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BHAGAPORN WATTANADUMRONG

Naresuan University, Thailand

NATTACHET POONCHAREON

Department of Economics Faculty of Business, Economics and Communications, Naresuan University, Thailand

WARAWUDE RURKWARARUK

Department of Business Administration Faculty of Business, Economics and Communications, Naresuan University, Thailand

THE MORAL CONSEQUENCES OF ECONOMIC GROWTH ON THE LOCAL BUSINESS DEVELOPMENT: A CASE OF PHITSANULOK INVESTIGATION

Abstract:

This paper analyses regional investment in Phitsanulok Province located in the lower north of Thailand. Using data for 3,623 local business registered from 1906 to 2015. This study examines their performance of the city growth and socio-economic problems to promote entrepreneurship based on locally-owned (LOEs) enterprises and nonlocally-owned (NLOEs) enterprises. The key determinants are identified using a unique assembled data recorded by local authority recording and comprising all local business sectors over time. The descriptive analytical approach will be applied to full sample (all sectors) and other relevant issues (capital based, size of business into SMEs; Small Medium Enterprises). Most enterprises are small business; while, there are few medium and large sizes in the community areas.

The aim of the research is to explore the evolution of local business development in the province and the major determinants to increase the investment into local. The quantitative approach has been investigated together with face to face interview from the purposive samples by sectors.

The results show that local entrepreneurs experience the high competitiveness from outside especially from the large and medium nonlocally-owned enterprises. The development of entrepreneurship in the areas based of Phitsanulok has gradually changed. The huge capital investment from outside has injected into the areas. The phenomenon how the small - medium enterprises will be survived from the large enterprises dominated into the areas has to be discussed in terms of policy priority actions and the economic and social instruments at the level of economic entities of local business development in the areas. This study briefly examines the city growth of businesses' existence and its changes over time. This approach can be applied to analyze the city growth at provincial-level of the country.

Keywords:

regional investment, SMEs, Phitsanulok, local business development

JEL Classification: O18, M21, L26

1. Introduction

Phitsanulok Province is located in the heart of the lower northern region of Thailand and stretches all the way to the Laotian border in the eastern part of Thailand. Phitsanulok's strong economic development has helped position it as the economic centre of the lower northern region. Phitsanulok's convenient location provides easy access to other provinces in the upper northern region, the northeast region and the central region. In addition to tourism-related services, Phitsanulok plans to extend its hospitality services to include health & wellness, spiritual-enrichment tourism, medical care, short and long-stay facilities/programs for retirees, sports and film-making. More importantly, Phitsanulok is also a source of industrial and trade promotion in the lower northern region.

On 29 July 1997, the Thai Cabinet passed a resolution to develop Phitsanulok and neighbouring provinces, including Sukhothai, Tak, Phetchabun and Uthairat, into "Indochina's Logistic Hub." The strategic development plan specifies Phitsanulok scheme as "Phitsanulok Indochina's Service City." The main principle is to develop Phitsanulok as a diversified and safe regional service hub. Cooperation within the framework of the **Greater Mekong Sub region (GMS)** has helped develop trade among the member countries. Phitsanulok and nearby provinces in the region, such as "Maesod", Tak and Mukdahan, serve as a land bridge from the east connecting to Myanmar, and Danang in Vietnam, in the west in the 'East-West Economic Corridor' to create a comprehensive economic network. New opportunities to enhance the collaboration between "PhuDoo", Uthairat, and Luangprabang, Lao PDR. Thailand is committed to becoming a transport hub and distribution centre in the Greater Mekong Sub-region (GMS). Phitsanulok is a leading province in the lower northern region of Thailand with strong economic potential. The Asian Development Bank (ADB) is funding a development plan for the North-South Economic Corridor and East-West Economic Corridor in the Indo-China region. Adopting a multi-sectoral approach, this development plan seeks to improve basic infrastructure, human resource development, policy, trade and investment with facilities for the cross-border movement of goods and services between the Indo-China countries. Situated at the intersection of both corridors, Phitsanulok province has become the logistics distribution and services centre for this Indo-China intersection. In addition, Phitsanulok is one of the Northern provinces which has appropriate infrastructure and transport networks including road, rail, air, and water and pipeline transport modes.

For the Business sector of Phitsanulok, in May 2015, there were 3,623 local business registered from 1906 to 2015. A half of investment is in the city with two-third of labour employed. The later industry presents in district (Amphoe) Bangatum, Wangthong, and Phompiram, respectively. The intensive businesses in Phitsanulok focus on trade in particular, wholesale and retail trade, construction, art and entertainment and industry, respectively. The *agriculture industry* including seed processing and storage, food industry, for instance, raw sugar, white sugar, animal feed, flour products including bread and biscuits. Moreover, the transportation industry such as automotive wire

