
Working Group 1

Economic Development

The Empowerment of Handicraft Sector and Its Impact on Local Economy

-The Case of Chiang Mai Province, Thailand-

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1. Introduction

1.1 General Information about the Thailand's and Chiang Mai's Economy

Thailand, the heart of the Association of Southeast Asian Nations (ASEAN), has been growing gradually since the financial crisis. From 1999 to 2006, its GDP growth rate averaged 4.95 percent (IMF, 2007). Chiang Mai, the second most populated city after Bangkok¹, in particular, contributed 1.43 percent of the GDP in 2007.²

Chiang Mai is a province located in the northern part of Thailand and is about 720 kilometers from Bangkok. It borders Myanmar's Shan State in the north, Tak Province in the South, and Mae Hong Sorn Province in the West while the East is connected to Chiang Rai, Lamphun and Lampang. Chiang Mai's geography is mainly groves and mountains. Its area covers 20,107,055 square kilometers, in which forest and agriculture land account for 69.92 percent and 12.82 percent of total land, respectively. The rest is used for residential and other purposes. Chiang Mai is the largest city in the northern part of Thailand and has a distinctive culture and various ethnic groups. Its population consisted of 1,603,220 as of December 2004 (Chiang Mai information web site).

Today Chiang Mai, the city of ancient arts and craft, is a commercial, educational and travel center which has various economic activities. Because of these, "its economy has been growing rapidly and efficiently" (Chiang Mai Guideline.com web site). In 2004, its Gross Provincial Product (GPP) was 98,004 million Baht and per capita income was 61,776 Baht, the third largest in Thailand. The main sources of revenue are the service sector, industry, commerce, and agriculture, accounting for 26 percent, 20 percent, 16 percent, and 14 percent, respectively (Chiang Mai Province official site). In Chiang Mai, tourism plays an important role in stimulating growth. In 2004, the tourism income in Chiang Mai was worth 45,067 million Baht or 46 percent of Chiang Mai's GPP (Chiang Mai Province official site).

1.2 Research Objectives

Our research objectives are summarized into three parts:

1. To find out the role of Handicraft Enterprises in the Chiang Mai's economy, in terms of employment and utilization of local resources.
2. To identify existing problems faced by Handicraft Enterprises in Chiang Mai.
3. To find the ways to empower them to cope with the problems.

1.3 Research Questions

Following the above mentioned research objectives; we have set two research questions:

1. To what extent do Handicraft Enterprises contribute to the Chiang Mai's economy?
2. How can Handicraft Enterprises be empowered?

1.4 Research Methodology

Before conducting fieldwork, we conducted a literature review in order to obtain basic information and macro data of the economy of Thailand and Chiang Mai. Furthermore, we have learned what might be the characteristics and problems of the economy. Our field research includes three methodologies – direct interview, questionnaire survey and observation – for data collection. Our main method is interview of employers and employees working in firms in Chiang Mai and our two other methods play a role to complement the result of the interviews. To analyze collected data, we used some related indicators and some parts of Project Cycle Management (PCM) method such as Problem and Objective Trees.

1.5 Components of the Report

In Section 1, we briefly introduce the general information on the economy of Thailand and Chiang Mai and the structure of our research, that is, research objectives, research questions and research methodology. Then, we discuss more deeply about the Chiang Mai's economy and emphasize the important role of Micro, Small and Medium Enterprises (MSMEs), especially in handicraft sector, in Section 2 together with their definition. In Section 3, we describe the result of our interviews at MSMEs of handicraft sector and try to answer our first research question, "To what extent do handicraft enterprises contribute to the Chiang Mai's economy?" using the result of Section 2 and 3. In Section 4, we discuss challenges of MSMEs of handicraft sector in Chiang Mai, which is connected to a later section. In Section 5, we define the meaning of empowerment and analyse how to empower MSMEs of handicraft sector in Chiang Mai. This section is aimed at answering our second research question, "How can handicraft enterprises be empowered?" In Section 6, we focus on Foreign Direct Investment firms in Lamphun Province, a neighbouring province of Chiang Mai, to clarify the differences between those firms and MSMEs. We finally conclude our research as a whole in Section 7.

2. Micro, Small and Medium Enterprises (MSMEs) in Thailand and Chiang Mai Specifically

2.1 Definition of MSMEs in Thailand

Review of the literature shows that there is no single or standard definition of Small and Medium Enterprises (SMEs). Various meanings can be found which apply in different contexts. The definitions of SMEs are different from country to country because each country is using one or several indicators to define the SMEs. Definitions of SMEs are based on the number of employees, the number of annual working hours, annual turnover, annual balance sheet or production volume and independence of the company (OECD, 2008). In most countries, as per the sectors, the number of employees and fixed asset value are the criteria applied to define SMEs. Moreover, it is difficult to decide the thresholds for SMEs even with a similar definition. Thus, the thresholds vary within the industrial sectors of one country.

According to the Thai government official definition, SMEs are divided into four sectors. They are manufacturing, wholesale, retail and service. It is also defined by two indicators: number of employees and fixed assets.

