

DISPERSAL AND LOCATION OF INDUSTRIES AWAY FROM METROPOLITAN AREAS

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This article will try to examine the issues surrounding the present government policy of industrial dispersal away from the Bangkok Metropolitan Area. It will concentrate mainly on government measures which attempt to influence the location of industries other than agro-industries. Although by no means universally true, the location of agro-industries tends to be in the provinces already, because they want to be near their sources of agricultural raw materials. This is so even if the general availability of infrastructure, skilled labour, management personnel and other industrial services are relatively poor. The main reasons are that usually the agricultural raw materials are bulky to transport, lose a great deal of weight during processing and are perishable or deteriorate quickly after harvesting or cutting down. Based on these reasons, the advantages of being near the source of raw materials tend to outweigh the other disadvantages, without need for further coaxing from the government.

For non-agro-industries, the government has to assess whether, and with what measures, it can influence and make industries which would have been set up in the metropolitan area go outside to the provinces. If the answer is in the affirmative, then it has to assess the long-term costs and benefits of the policy and measures adopted. Giving incentives to industries which would have been established in rural or provincial areas anyway is a waste of resources and a windfall to the industries. Helping industries which are unlikely to be viable in the long-run to be set up in the provinces, on the other hand, runs the danger that the government may have to subsidize these industries permanently or see the industries go away after the promotion period expires. **An industrial dispersal policy which is sensible has to be able to select those industries which would have chosen to be set up in the metropolis but which, with some help or initial subsidy by the government, could be set up in the provinces and become viable in the long-run.**

Why do the industries like to set up factories in and around the metropolis in Bangkok, Samutsongkram, Pathumtani, Nonthaburi, Samutsakorn and Nakorn Pathom?¹ For the modern manufacturing industries, most of the area within Bangkok would be too expensive to set up factories because of the high price of land. This is why it can be observed that these industries tend to set up their plants

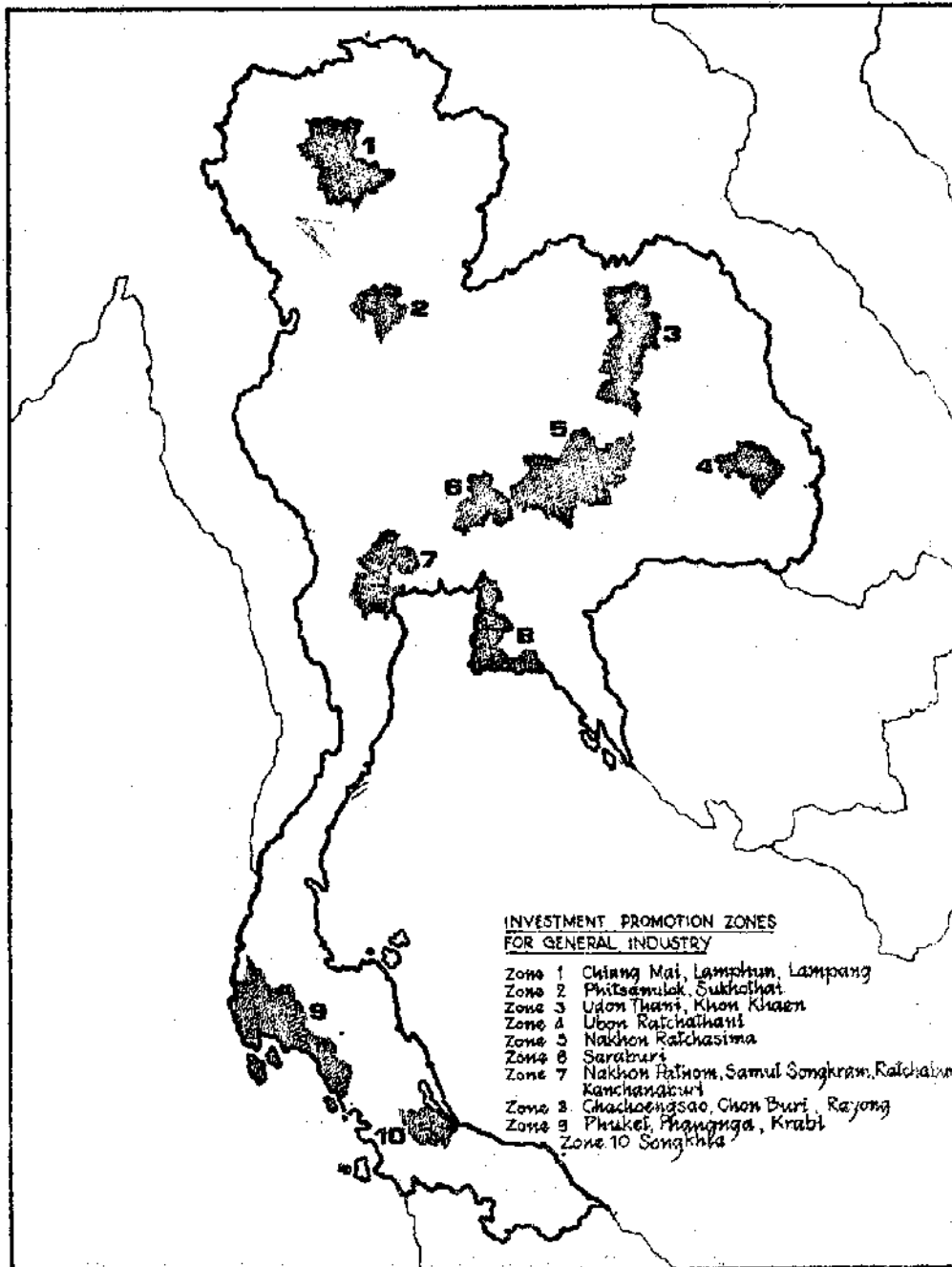
along the main roads leading into Bangkok. Most of the sites are paddy-land or orchards which have to be converted into proper industrial sites at high expenses. Nevertheless, the proximity of Bangkok offer great advantages. The advantages include the availability of important infrastructural facilities, especially the international sea-port through which they either derive their imported raw materials or export their products, the pool of skilled labour and technical and managerial personnel, the proximity of the main market and the centre of all relevant information and auxiliary industrial services.