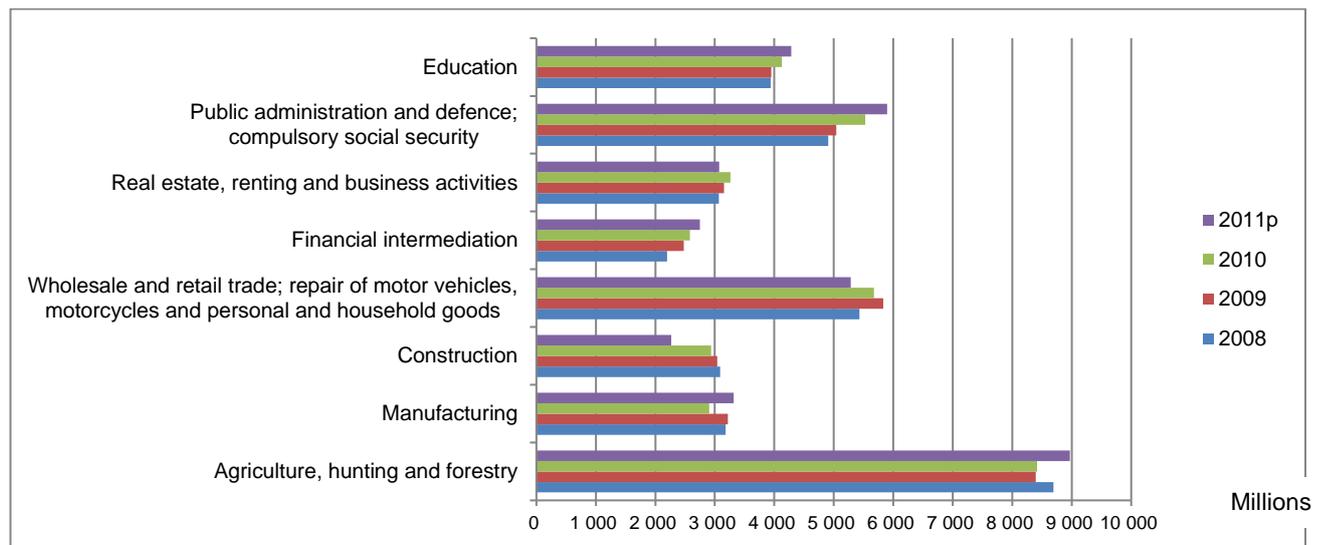
production. The rubber industry including crepe rubber production, tyre manufacturing production and other rubber products production.

The most investment values in Phitsanulok are in the agriculture industry which has the number of factories increased continuously 45.7% from 2010 - 2015. The investment values considerably increase 26% which leads to have the number of labour employment 3,050 people in Phitsanulok areas. The majority of entrepreneurs support and promote local development areas, especially, using the agricultural raw materials in local areas to supply the production process. Phitsanulok Provincial Industrial Office (2015) identifies that the most incentives to invest in Phitsanulok include firstly, basic infrastructure and facilities. Secondly is the agricultural products from Phitsanulok and nearby provinces to be raw materials supply to food processing such as rice, corn and sugarcane. Lastly, the Phitsanulok city-location is available for conducting business coverage all facilities a hub of a northern region to transport products and raw materials to other regions of the country. The challenge of Phitsanulok as good location of connectivity as a bridge for investment in the region has to keep an eye on what the entrepreneurship should get and take the opportunities to increase investment on trade, manufacturing and start-up the collaboration of industry in Phitsanulok. Over the past decades, both local and non-local entrepreneurs have invested in Phitsanulok. The business environment has changed to see increases in wholesale and retail businesses, department stores, construction appliance warehouses and home decoration suppliers. This study covers five sections. The introduction will provide an overview of Phitsanulok. The next section will describe businesses in Phitsanulok Province. The third section will explain data collection. The analysis of SMEs in the manufacturing sector of Phitsanulok is given. Finally, a conclusion will be drawn.

2. Businesses in Phitsanulok Province

Over the past decade, the Gross Provincial Product (GPP) of Phitsanulok has been mainly centred in the agricultural sector, with services and manufacturing, following in importance. Figure 1 reports the Gross Provincial Product (GPP) for the period of 2008 – 2011 by sector from the National Economics and Development Board (NESDB). It shows that the agriculture sector is the most significant sector then public administration, wholesale and retail trade, education and manufacturing sector, respectively.

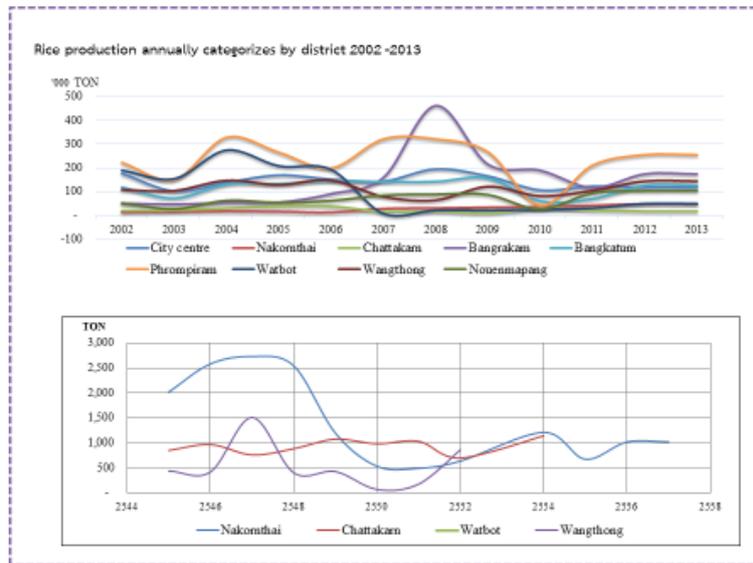
Figure 1: Gross provincial product (GPP) in Phitsanulok Province 2008 – 2011



Source: National Economics and Development Boards (NESDB)

