benefits that might accrue as a result of presumed increased prosperity.

The future for Thailand, then, depends on a mixture of hope, determination, optimism and, to an extent, trepidation in respect of the country’s prospects for stability. The schisms that periodically convulse the socio-economic fabric of the nation tend to wax and wane, dependent partly on the political will of the protesters in response to developments emanating from the perceived venal urban élites clustered primarily around the Bangkok metropolitan area. What is abundantly clear is that, and unaffectected sectors like manufacturing notwithstanding, the economy is usually adversely affected by instability and especially violence that impacts negatively on the hugely important tourism industry.

To be sure, the PM intends to take measures to address economic performance alongside seeking to defuse social tensions, such as the November relaxing of the protracted State of Emergency. Returning to matters economic, the vital tourism industry as a prime indicator of growth has suffered of late due in part to the seemingly parlous performance of the TAT. What appears to be the problem is in part due to a lack of forward planning and a disregard to the balance needed to cater for tourism on the one hand, and also protecting vulnerable habitats on the other. Taken as a whole also with micro-issues firmly in mind, the Thai economy needs to take a look at itself and to have due regard for regional competition. The country’s position as the second-largest economy in its region cannot be taken for granted in a world that is witnessing the emergence of Asia as the largest single trading bloc on the planet.
6. Bibliography


BOOK REVIEWS
The River of Life: Changing Ecosystems of the Mekong Region

Yos Santasombat


224 + xiii pp.

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Approximately 50 million people rely on the Mekong River for their food or livelihood in one way or another and they are directly affected by the threats to the river: global climate change is melting the Himalayan glaciers that feed several major rivers in the region, while damming and rapids blasting upstream threaten the predictable flow of the waters around the year. Indeed, actions by the upstream government (China) are bringing into consideration issues of ownership and control of a river that had historically been considered part of the commons and, hence, available to all. In a new book concerning changes being made to the Mekong and its ecosystems, Professor of Anthropology Yos Santasombat, draws upon some years of research to describe various aspects of these changes and what might be done to combat adverse effects.

Santasombat has adopted a three-pronged ideological approach to the book. This involves transnational enclosures, situated knowledge and global civil society. The first of these involves an idea familiar from the work of Michael Hardt, in which resources which historically have been considered to be commonly available to all people, are metaphorically fenced off (enclosed) and hence denied to the people accustomed to using them and, finally, repackaged and offered for sale to those same people. In this case, the Mekong has been enclosed primarily by the upstream government and converted into a commercial commodity which is of use as a conduit for river-borne trade (including, worryingly, the transportation of oil). Once the water has acquired a financial value, therefore, it seems inevitable that such a cost will eventually work its way along the length of the river.

The concept of situated knowledge relates to the concept of specific, local knowledge relates to the interaction between different elements of the ecosystems prevalent in a location and only appreciated by the long-term study of local phenomena or, if not study, then at least concerned proximity. Such understanding is termed ‘profound’ and that level of understanding “… leads to the ability to administer, modify, utilize, and develop resources in a sustainable manner (p.9).”
In fact, it does slightly more than that: it privileges the local people in making decisions about conservation and implies that anyone without specific, profound understanding cannot make the necessary decisions on a proper footing of knowledge. In the context of Thai environmental management, there is a clear sub-text here that argues that outsiders of any sort will be unable to make good decisions. Outsiders may be taken to include here not just geographically remote people, foreigners that is, but those forces of globalization and capitalist development which are so often taken to be inimical to the essential Thai spirit and culture. This locates the book within the tradition of romantic Thai history perhaps best known in the work of historian Charnvit Kasetsiri, whose evocation of the typical Thai village as a self-sustaining, self-reliant and isolationist community has been so influential in subsequent work.

The third element of the basis of the book is that of global civil society, which is composed of non-governmental organisations (NGOs) which, at least in some circumstances, “... provide a legitimate arena for social transformation and resistance motivated by political concern for people who are relatively disadvantaged within the world system (p.14).” This formulation provides space for the well-meaning professional outsider while resolutely keeping out the state, politicians, bureaucrats and the private sector. In its own way, the combination of situated knowledge and global civil society is its own form of ideological enclosure. It indicates both that those inside the enclosure will not make mistakes as long as they are virtuous, i.e. they obey the lessons of the past, and also that no outsiders have the legitimacy to question what they are doing. This is an attitude that has become characteristic of much Thai scholarship dealing with the natural environment.