In contrast, imagine a medium-size modern factory being established in one of the Investment Promotion Zones in the provinces. The land costs will probably be cheaper, but the construction and infrastructural costs are likely to be higher.³ Wages will be cheaper in money terms, but industrial commitment and discipline will have to be developed among the workers who are not accustomed to industrial life. Raw materials supplies probably will have to be brought from Bangkok, representing higher costs as well as pressures on the management to synchronize input and output relationship. Only a small proportion of the output could probably be sold in the area around the factory, because the income level is generally not high enough to absorb the bulk of the output. Therefore most of the products will have to be transported back to Bangkok. Some of the industrial services, such as banking and consultancy services, are probably not available or not well-developed, so that the management has to commute to Bangkok on a regular basis. Add all these problems and costs to the normal "infant" difficulties faced by a newly-established industry in a developing country and it would be easy to imagine how much such an industry would need to be subsidized if it were to be persuaded to go to the provinces.

The existing Investment Promotion Law provides a differential system of incentives to counter these disadvantages. They are as follow;

- a) A maximum reduction of 90% of business tax on the sales of products up to a period of 5 years.
- b) A reduction of 50% of corporation income tax for 5 years after the termination of a normal income tax holiday or from the date of income earning.
- c) Allowance to double the cost of transportation, electricity and water supply for deduction from taxable corporate income.
- d) Allowance to deduct from the taxable corporate income up to 25% of the investment in the costs of installing infrastructural facilities for 10 years from the date of income earning.³

These additional incentives are available to industries located in Investment Promotion Zones covering wide areas all over the country. The two most interesting zones are zones 7 and 8. Specifying that the investment promotion zones must be outside a 50 kilometre radius of Bangkok, zones 7 and 8, including Samut Songkram, Nakhon Pathom, Chachoengsao and Chonburi are indeed just outside the 50 kilometre radius. (See attached map).



These incentives have become available since 1973, but since this period was one in which there was a slow-down in investment in general, their effectiveness cannot really be assessed with a great deal of confidence. Akrasanee noted that during 1973-75 Bangkok and Samutprakarn accounted for more than 80 percent of the factories established and of those established outside, in terms of capital they were mostly sugar industries.⁴ Even with a general investment boom, it remains debatable whether the Board of Investment would be able to persuade many to go the Promotion Zones with their mandatory and discretionary tax incentives.

Even if the Board of Investment is successful in utilizing the system of differential incentives to influence the location of factories, there would appear to be some implications with regard to the long-run benefit/cost of the present system of tax allowances.

Looking at the law as it stands now, an industry will get these substantial benefits in tax allowances and tax reductions if they qualify as a promoted industry and if they are located in an Investment Promotion Zone. Because of the first condition, many traditional and small-scale industries established in the Promotion Zone would not be entitled to any of the benefits. Industries such as rice-mills, ice factories etc., which would set up their plants in these provinces in any case will therefore not receive the windfall in terms of higher profits after taxes. Many large agro-industries or primary-processing industries which are promoted, however, would be entitled to the mandatory differential tax incentives.⁵ They would get this despite the fact that there is no choice for them but to locate their plants near the source of raw materials. This can only be justified if it can be assessed that without these differential tax incentives the project would not be initiated because the rate of return would be too low. It also would have to be argued further that the social benefits of the project would outweigh the social costs implicit in the government's tax allowance programme.