Table 2.1: The Definition of SMEs in Thailand

Sectors		Number of Employees (persons)	Fixed Asset (USD million)
1. Manufacturing	SEs	Less than 50	Less than 1.28
	MEs	51~200	1.28~5.13
2. Wholesale	SEs	Less than 25	Less than 1.28
	MEs	26~50	1.28~2.56
3. Retail	SEs	Less than 15	Less than 0.78
	MEs	16~30	0.78~1.56
4. Service	SEs	Less than 50	Less than 1.28
	MEs	51~200	1.28~5.13

Source: Office of Small and Medium Enterprises Promotion (OSMEP)

However, the governmental official statistical data we use in this report does not distinguish “micro” from “Small Enterprises”. We define “micro enterprise” as firms which have less than 10 employees and the definition of small enterprise above already includes the micro ones. Since our samples also include micro enterprises and in order to avoid misunderstanding, we will use the term Micro, Small and Medium Enterprises (MSMEs) for this report.

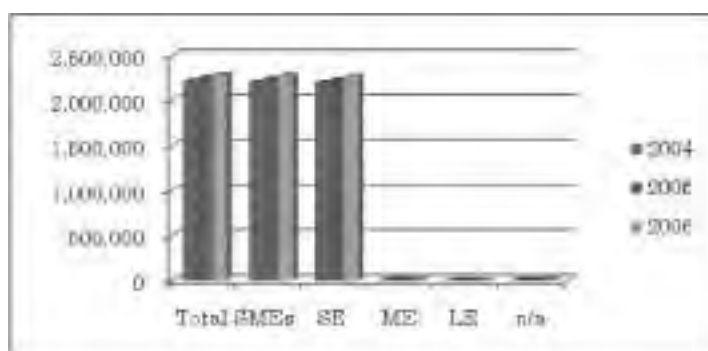
Table 2.2: The Definition of MSMEs in the survey

Sectors	Number of Employees	Site
Micro Enterprises	Less than 10	Baan Tawai Handicraft Center, Borsang Village, Hmong Hill Tribe Village,
Small Enterprises	10~50	Wat Sri Suphan, Meng Rai Kilns, Baan Benjawan Scented Candle, By Hand International
Medium Enterprises	50~250	Jollie Femme, Borsang Umbrella Making Center

Source: Field Survey, October 2008

2.2 Characteristics of MSMEs in Thailand

It is recognized that Micro, Small and Medium Enterprises play a crucial role in the economy in terms of the following aspects: capability of absorbing labor supply, number of MSMEs, contributing to regional development, good communication network, and using local resources. In particular, SMEs make major contribution to employment and

Figure 2.1: The Number of Enterprises in Thailand in 2004 – 2006

economic growth. SMEs share 99.5% of total enterprises and 77% of total employment in 2006 in Thailand (OSMEP, 2006). In addition, the contribution to GDP by MSMEs was 3,041,859.9 million Baht in 2006 or 38.9% of the overall GDP, and 3,249,458.5 million Baht in 2005 or 39.4% of the overall GDP.

In 2006, there were 2,287,057 enterprises of all types in Thailand, which included 4,292 Large Enterprises (LEs) and 2,274,525 Small and Medium Enterprises (SMEs). In 2004, the number of employees reached 8,863,667 persons or 75% of the total. There was no big change in 2005, when it still accounted for 75% or 8,896,164 persons. In 2006, there was a slight increase to 8,863,334 persons or 77% of the total. From this figure above, we can see that MSMEs contribute largely to absorbing the labor supply in Thailand. MSMEs have the largest share because their establishment requires only a small amount of initial capital and the workers do not need high levels of formal education.

2.3 Characteristics of MSMEs in Chiang Mai

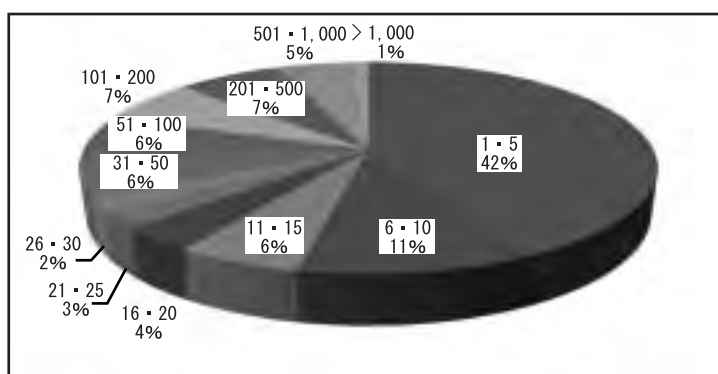
The economy in Chiang Mai largely depends on the economic activity of MSMEs. According to the 2007 Industrial Census conducted by Ministry of Information and Communication Technology, 108,935 persons, that is to say almost 84% of workers in Chiang Mai, belong to MSMEs, found mostly in hotels, restaurants and retail shops. Fifty-three percent of the workforce is engaged in firms which employ less than 10 people, that is, Micro Enterprises (See Figure 2.2).