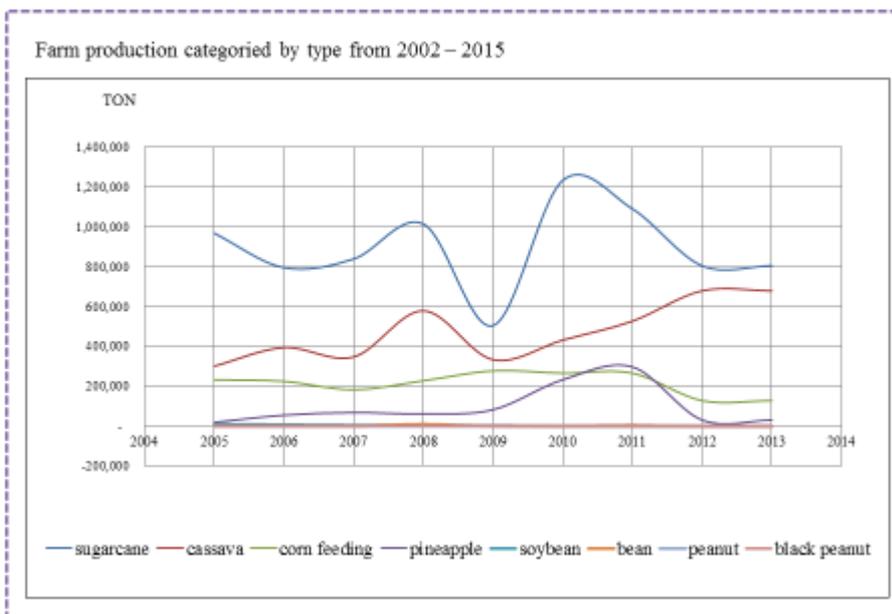
For the agriculture sector of Phitsanulok, the rice production is the most significant from the past decades. The location for rice production is in the central plain including Phompiram, Bangrakam and Wangthong, respectively. In additions, the upland rice production accounts for few percent in few areas such as Nakhonthai, Chattakarm and Wangthong. The most important farm production categorized by type include sugarcane, cassavas and corns (Figure 2 and 3).

Figure 2 Rice production annually in Phitsanulok Province categorized by district 2002 -2013



Source: Phitsanulok Provincial Agricultural Office

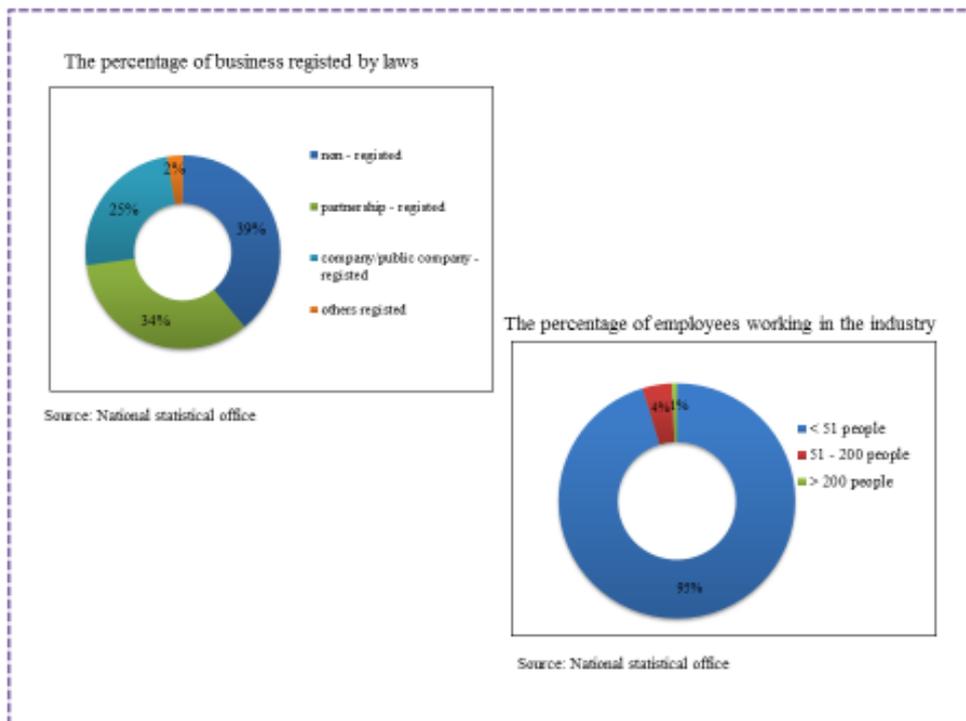
Figure 3 Farm production categorized by type from 2002 to 2015



Source: Phitsanulok Provincial Agricultural Office

The percentage of business registered by business laws is illustrated in figure 4. Most business accounts for 39% non-registered but holding as individuals. The rest 61 % have registered in different forms; for instance, 34% are partnership, 25% are companies and the rest are other forms. Outstandingly, the most businesses registered has employee less than 51 people. This means in general, the majority of businesses in Phitsanulok are small-medium enterprises (SMEs).

Figure 4 the percentage of business registered by business laws in Phitsanulok

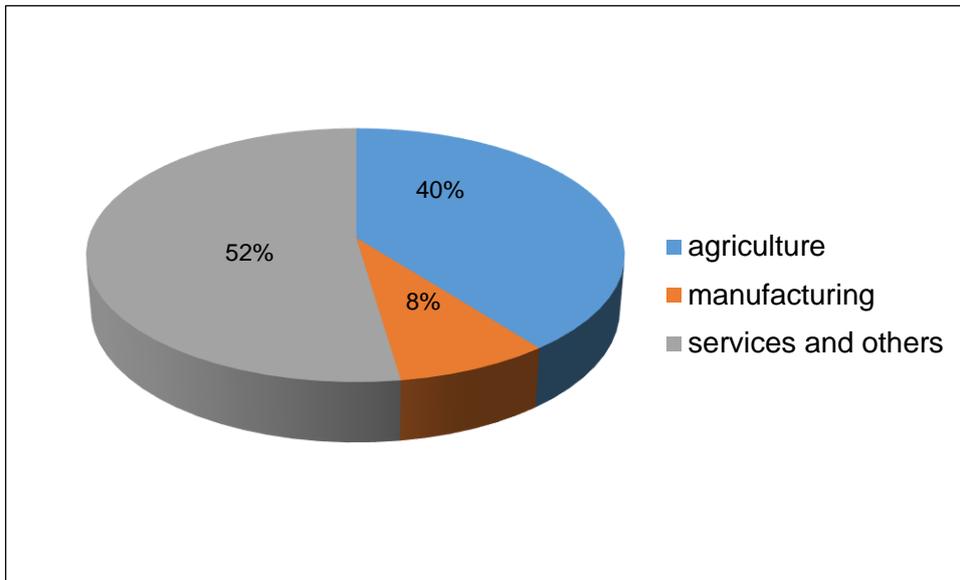


The manufacturing sector accounts for one-tenth of the GPP of Phitsanulok. It comprises majority of 21 industries as the 4 – digits level of the Thailand Standard Industrial Classification (TSIC) 2009¹ (TSIC, 2009). In terms of number of establishments, the rice mill industry largely dominated manufacturing from the 1970s to the early 2010s due to the national government policy on rice issues as it is an important staple food. The number of workers has increased tremendously but it has stagnated due to the increase in minimum wages² (Phitsanulok Provincial Office, 2014). In general, the proportion of majority GPP by sector shows that the GPP in manufacturing of Phitsanulok is about 8 percent compared with other sectors (Figure 5). When considering the period from 1995 to 2013 (Figure 6), the trend shows a gradual increase from 2000 onwards.