For those industries which are dependent on imported raw materials⁶ and on Bangkok as a major market, the tax incentives may not be able to overcome the considerable disadvantages of being located in the distant Promotion Zones. The most likely happening would be for them to be attracted to Promotion Zones 7 and 8 which are close to Bangkok. The beneficial dispersal effects will be minimal because they would impose on the city of Bangkok in a way similar to the other industries located within the 50 kilometre radius. They would send in their trucks to obtain the supplies of inputs from the Port of Bangkok and to deposit the bulk of their output at the major distribution outlets in the city. However, they would be receiving the tax allowances by moving a few kilometres from where the majority of the industrial sites are already located. The allowances can therefore be regarded as almost pure windfall profits.

It appears that the Promotion Zones together with their offer of tax incentives are by themselves unlikely to be effective in achieving meaningful results in dispersing industries from the metropolis. An important element which th

government has attempted to push forward in this policy area has been the construction of industrial estates and the basic infrastructure. The Industrial Estate Authority has been created 3 years ago to take over the responsibility formerly held by the Ministry of Industry and has had some success in managing and developing industrial estates on the outskirts of Bangkok as well as paving way for new ones to be established.

In connection with the industrial dispersal policy, the Authority has plans to establish industrial estates in all regions of the country, but works are apparently behind schedule.⁷ Once established, it is hoped that they would serve as a major instrument in attracting industries towards the outer provinces. The idea is reasonable, for the firms will be receiving the benefits of tax allowances given to firms in Promotion Zones as well as industrial infrastructural facilities usually lacking in the provincial areas. To the government, the cost of providing these facilities would be minimized, being concentrated in a small area rather than scattered all over the Promotion Zones. The firms themselves will receive further benefits from the "economies of agglomeration," being able to enjoy the advantages of being situated close to other factories.

Worth-mentioning also is the attempt by the Industrial Finance Corporation of Thailand (IFCT) to serve this industrial dispersal policy. Their measures in this regard deserve full quotation,

"1. Special low interest rates on loans for the types of projects that can be located in up-country areas. Instead of the usual 12 percent rate charged, 11 percent will apply to agro-industrial projects.

2. Establishment of regional offices.

3. More aggressive development banking through the strengthening of project promotion and project development activities.

4. Financing development-oriented projects which have higher than normal risks.

5. Reinforcing the trend towards the provision of infrastructural services for industrialists upcountry through the setting up of a company which will provide ready made fully-serviced modern factories.

6. Setting up Thailand's first leasing company to enable capital-scarce up-country industrialists to obtain machinery and equipment through leasing.

7. Organizing regional seminars to stimulate loan demand in provincial areas.

8. Supporting research projects on small-scale industries."⁸

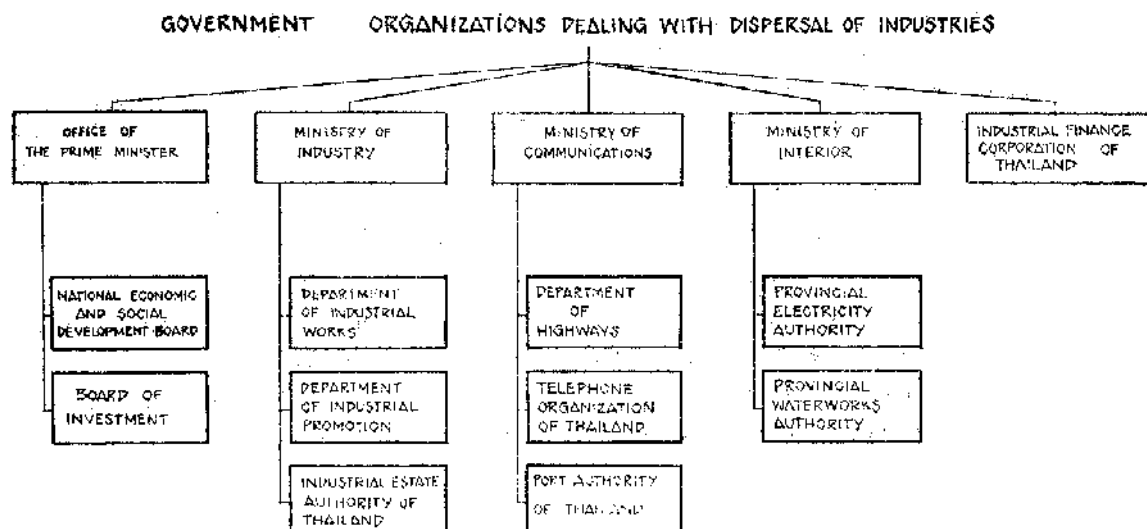
Looking at these measures, it can be seen that the IFCT is not merely paying lip-service to the industrial decentralization policy but is backing its words with many actions. The IFCT further reported that during the first 6 months of 1978, 80 percent of IFCT loan approvals went to firms located outside the Greater Bangkok area. Even deducting loans to the large cement projects situated outside Bangkok, the proportion was still 57 percent.⁹