Table 2.3 Number of People Engaged in Employment in Chiang Mai

	SEs	MEs	LEs	Total
Services	42,987	10,302	10,147	63,436
Manufacture	15,054	3,930	3,003	21,987
Retail	29,241	2,955	6,625	38,821
Wholesale	3,619	847	1,127	5,683
Total	90,901	18,034	20,992	129,927

Source: The 2007 Census, Chiang Mai Province, National Statistical Office, Ministry of Information and Communication Technology

Figure 2.2: The Number of People Engaged in by Size of Establishment in Chiang Mai Province



Source: The 2007 Census, Chiang Mai Province, National Statistical Office, Ministry of Information and Communication Technology

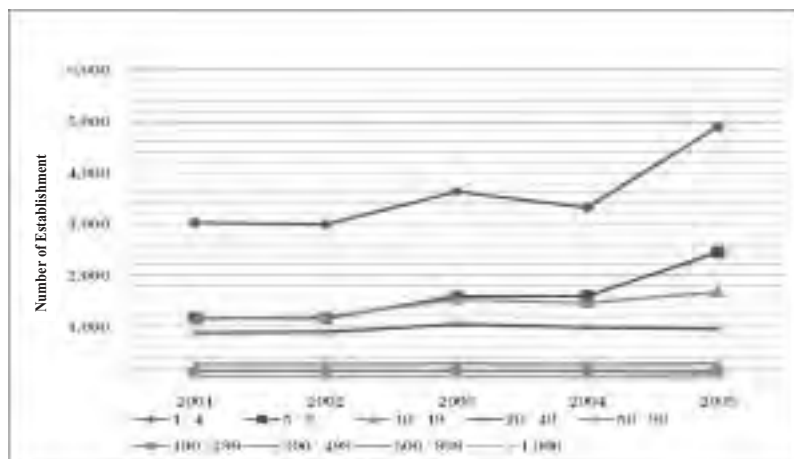
The number of established MSMEs emphasizes the predominant role of these sectors in Chiang Mai. There are 33,552 established businesses, of them 31,996 are micro enterprises. In fact, as you can see from Table 2.4, smaller firms which have only less than 5 workers show the most remarkable share. The fact remains that MSMEs sectors that are increasing is not clarified sufficiently, but this data highlights the importance of MSMEs as labor force absorber.

Table 2.4: The Number of Establishments by Size (number of workers) in 2007

Size	1 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31 - 50	51 - 100	101 - 200	201 - 500	501 - 1,000	> 1,000	Total
Number	30,069	1,927	622	270	144	109	196	117	61	27	9	1	33,552

Source: The 2007 Census, Chiang Mai Province, National Statistical Office, Ministry of Information and Communication Technology

Figure 2.3: Trend of Number of Establishments in Chiang Mai



Source: The 2007 Census, Chiang Mai Province, National Statistical Office, Ministry of Information and Communication Technology

Chiang Mai was voted to be one of the top five tourist destination cities in the world. This city has been characterized as “an artisan’s town” and a wide range of craftsman have been coming to look for cultural and religious inspiration. The handicraft industry is composed of four classifications as follows: (1) wood and wood products, (2) fabrics and related products, (3) gems and jewelry and (4) ceramics (Chifos, 2002). According to “Industrial Census 2007: Northern Region Data Summary Report” published by National Statistical Office of

Thailand, the total number of manufacturing-related firms in the Northern Region is 92,210 and the above-mentioned four sectors occupy more than 40% of total establishments (NSO, 2008). If textile industry is included in the account, this proportion will jump up to nearly 65%. In the next section, we will explain about the Thai government policy for MSMEs and the significance of handicraft sector in Chiang Mai.

2.4 Government Policy and Association for MSMEs in Thailand

The policy for MSMEs is relatively new in Thailand. The Thai government recognizes the importance of promoting MSMEs products to have comparative advantage with products from other countries. The aim of the policy is to reduce MSMEs’ dependency on imported raw materials, to encourage them to produce high value added products and to promote the utilization of technology in the production process. In April 2000, SMEs Development Master Plan was approved in the cabinet meeting. There are seven strategies as follows: 1) enhancing skill for technology and management of quality control; 2) training entrepreneurs and personnel-training; 3) promoting access to market; 4) reinforcing supporting finance system; 5) improving business environment; 6) training micro enterprises and regional enterprises; and 7) establishing networks among enterprises and clusters. The government has a 4-year plan for SMEs promotion. The first SME Promotion Plan was implemented for 2002-2006 period and the second one has been proceeding since 2007, continuing until 2011. The SME promotion composes strategies for developing entrepreneurs and promoting production, trade and

services. Therefore the government will create an investment atmosphere favorable for business operation. The second SME Promotion Plan focuses on increasing the efficiency of business operation in line with the changing behavior of consumers to minimize impacts from competition with modern corporations (The Government Public Relations Department, 2007).