¹ The equal minimum wage policy started since January 2013 and will be end at the beginning of 2016.

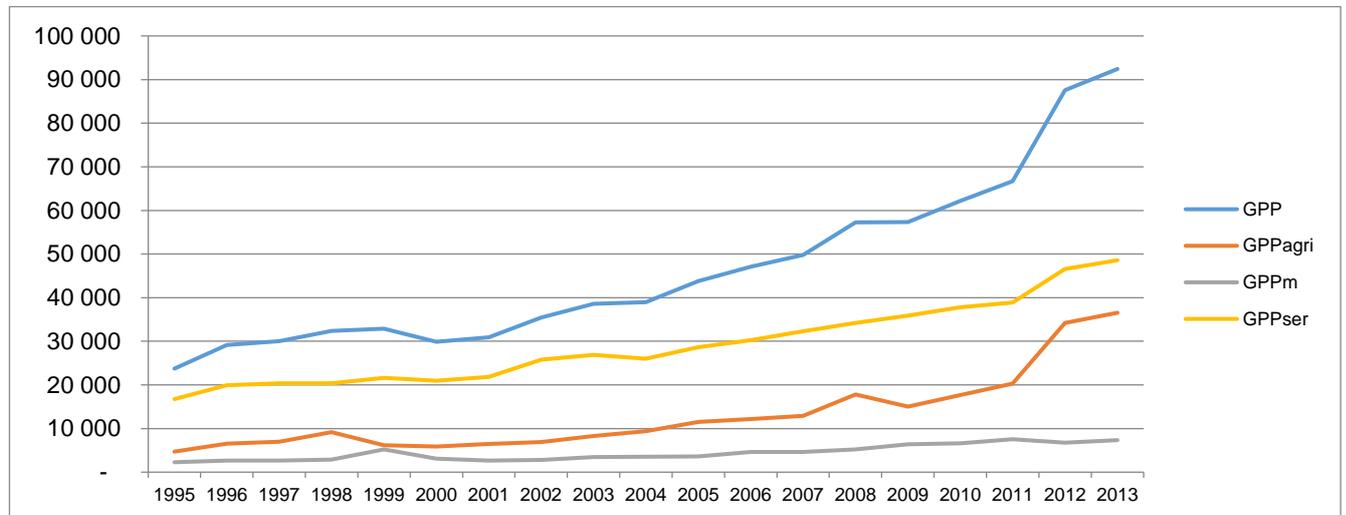
² The author study the overall industries, ignoring the TSIC – other manufacturing industries

Figure 5 represents the percentage of Gross Provincial Product by three major sector



Source: National Economics and Social Development Board (NESDB)

Figure 6 presents the trend of majority GPP by sector from 1995 – 2013



Source: National Economics and Development Board

3. DATA

The database consists of records kept by the national development board (NESDB), the provincial department of business development (DBD), the Bank of Thailand, the National Statistical Office (NSO) and other sources. The entrepreneurs register their businesses and give all the required information about the business organization. From this study, the detail of each firm; for example, the TSIC, address and type of production, capital and number of employees will be collected from 1906 to the present (2015), for

each industry registered with the head office outside Phitsanulok, referred to as non-locally-owned enterprises (NLOEs). On the other hand, the local businesses operated by Phitsanulok residents and operating within the province will be called “locally- owned” (LOEs). There are 3,623 observations accumulated by the provincial department of business development office authority from 1906 to 2015. A snapshot of the data representing accumulated capital stock is presented in appendix. The DBD has an important role as a ministerial representative office in the region. Their key role is to supervise and control the business registered activities in the area. Based on the Factory Act of 1992, stipulates regulations for business establishment and operation and expansion, and others by business laws. The analysis of Phitsanulok SMEs will be mentioned in section 4 and 5.

4. The analysis of Phitsanulok SMEs in Phistanulok

The businesses of Phitsanulok as represented by firms registered at the Phitsanulok Department of Business Development Office (DBD) from its founding in 1906. At that time, there were few firms, however, later, from 1976 onwards, the number of SMEs increased gradually. The definition of Small, Medium Enterprises (SMEs) is categorized by the capital registered when the enterprises were founded. The Office of Small and Medium Enterprises Promotion (OSMEP) identified the SMEs according to the number of employees and the total value of their fixed assets excluding Land³ (Department of Business Development, 2003), for example, in the production sector, small businesses will not have more than 50 employees or more than 50 million Baht in fixed assets. For medium size enterprises, their number of employees could be between 50 - 200 people with fixed assets of between 50 - 200 million Baht, while in the case of large enterprises, they will have more than 200 employees with fixed assets of more than 200 million Baht.

Since the beginning of 1970s, the initial industries in the province were industries related to production and consumption of agriculturally related products. No further industries were registered in the period from 1973 – 1975. From 1976 onwards, there was a gradual increase in the number of new registrations. The registration of industrial firms increased tremendously in 1990s; however, the number of registrations dropped dramatically in both 1995 and 1997. In 1994 when China devalued its currency to promote labour-intensive exports. The economic crisis of 1995 in Thailand, was mainly due to weaknesses in the deregulated Thai financial system, was precipitated by the 1994 Chinese currency devaluation. This was followed in 1995 by a depreciation of the Japanese yen against the U.S. dollar. The large deficits in the current account occurred afterwards (Julian, 2000).