With the Board of Investment, the Industrial Estate Authority and the IFCT all pushing in the same direction, the prospects for industrial dispersal appear to be favourable. The resource-based industries are those which are likely to receive the greatest boost from these measures. For the other industries, however, natural factors already mentioned weigh heavily against the policy and may outweigh all the measures devised by the government. The absence of a second international sea-port and the distance from the main market represent obstacles which the government measures may not be able to overcome. The establishment of industrial estates by the private sector at Bangpoo and Nava Nakorn, both on the fringe of the Bangkok metropolis, can be taken as an indicator of these powerful natural forces. These two industrial estates have recently become authorized as Promotion Zones and the factories established on the estates will receive the additional tax allowances given to industries in Promoted Zones. This may be a very rational way of managing and promoting industries wanting to be close to the metropolis, but it has to be admitted that it does not contribute towards the industrial decentralization objective.

Recognizing these natural limitations of industrial dispersal, it is hoped that the authorities concerned would not try to push its decentralization policy too far. Constructing industrial estates where there is no resource base and where the market is weak, for instance, could be very costly. Under these circumstances, the estate is likely to remain empty and further measures to fill it up would represent further costs and distortions. The key to a meaningful industrial decentralization policy, as has been stated already, is the ability to help set up projects which would become viable in the long-run with a minimum of subsidy in the intermediate period.

Following up on this line of thought, the construction of alternative international sea-ports would seem to be a very important element of industrial decentralization. It would give added opportunity to different types of industries to be located outside Bangkok other than resource-based industries. The first of these are export-oriented industries using imported material inputs. The second consists of those industries dependent on imported material inputs having substantial sales in the provinces. Both types are likely to be viable in the long-run because of cost reduction through their proximity to the new port(s). The delay in deciding about the construction of the main alternative international sea-port for the last 10 years has therefore been greatly detrimental to the industrial decentralization policy.

Apart from resource-based and export industries, however, it is the market size of the rural areas which will determine the extent of success of the industrial dispersal policy. With favourable infrastructure and adequate purchasing power to keep an economic-size plant in operation at a reasonable capacity, the dispersal of industries would take place naturally. For this to happen, we have to watch and wait for the progress of the development programmes in the rural areas.



Concluding Remarks on Dispersal Policy

The package of differential tax allowances based on location of industries, the construction of industrial estates and the extension of financial facilities are indeed appropriate instruments with which the government can use to create more dispersal of industries to the outer provinces. Care has to be taken to assess the feasibility of the industries so that no windfall is presented without any associated social benefits while at the same time ensuring that socially-desirable projects which are viable in the long-run are created. The main missing measure at present is the construction of alternative sea-ports which would not only help industrial decentralization but also industrial development in general. Finally, however, the government needs to realize that the dispersal policy is severely limited by the low purchasing power of the rural areas and therefore a successful rural development programme almost has to be considered as a prerequisite before widespread industrial dispersal will become noticeable.

Footnotes

1. This area can be called the Bangkok Centred Region or the Greater Bangkok Area.
2. Since it is an Investment Promotion Zone, it is assumed that electricity is available, however, the distribution system may not be well-developed, therefore bringing the supply to the factory is likely to be costly.
3. Promotion of Industrial Investment Act, B.E. 2520 Section 35.

4. N. Akrasanee, *Industrial Development in Thailand*, Report prepared for the IBRD, Bangkok, 1977, p. 75.
5. eg, Reduction of income tax for 5 years after the normal tax holiday. This particular item is given automatically once the industry qualifies the two conditions mentioned above. The other incentives, as can be observed, is up to the discretion of the Board of Investment. See p. 36 above.
6. Or inputs which are produced in the Bangkok Metropolitan industrial area.
7. Akrasanee, *op. cit.*, p. 75.
8. The Industrial Finance Corporation of Thailand and the Industrial Development in Thailand, *A Supplement of the Nation*, June, 1978.
9. Exact locations of the projects will have to be known because many of these projects could be just outside the Greater Bangkok Area.