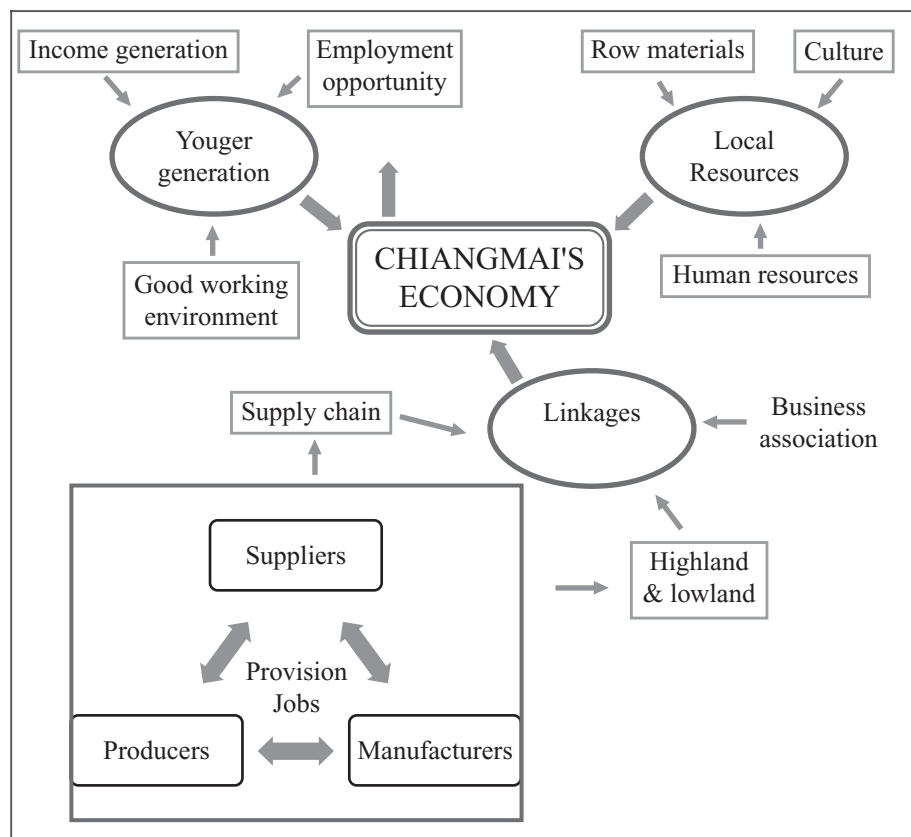
Under the Small and Medium Enterprises Promotion Act 2000, Office of Small and Medium Enterprises Promotion (OSMEP) was established as a juristic entity and governmental office. The Board of Office of Small and Medium Enterprises Promotion which is the center for promoting SMEs established a center for design and product development to assist SME owners in enhancing their product to compete worldwide and provide knowledge to meet market's needs (iSME Design Center and SMEtrading.com web site). Recently in order to reinforce the capability of SMEs in all sectors, OSMEP and Chiang Mai Provincial Administration Organization (Chiang Mai PAO) started aiming at tourism and handicraft industries first. One of the main attractions to Thailand and particularly Chiang Mai is the wealth of handicrafts.³ In terms of SMEs in handicraft production and trade which are a majority in Chiang Mai, OSMEP will implement the promotion through Project of Coordination for the procurement and distribution of Thai products to the world (OSMEP, 2006).

The Thai government has been promoting local industry through the manufacturing of attractive specialty products based on the abundant native culture, tradition and nature, e.g. handicrafts including (1) wood and wood products, (2) fabrics and related products, (3) gems and jewelry and (4) ceramics. In Thailand, this campaign is called "One Tambon One Product" (OTOP) because the target area is the administrative unit called, *tambon*, which means "sub-district" in English (Chifos, 2002).

3. Contribution of Handicraft MSMEs to the Chiang Mai's Economy

In order to see the contribution of MSMEs from various perspectives, three indicators, namely younger generation, linkages and local resources have been identified. This section will discuss the positive aspects of handicraft MSMEs to the Chiang Mai's economy based on information obtained from interview, questionnaire survey and observation at two MEs – Borsang Umbrella Making Center, and Jolie Femme – and six MSEs – Meng Rai Kilns, By Hand International, Baan Benjawan Scented Candle, Baan Tawai Handicraft Center, Borsang Village, and Hmong Hill Tribe Village.⁴ The table shows the positive factors of contribution to the Chiang Mai economy.

Figure 3.1: Contribution of Handicraft MSMEs to the Chiang Mai's Economy



3.1 Younger Generation

There are three main factors contributing to the younger generation's perspective; they are: (1) employment opportunity, (2) income generation by skill and (3) good working environment. They show positive contribution toward the younger generation in Chiang Mai.

3.1.1 Employment Opportunity

MSMEs in Chiang Mai play a role in providing the younger generation with job opportunities. They can

Photo 1: By Hand International's workers



find jobs through introductions from employees currently working at the handicraft enterprises. In terms of criteria, no particular educational background is required to work as craftsman. Therefore, people with no education or at least primary education have more opportunities to work at MSMEs than at LEs. As the studied MSME employers mentioned, experience and skill are more important than level of education, but it does not mean that MSMEs workers have little knowledge. Family-run businesses allow younger

generation to acquire knowledge or skills related to the business from parents without school education. Parents usually teach knowhow to their children when they run business so if you can succeed to business from your family, it is not necessary to go to school. It means that MSMEs in Chiang Mai absorb uneducated younger generation. However, the owner of By Hand International mentioned the necessity of education to manage business. Also, education is an important tool to acquire skills and knowledge for younger generation when their parents do not run businesses. Therefore, MSMEs are important in job creation for younger generation.

3.1.2 Income Generation

Since experiences and skills, regardless of education, can raise income, this is a good chance for young people who have low or no education to earn incomes. There are various products in Chiang Mai and in particular handicrafts. Craftsmen add their value, by using their skills of using local culture in each product. Different skills lead to different products sold by each store, and prices vary accordingly. Craftsmen or salespersons tell the price with explanation of products instead of putting price tag on them. In other words, the price can reflect the applied skills. Skill indicates value added in handicraft sector in Chiang Mai too. MSMEs in Chiang Mai have factors of not only income generation but also preserving Chiang Mai's local culture. Since the products are characterized by local culture, they attract tourists to come to the area and at the same time maintain the local culture, in which craftsmanship value is passed from one generation to another. Therefore MSMEs preserve local culture, allowing younger generations to carry on the local cultural traditions.