³ The definition of SMEs in Thailand was formally instituted by the SME Promotion Act in 2000. It is classified through production, services and trade sectors, according to the number of employees and fixed assets

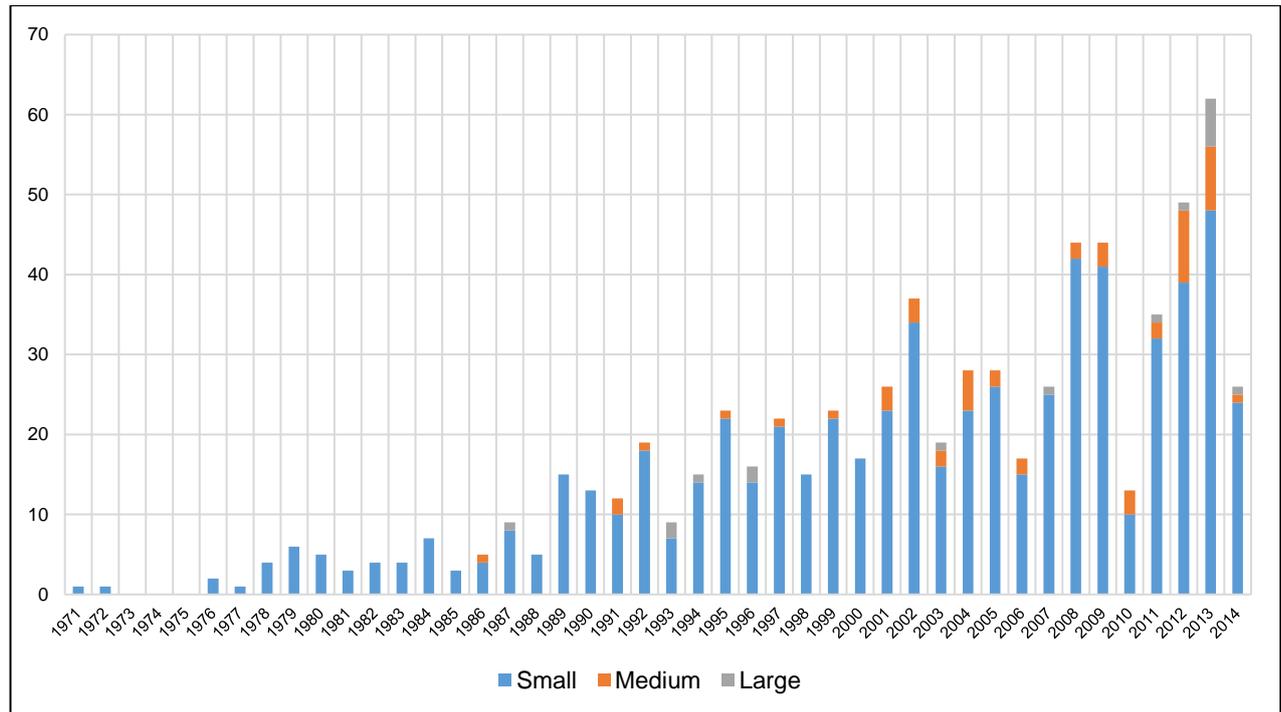
The deficits caused Thailand to rely heavily on external borrowing at the national level (Thammavit, 1998). By July 1997, the Bank of Thailand replaced the fixed exchange rate with a managed float, as it could no longer tap the reserves. The economic downturn affected the Southeast Asia region. Thailand was once again subjected to International Monetary Fund (IMF) structural adjustment. The Thai economic situation impacted on local and regional investment confidence (Bank of Thailand, 2004).

The situation improved gradually from the beginning of 2000. The investment trend reached a peak in 2003, because of the economic growth in Thailand over that period before falling again. From 2009 investment shows a dramatic increase, peaking in 2013 before falling again (Figure 5). In May 2015, there were 736 enterprises registered with a capital investment value of 23,152.85 million Baht (652.4 million US\$) in Phitsanulok. These enterprises employ a total of 19,782 people (Phitsanulok industrial office, 2015).

The intensive industries in Phitsanulok focus on the *agriculture industry* including seed processing and storage, food industries, for instance, raw sugar, white sugar, animal feed, flour products including bread and biscuits. Other industries represented in the area include the transportation industry such as automotive wire production and the rubber industry including crepe rubber production, tyre production and the production of other rubber products (Phitsanulok industrial office, 2015). Ibid 2015)

The performance of SMEs in Manufacturing Sector of Phitsanulok from 1906 to 2015 illustrated in figure 7. It is shown that at the beginning of 1970s, the registered industries in the manufacturing sector were based on capital stock and labour employment recorded from the Phitsanulok provincial industrial office (Phitsanulok industrial office, 2015). Medium and large enterprises were started in the late 1980s and increased gradually. The SMEs in the manufacturing sector increased considerably from the 1970s and then peaking in 2013. It began decline continuously due to the economic slow down and political instability at national levels.