In the seven subsequent chapters, which range up and down the course of the river, Santasombat provides a range of case studies, seemingly conducted with a variable degree of rigor or at least so some of the presentations suggest, focusing on the extent to which divergence
from local knowledge and practice, mostly caused by the intrusion of market-based incentives, is leading to the marginalization of some communities, the loss of diversity and other negative results. The desired approach is described thus: “… local knowledge should not be placed in opposition to modern knowledge by employing a range of binary concepts: local knowledge versus scientific knowledge, traditional knowledge versus modern knowledge, and folk knowledge versus universal knowledge. Rather, the focus on local knowledge represents a shift away from the preoccupation with the centralized, technically-oriented solutions to development problems that have failed to improve the prospects of most of the world’s marginal peasants and small farmers (p.134).” Some people, at least, would look at this formulation and wonder about the absence of a political element. It would be difficult indeed to deny the existence of continued, often exacerbated poverty in the world or that some ‘centralized’ solutions have turned out to be less than optimal, not least here in Thailand. Yet there is no sense here in which a wider political realignment would in any way be necessary or even desirable, apart from changes which might be made by the civil society NGOs.

The River Mekong extends through such a wide range of ecosystems and the methods people use to take advantage of them that careful, thorough description of their lives and activities is always warmly to be welcomed, especially at times when those activities are threatened. In that sense, this book is a welcome addition to the field.
An Economic History of Cambodia in the Twentieth Century

Margaret Slocomb


ISBN: 978-9971-694999

345 + xxi pp.

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In previous work, notably her book Colons and Coolies, Margaret Slocomb has demonstrated her understanding of the workings of Cambodia’s economy and society in the context of the colonial rubber plantation industry. Here, in this rather more ambitious but constrained work, she brings to bear her knowledge across the entirety of the economy in the period leading up to the present. Curiously, in doing so, she seems to have abandoned most of the theoretical underpinnings that served her so well in Colons and Coolies and replaced them with a diverse set of references, including repeated use
of the work of Francis Fukuyama, which is known to be problematic. The result is a tendency to move towards the Henry Ford school of history in that there is just one damned thing after another and less emphasis on understanding why things happened the way they did. To be sure, Slocomb understands and can explain snapshots of structures and systems in Cambodia but more could have been done to explain the changes in activities that did take place.

From the title of the book itself it becomes apparent that there will be some problems in the coherence and coverage of the text. Cambodia’s modern economy was significantly shaped by the preceding French colonial period and this dates to a few decades before the beginning of the twentieth century. Slocomb cannot help but bring up material from a period prior to the title’s stated intention and, at the other end of the book, looks forward into what remains of the twenty-first century. The time dimension is, therefore, problematic and although the concept of a twentieth-century history must be appealing from a publisher’s or marketer’s point of view (given that there is presumably only a limited amount of demand for book length studies on the Cambodian economy), it seems like the issue could have been avoided merely by changing the title a little. There is a similar problem with the geographical space occupied. As part of the colony of Indochina, Cambodia was yoked together both as part of a regional entity and as part of an international, perhaps even global commercial and economic system, took its admittedly small place within much larger forms of organization. Yet this aspect is largely ignored changes wrought by new forms of imports and cultural changes relating to cultural hegemony (or ‘soft power’) are little considered.

As an eminent historian, Slocomb is understandably better at the chapters that deal with the past rather than the present. She marshals and draws upon her sources admirably when considering, in particular, the Sangkum Reasr Niyum or Popular Socialist Community and the economy of the revolutionary Khmer Rouge period. Her tone is clear and her vision convinces in its objective approach to the varying representations of the facts and statistics that
are available. However, these chapters and the later ones are not, of course, perfect. For example, there are issues relating to the economic activities of the overseas Cambodians who left as a result of the wars and the Khmer Rouge period. Although these activities by definition took place outside of the country, they are certainly likely to have had an important role in the development of the economy at a low level subsequently, not to mention in funding emergent or resurgent corporate activities in Cambodia. Similarly, the role of migrant workers is only lightly touched upon, despite there being many scores of thousands of Cambodian workers seeking out opportunities in Thailand and elsewhere and their remittances or accumulated capital are important sources of income for the rural areas of the country. Research does exist in these areas which could profitably have been integrated into the work as a whole. Indeed, for my taste, I would like to have seen a much greater emphasis throughout on the role of labour in shaping and organizing economic activities from the bottom-up rather than the top-down sources and approaches more commonly used. The approach used suffers both from a lack of clear guidelines for understanding the changes and developments in the modern economy in particular and, also, means that the anecdotes that provide the telling and illuminating details do not appear. Slocomb speaks of the entry into the factory age with which Cambodia is now engaged but provides little analysis or detail of what that actually entails for the workers and their families, as well as the changes that this will make to the physical environment, regional and national infrastructure and the nature of future change in the government.

Flaws apart, this is a significant achievement in modern Khmer history and is likely to become one of the standard sources to be consulted by people wishing to discover more about the types of changes that have taken place in Cambodia in the timeframe specified.
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The idea of establish 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 towards the end operating of 1999.

The first Shinawatra University Council Meeting was held on May 19, 2000, marking the initial milestone of a long road to become an accomplished private university. In September 2002, the first batch of students was admitted, and the venture of creating and nurturing a prospective university has begun.

Initial Concept

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- Over 70% of faculty members with doctoral degrees and 60% hold academic rank position.
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