3.1.3 Good Working Environment

MSMEs employers and employees answered in terms of difficulties or problems that they face. Concerning working conditions, they are satisfied, e.g. Chiang Mai TAO said that the employees in Baan Tawai do not have any problems with the neighborhood because no social gap or conflict exists among them. Actually not only at Baan Tawai but other MSME locations, interviewees had voiced this opinion of an existing comfortable working environment. Good Atmosphere can be an advantage of working at MSMEs and that attracts workers from outside. Initially, one of the important reasons why people start working at Chiang Mai MSMEs is that wages are higher than that of previous jobs, however, later they continue to work because of good working conditions. Therefore MSMEs can keep running by maintaining a certain number of employees and absorbing young people as man power.

3.2 Local Resources

The second aspect to think about regarding the Chiang Mai economy is local resources. In order to analyze the structure of its economy, we cannot neglect to address the issue of, to what extent and how, local resources are utilized. We will discuss three important factors such as (1) Raw materials, (2) Human resources, and (3) Culture or knowledge.

3.2.1 Raw Materials

There are three kinds of major raw material which are utilized by MSMEs of handicraft sector in Chiang Mai. First is Teak wood to produce wood carving goods. In the northern part of Thailand, the number of establishments manufacturing wood products occupies 24.6% of total manufacturing sector (NSO, 2007a). There is a big demand for wood materials in Chiang Mai. However the supply of teak wood within local areas is scarce and limited.

Hence, suppliers of raw materials have to procure those from other provinces or outside of the country such as from Laos, China or Myanmar. Another source of teak wood is old houses. Houses which were built in past generations were made of teak wood for its pillars and beams. When those houses are wrecked, wasted materials are recycled for wooden products.

The second raw material is Mulberry tree for producing Sa-paper. Considering handicraft sector in Chiang Mai, Sa-paper plays crucial role. This product is utilized for various purposes like making umbrellas for ornamental use, artificial flowers, photo albums, photo frames, wrapping paper, shock absorber for shipping, and so on. San Kamphaeng area in Chiang Mai Province is one of the big supply sources of the paper while Mulberry tree to make Sa-paper are mainly imported from other provinces or foreign countries nearby. We will describe this issue more in the next section.

The third one is Bamboo trees which are used for producing handmade umbrellas. Those bamboo materials are imported from China and we could not find the utilization of local bamboo in Chiang Mai.

Common features of the issue of raw materials is that local supply of raw materials for handicraft is wholly scarce and those materials are mainly procured from other provinces or imported from other countries. Raw materials are imported and distributed by local suppliers in Chiang Mai and, it contributes to the Chiang Mai economy as value added products through supply chain.

3.2.2 Culture

Chiang Mai, the former capital city has famous places such as historical establishments and temples which attract a large number of tourists from all over the world. This city has a long history and traditional culture, called Lanna. Lanna culture, the name of an old prosperous kingdom located in northern part of Thailand, had been influenced by Myanmar and has been utilized for designed handicraft goods until this generation. Jolie Femme which produces Thai silk products uses Lanna arts for their products. In order to produce handicraft goods, traditional techniques and skills which have been passed on from generation to generation are employed. Those skills are commonly handed down from parents to children, or from “Salah” who is a person acquired traditional craftsmanship, to apprentices.

Northern Thai people have talents of handicraft traditionally, and a tremendous number of handicraft producers exist there. The landscape of cluster of handicraft shops and/or manufactures is also a source of tourism resources. Baan Tawai in Khun Khong Tambon as an area under the policy of OTOP is a representative agglomeration of handicraft in Chiang Mai in which craftsmen produce, or shops sell over the counter or exports to overseas, various handicraft goods such as wood carving, furniture, hand-woven textile, souvenir items, and lacquer ware and so on. This village is trying to promote their own brand. Original shopping for customers or common uniform for shop workers is preparation for branding.

3.2.3 Human Resources

To find workers MSMEs announce available jobs through simple pamphlets or mouth to mouth, instead of advertising with newspapers or websites. Because the scope of those types of advertisement is limited, the MSMEs employees are usually local people who live in the same neighborhood as the company’s location. A large part of workers engaged in handicraft sector in Chiang Mai originally lived in northern part of Thailand such as Chiang Mai, Lamphun or Lampang Province. People living there wholly have a mind of entrepreneurship. Some interviewees working at their shop in Baan Tawai were farmers or came from other jobs. Those workers were introduced to job opportunities of the handicraft sector by their acquaintances or family members. We could not find aggressive recruitment activities by micro firms in handicraft sector.

Some small firms such as By Hand International which produces artificial hand-made flowers adopt home-taking job. To deal with workers' individual circumstances, firms allow them to leave the office at a time they like and to bring their work back home. This flexible working style is suitable especially for women who have young children or household affairs. Some of those employees also have agricultural work in their home land and in the cultivation season they go back to help their family. This seasonality of workers is one common problem among small firms.

3.3 Linkages among the MSMEs of Handicraft Sector in Chiang Mai

3.3.1 Supply Chain for Sa Paper Crafting

A number of firms in the handicraft sector have relationships with Sa paper as both input and final product.