Figure 7: The performance of SMEs in Manufacturing Sector of Phitsanulok from 1906 – 2015



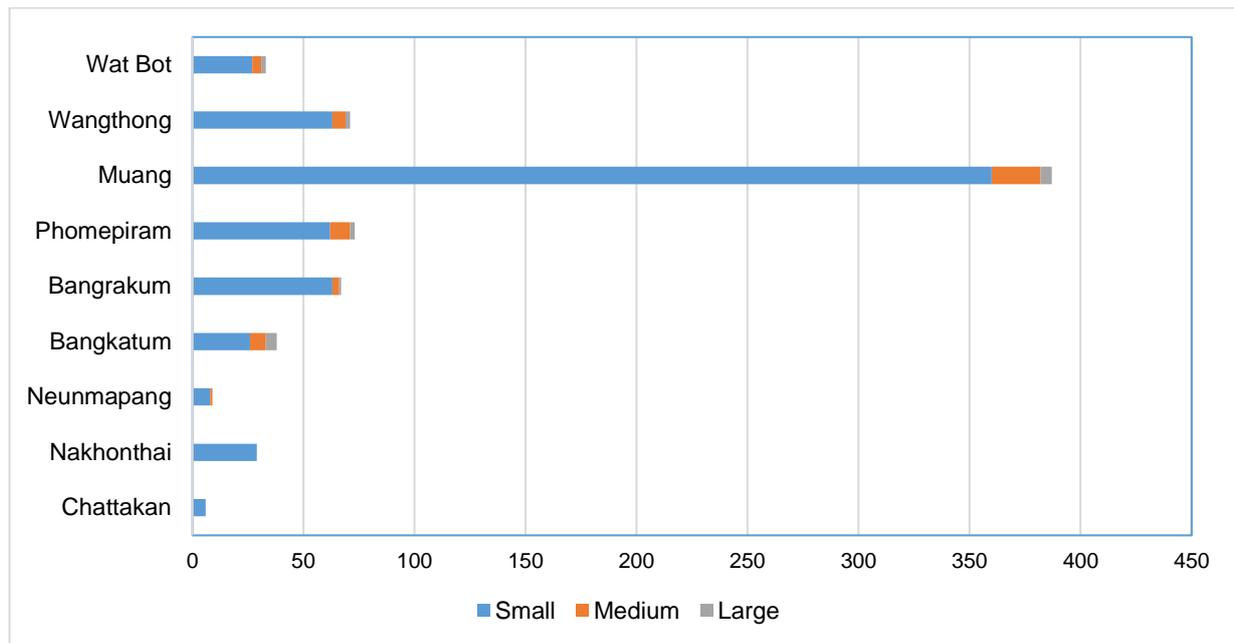
Source: The Phitsanulok Provincial industrial Office (2015) with additional calculations by the author

Indicators of business growth

In the business sector of Phitsanulok, in May 2015, there were 3,561 business registered with a capital investment 23,152.85 million Baht (652.4 million US\$), and a total labour force of 19,782 people. Half of the investment is in the city employing two-thirds of the labour. The remaining investment is in districts (Amphoe) of Bangatum, Wangthong, and Phompiram, respectively.

Figure 8 represents the number of firms classified by district in Phitsanulok Province 1906 – 2015. The infrastructure in the city centre and neighbouring areas may attract higher levels of investment, while the smaller outer lying areas are less attractive due to the lack of suitable infrastructure. (see figure 8, below)

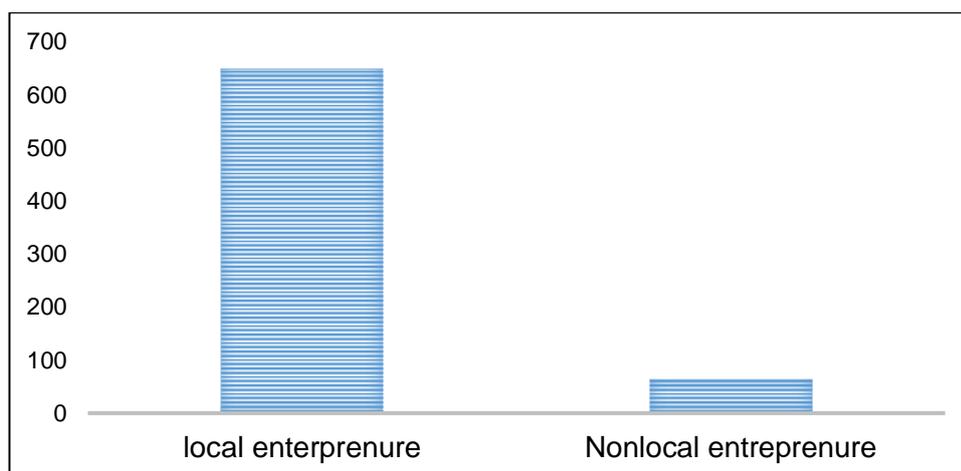
Figure 8: The number of firms classified by district in Phitsanulok 1906- 2015



Source: The Phitsanulok Provincial industrial Office (2015) with additional calculations by the author

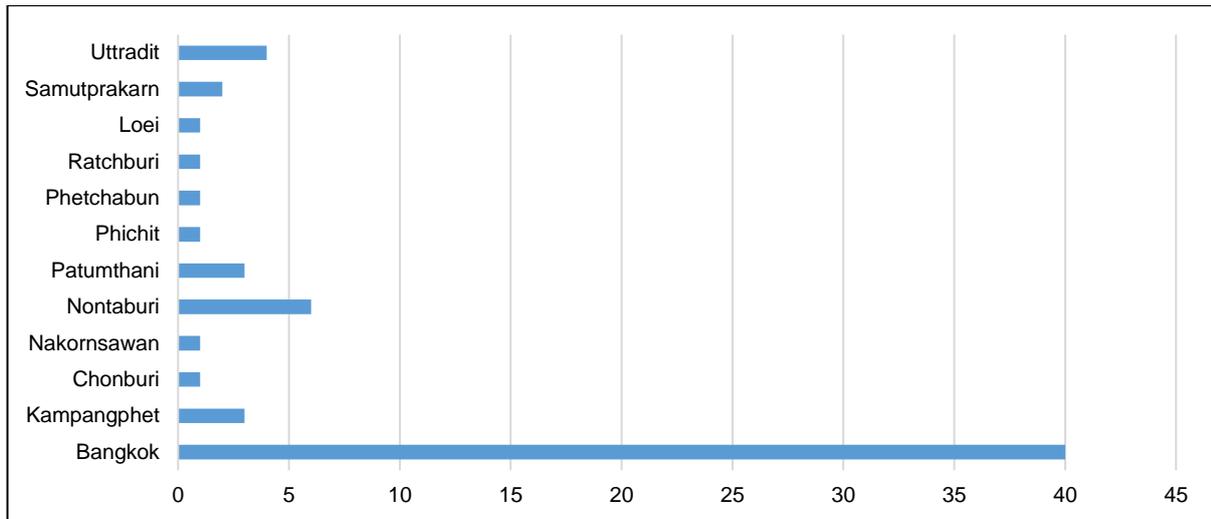
The number of firms of provincial origin in Phitsanulok established between 1906 and 2015, are compared numerically to non-local firms from outside the region in figure 9. It is shown that most registered firms come from Phitsanulok. In figure 10, a number of manufacturing firms invested in Phitsanulok Province which originated in another province outside Phitsanulok, such as Bangkok, Nontaburi or Patumtani.