Photo 2: Sa Paper



San Kamphaeng Area is one of the supply sources of Sa paper. There are certain numbers of Sa paper producers in this area and those producers have been living there for long. A 73 year old woman producing Sa paper whom we interviewed, had been working there since she was 14 years old and her parents were also engaged in the same job. There are some local suppliers of raw materials for Sa paper. Local suppliers sell to Sa paper producers and they distribute Sa papers to domestic handicraft makers as materials for products and/or shipping. Through these

processes of commodity circulation, several economic actors profit. Each firm has regular suppliers and shipping companies. They might have taken a long time to strengthen these kinds of relationships.

The suppliers of Sa paper procure materials from Chiang Mai or other provinces nearby in small parts only, mainly procuring them from outside of Thailand, such as Laos or China. One problem is that the supply of raw materials for Sa paper in domestic market is wholly scarce. Another problem is that this industry is vulnerable to seasonality. When it is rainfall season, producers of Sa paper are not able to work because those kinds of paper must be dried in the process of producing. That fact results in a lack of materials for goods producers in the season.

3.3.2 Business Association

While forward/backward linkage is important, horizontal networks among firms such as business association or cooperative system play a significant role in continuing their business. In Baan Tawai, under the initiative of Tambon Administrative Organization (TAO), a monthly conference is held with shop workers, housewives, police or other people living in the Tambon to share business information or their experiences. Another example is Northern Handicrafts Manufacturers and Exporters Association (NOHMEX) of which missions are: (1) to manage problems of membership, (2) to do promotion activities of handicraft sectors, and (3) to hold events or fairs for

promoting handicrafts and so on. At present 161 of handicraft firms are registered in this organization (NOHMEX web site). In our research, two firms (By Hand International and Baan Benjawan Scented Candle) are member of NOHMEX.

3.3.3 Linkage between Highland and Lowland:

From our interview survey and observation, we found out that there is a linkage between highland, i.e. Hmong Hill Tribe Village (Doi Pui) and lowland, i.e. the rest of Chiang Mai City. This linkage is evident in two aspects; first, as the job opportunities are limited in the village, some villagers go out to work in small enterprises in Chiang Mai. In another aspect, there is a flow of raw material from lowland to the village. The village economy depends on tourism to a large extent and there are many small businesses in the village who produce local products, mainly for tourists. Those business owners procure the raw materials and intermediate goods from lowland Chiang Mai and add value by themselves such as stitching, designing etc. These aspects highlight the importance of small firms, mainly in the handicraft sector which absorbs some of the workforce from the highland as well as sells those intermediate goods to the village business owners. Also, traditional products which obtain added value at highland are sold at lowland. Those products can be seen at the night bazaar and Sunday walking street in Chiang Mai. Tourists have many opportunities to purchase such products at lowland. It is evident from these aspects that the village and lowland area are complimentary to each other as far as their economic activity is concerned.

4. The Challenges of Handicraft MSMEs

According to our interviews and observations, we found that there are eight major challenges facing handicraft MSMEs in Chiang Mai, which make it difficult for them to survive. The major challenges include (1) raw materials, (2) skilled labor, (3) seasonal income, (4) management knowledge and entrepreneurial skill, (5) domestic market, (6) brand name, (7) capital flow, and (8) political and economic conditions. We will discuss all these challenges as follows.

4.1 Raw Materials

One of the challenges faced by handicraft MSMEs in Chiang Mai is the issue related to raw materials. Most of the enterprises use local resources like Sa paper, teak wood, bamboo, clay, etc.,⁵ and they are encountering a limited supply of such unsustainable resources. For wood-carving businesses in Baan Tawai, craftsmen are facing more and more difficulty in obtaining teak woods to produce big pieces of crafting items. At the moment, there are many solutions to deal with the demands for woods such as buying old houses from Chiang Mai or the surrounding areas, or importing such woods from neighboring countries. However, these solutions may not be the best way due to the fact that the supply of woods is still limited. Moreover, given the limitation of raw materials supply, the increase in demand leads to an increase in the prices of raw materials. The steady hike in raw material prices is one of the causes of businesses in Chiang Mai gaining smaller profit margins. The increasing prices of imported raw materials are a concern of MSME owners such as By Hand International, Baan Benjawan Scented

Candle, Borsang Umbrella Making Center, Meng Rai Kilns, and Baan Tawai Handicraft Center. For instance, the increasing prices of paraffin shipped from China is one of the concerns for Baan Benjawan Scented Candle, while the reduced amount of bamboo supply in Chiang Mai also hampers Borsang Umbrella Making Center in its framing stage.

4.2 Skilled Labor

Even though labor is abundant in Chiang Mai, handicraft MSMEs such as Meng Rai Kilns, Jolie Femme, and Baan Tawai Handicraft Center are challenged by the shortage of skilled labor. This shortage resulted from the fact that skills are not transferred to outsiders other than family members and that the younger generation is not interested in succeeding their parents' businesses. Therefore, most handicraft MSMEs could not find family successors to skills and businesses, except By Hand International and Baan Benjawan Scented Candle, and thus skilled labor has become rare. Particularly, in the case of Baan Tawai Handicraft Center, the concern is the absence of such institutions as those for skill transfer; for example, wood-carving skills are taught and learned only among family members. Another concern is that most of the recruitment of labor is done in informal ways such as recommendation from friends and relatives, workers who have already been working for the company, and through other informal channels.

4.3 Seasonal Income

In Chiang Mai, most of the handicraft MSMEs' business performances are seasonal in various aspects. For one thing, the inability to produce intermediate goods, say, Sa paper during rainy season, would lower the household income for a period of time. For another thing, seasonality also refers to the period in which the number of tourists fluctuates. Since the handicraft MSMEs in Chiang Mai depend heavily on tourism, the amount of their sales during low season declines and the production activities also drop. It is evident from the case of MSEs in Baan Tawai Handicraft Center and Hmong Hill Tribe Village. They earn more income during peak season; however, they earn remarkably little during low season. The other cause of business seasonality in Chiang Mai is that most of the workers working for the production enterprises are engaging in farming. During the farming seasons, because of a lack of welfare from the company and/or agriculture-based family profession, workers are leaving the company and working on their own farms. As a result, there is a lack of labor during that time. Among all MSMEs our group studied, only Jolie Femme offers a good welfare scheme and it does not experience seasonality in terms of worker movement.

4.4 Management Knowledge and Entrepreneurial Skill

Many MSMEs in Chiang Mai have been found to lack business management knowledge and entrepreneurial skills, especially those at Baan Tawai Handicraft Center, Borsang Village, and Hmong Hill Tribe Village. They have not explored the full potential of exporting their products to foreign countries. They do not have a network in order to promote their products in both domestic and foreign markets, neither are they capable of dealing with cash flow management. Moreover, human resource management is one of the most obvious challenges as it has

already mentioned above. Also, they are not willing to take risk in doing business as they believe in self-sufficiency and fear for indebtedness.

4.5 Domestic Market

Another problem faced by SMEs in Chiang Mai is that the domestic market is neglected and thus becomes narrow. Most MEs that we surveyed and interviewed mainly focus on exporting, while MSEs sell their products mostly to tourists. Furthermore, they do not diversify their products to target the domestic market, which is believed to be a more stable market share and which helps lessen the risk of seasonality resulting from tourism.

4.6 Brand Name

All the studied MEs do not have their own brand name for their products in the international market. Products from By Hand International and Baan Benjawan Scented Candle have been exported to countries in Asia and Europe under their importers' brand name.

4.7 Capital Flow

Handicraft MSMEs have difficulties in raising capital to reinvest in their business because they lack of information about bank loans and some find it hard to meet the requirements set by financial institutions in getting loans. In addition, they are not willing to access to credit or loans from financial institutions because they are afraid of indebtedness.

4.8 Political and Economic Condition

The recent political and economic condition in Thailand is another factor which affects the business performance as a whole, let alone the handicraft sectors in Chiang Mai. The drop in demand for products at outlets in Chiang Mai due to the drop in number of tourists coming into the areas as well as drop in product orders from overseas because of bad economy would not be ideal for businesses. The recent political instability in Thailand, to a great extent, contributes to smaller number of foreign and Thai tourists coming to Chiang Mai, which leads to lower demand on handicrafts.

Having seen the contribution of MSMEs to the Chiang Mai's economy and all the challenges above, it is necessary that MSMEs be empowered. Therefore, we will explore how to empower MSMEs in Chiang Mai in Section 5.

5. The Empowerment of Handicraft MSMEs

5.1 The Definition of Empowerment

The concept of empowerment is popular among institutions or organizations to challenge today issues. However, the content of empowerment has not been socially agreed upon. It means different things to different institutions or people. According to the World Bank, “empowerment is the process of enhancing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes.” Empowerment is about the right and decision making of the minority (Gergis, 1999). Kieffer (1984) defined empowerment as “continuing construction of a multi-dimension participatory competence.” In this study, empowerment of MSMEs focuses on the development and growth and the security of MSMEs. To achieve these things, it is concentrated on the expansion of SMEs and the resilience of MSEs as the elements of empowerment.

5.2 The Elements of Empowerment

In order to survive and grow in such critical conditions as economic situation, unstable income from business, low demands of products locally and internationally, increased prices of raw materials, and seasonality and other external factors, SMEs in Chiang Mai must be empowered. Through our group research, we have identified ten elements for SME empowerment in Chiang Mai. However, after closely examining those elements, we have grouped those elements into two main categories, in which expansion and resilience stay as the heading of each division.

Figure 5.1 Elements of Empowerment



- **Expansion:** Empowerment, in our study, should focus on the expansion of the business activities, in terms of investing more in capital, increasing number of employees, having larger space for production and having more locations and outlets for business, and procuring more or better machinery. However, according to the

situations of SMEs in Chiang Mai, as discussed in Section 4, about the challenges of SMEs, the concept of expansion might not be applied as direct means of empowerment. Therefore, we are looking at the other way of business empowerment, and it will definitely indirectly expand the business.

- **Resilience:** In this study, resilience is considered as the best way for empowering businesses in Chiang Mai, especially those micro ones. According to Marriam-Webster Dictionary, resilience is defined as an ability to recover from or adjust easily to misfortune or change. In order for MSEs in Chiang Mai to be resilient to shocks such as bad economy and unstable political situation leading to a drop in number of tourists visiting the areas, and lower demand of crafting products as well as seasonality of the business, those businesses need to be resilient in terms of various factors such as income, raw materials, business operation and business continuity.

A range of elements are suggested to empower MSEs in Chiang Mai area, and they can be situated under the umbrella of resilience.