Figure 9: The entrepreneurs’ provincial origin in Phitsanulok of manufacturing Sector 1906 – 2015



Source: The Phitsanulok Provincial Department of Business Development Office (2015) with additional calculations by the author

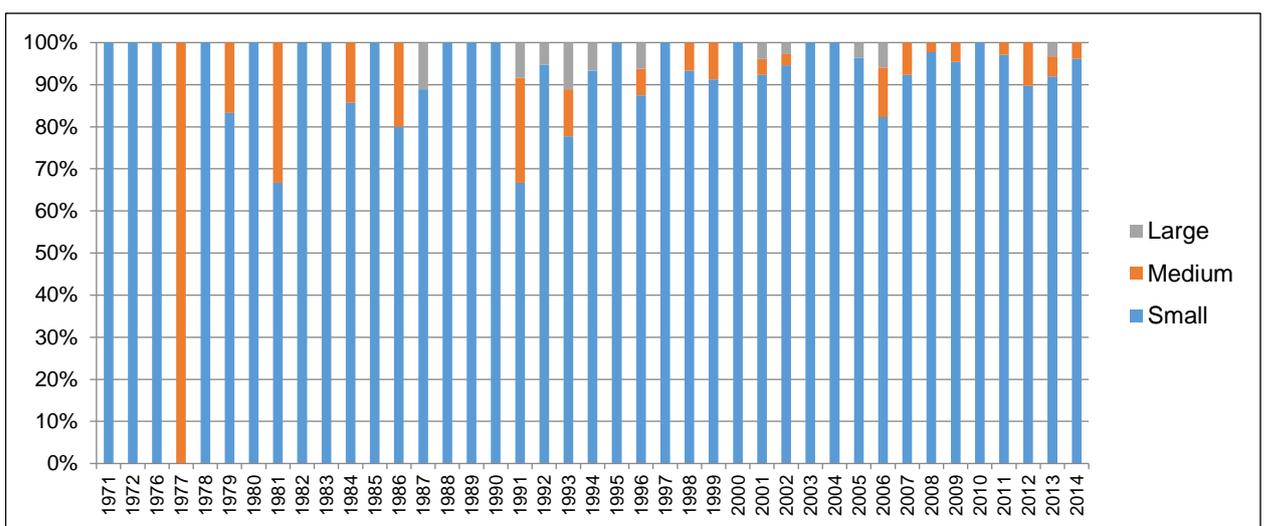
Figure 10: number of firms invested in Phitsanulok Province by entrepreneurs' provincial origin during 1906 – 2015



Source: Phitsanulok Provincial industrial Office (2015) with additional calculations by author

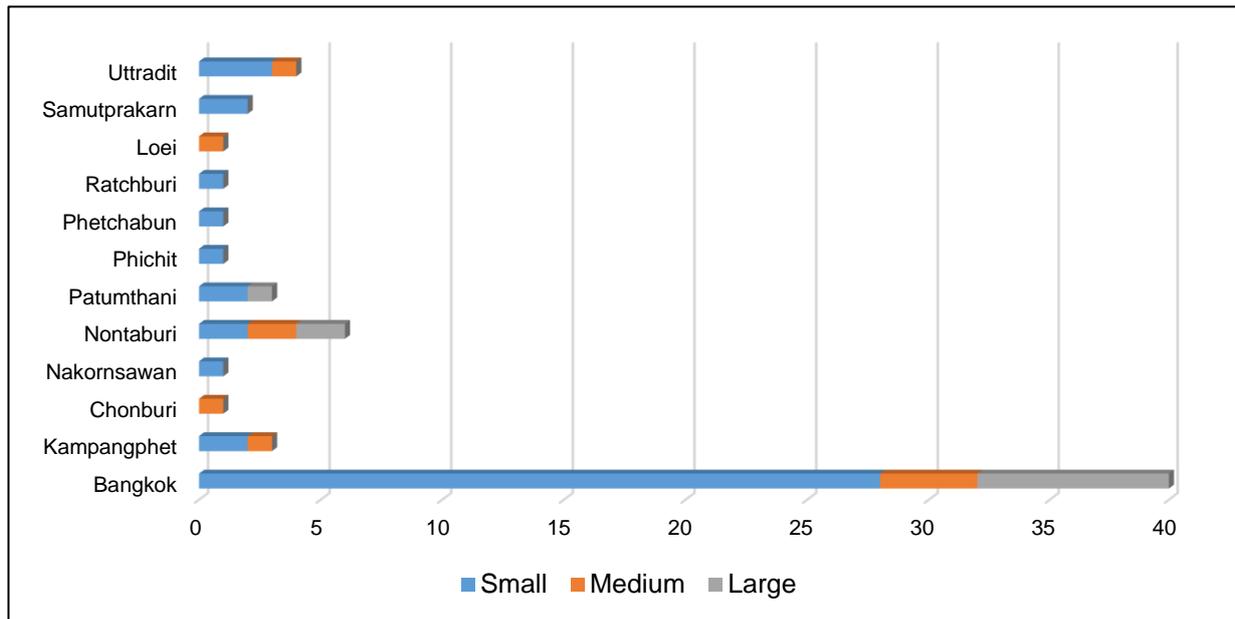
The employment environment of registered industries in Phitsanulok through the labour record is presented in figure 10. It shows that the majority of labour recruitments are in small enterprises. In late 1976/1977, employment figures for medium enterprises showed a significant increase. Employment for large enterprises increased from the late 1980s onwards (figure 11). The number of firms classified by scale of business and the origin of nonlocal entrepreneurship is illustrated in figure 12 which shows that the small, medium and large enterprises (SMEs) are from Bangkok, Nontaburi and Uttradit, respectively.

Figure 11: The employment of Phitsanulok Provincial industry by the entrepreneurs' scale of operation (SMEs)



Source: The Phitsanulok Provincial industrial Office (2015) with additional calculations by the author

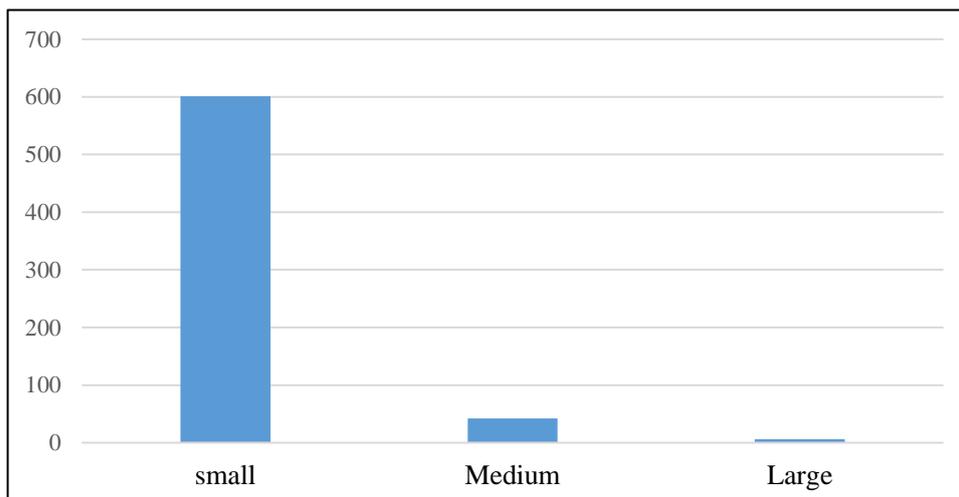
Figure 12: The number of firms classified by scale of business and nonlocal entrepreneurs invested in Phitsanulok Province 1906 - 2015



Source: The Phitsanulok Provincial industrial Office (2015) with additional calculations by the author

Overall, the investment values in Phitsanulok through SMEs definition as illustrated in figure 12 shows that most firms has investment values which lower than 50 million baht and are therefore, classified as small enterprise. There are a small number of medium and large enterprises.

Figure 13: The number of firms classified by scale of firms in manufacturing sector in Phitsanulok Province 1906 - 2015



Source: The Phitsanulok Provincial Business Development Office (2015) with additional calculations by the author

The number firms, according to figure 13, showing data from the provincial industrial office has been calculated and found that the types and number of firms classified by TSIC (Thailand Standard Industry Classification) was in the manufacture of motor vehicle parts, the manufacture of machinery and equipment and the manufacture of basic metal (metal products such as statutory). However, in terms of investment values in Phitsanulok, it is in the agriculture industry where the number of factories increased by the greatest amount: 45.7% between 2010 and 2014. The investment values in Phitsanulok increased on average by 26%, employing 3,050 people. The majority of entrepreneurs support and promote local development, especially, using locally produced agricultural raw materials. There are large manufacturers in Phitsanulok such as the Phitsanulok sugar factory, Thai arrow: automotive wire factory, Rosy Blue Diamond. Also, the 4 rubber factories and 41 rice mills are currently active and investing in Phitsanulok.

According to the number and types of firms as classified by TSIC recorded by Phitsanulok Provincial Industrial Office (2015), shows that most investment incentives in Phitsanulok include, 1) basic infrastructure and facilities, 2) agricultural products from Phitsanulok and nearby provinces provide raw materials to supply food processing such as rice, corn for feed production, sugarcane for refined sugar. Phitsanulok is well placed as a hub to conduct business and transport raw materials to other regions of the country. The challenge of Phitsanulok as a good location is to promote industrial investment in the region. It needs to provide opportunities for entrepreneurs and investors to increase their investment in manufacturing and start-up businesses, and to promote collaboration between enterprises in Phitsanulok. As a hub, Phitsanulok needs to improve connectivity to the surrounding regions. This can be done by developing the roads, air, rail and other transport links to the surrounding areas to stimulate income and employment in the area. However, the increases in minimum wages, and the economic slowdown caused by national socio-economic changes, has impacted on local industry in the short and longer term. The increases in wages, has increased overall labour costs, thus many businesses have been forced to reduce their work forces. This has meant that these firms has had to lay off workers. Most enterprises in Phitsanulok are local in origin, while, a few originate outside the region, especially, in Bangkok and surrounding areas. The investment values of manufacturing sector need to be collected in greater detail. These figures could be listed as separate items, thus allowing investors to gain an overview of their current investment. The challenge of Phitsanulok is to promote investment and provide opportunities for entrepreneurs and investors to increase their investment in the region to develop logistic infrastructure to boost income and employment in the area. The economic and social growth of the locals need to be investigated continuously.

Notes:

1. The equal minimum wage policy started since January 2013 and will be end at the beginning of 2016.
2. The author study the overall industries, ignoring the ITSIC – other manufacturing industries

3. The definition of SMEs in Thailand was formally instituted by the SME Promotion Actin 2000. It is classified through production, services and trade sectors, respective according to the number of employees and fixed assets

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