- Management of resources: entrepreneurs should have necessary knowledge and skills in managing resources such as financial and human resources.
- Marketing: the ability to get their products sold by various means should be expanded.
- Networking: in order that entrepreneurs know more about business situations and strategies, joining business associations is a plus for learning and information sharing as well as helping one another solve problems.
- Value addition: value addition provides a higher profitability for product sales.
- Branding/product identity: community branding and individual business branding allows for recognition of product quality and design as well as identity.
- Product differentiation, innovation: product differentiation and innovation differentiate a particular product quality and design for groups of similar products.
- Training and entrepreneurship skills allow for the greater ability of business owner to operate and solve business problems responsively and effectively.
- Business successor: businesses need successors to ensure business continuity.

5.3 PCM Analysis

Developed by Foundation for Advanced Studies on International Development (FASID), Project Cycle Management (PCM) has become a popular method used as a tool to manage a project as a cycle. This method consists of two main parts, Participatory Planning (PP) and Monitoring and Evaluation (M&E). There are seven steps to the Participatory Planning, namely (1) stakeholder analysis, (2) problem analysis, (3) objective analysis, (4) project selection, (5) project design matrix, (6) project appraisal and (7) plan of operations. In our study, we selected Baan Tawai Handicraft Center as the case. Since we are not going to do project and we need only to define the real problems and find ways to solve them, we decided to choose only two of the seven steps to present in our report, problem analysis and objective analysis. The details of problem analysis and objective analysis of Baan Tawai Handicraft Center will be discussed as the following.

5.3.1 Objective Analysis: A Case of Baan Tawai

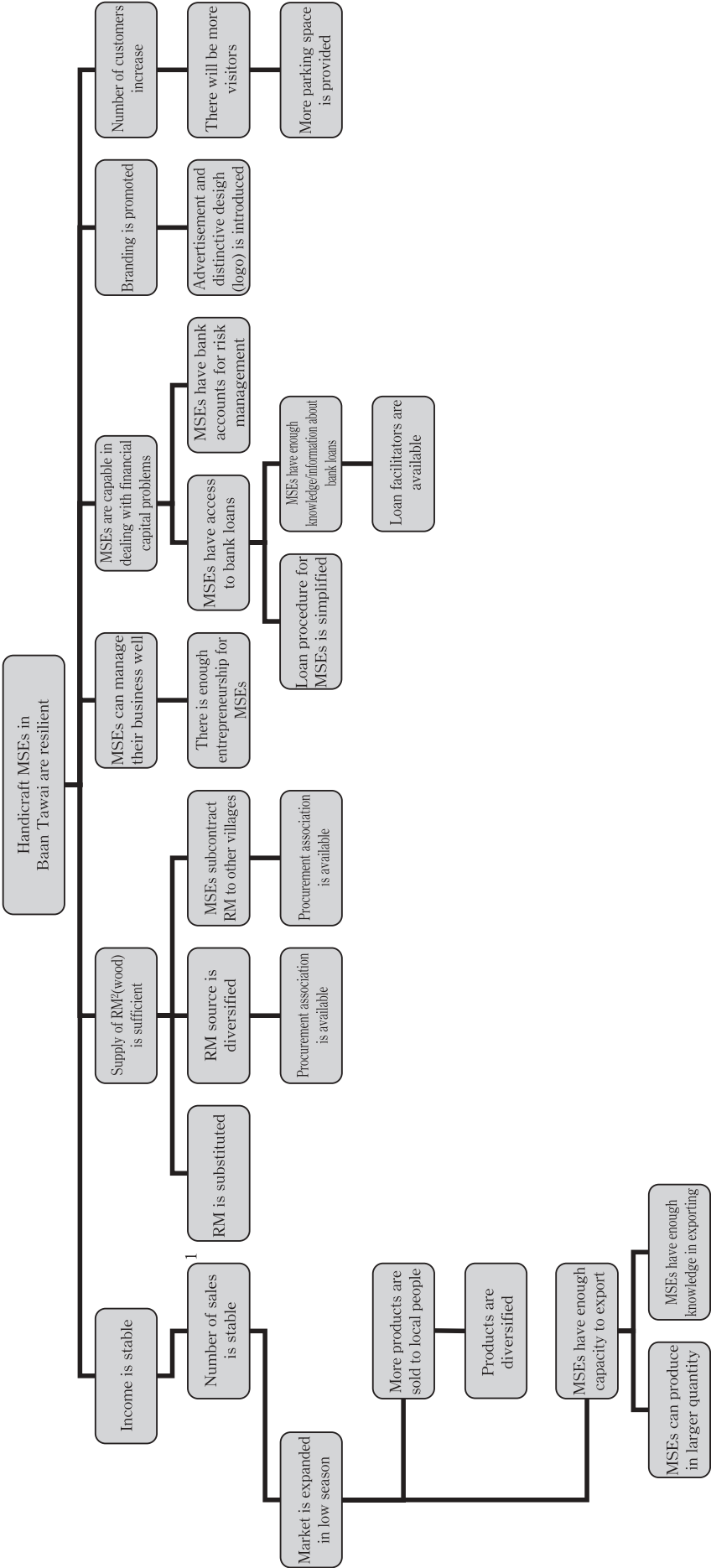
After analyzing the elements of empowerment, we focus on PCM analysis as a part of research methodology. PCM analysis is composed of two parts, namely Problem Analysis and Objective Analysis. This Section explains about Objective Analysis which is the mirror image of Problem Analysis (see Appendix A.3). In this analysis, the focus is mainly on resilience aspects to assess handicraft enterprises in Baan Tawai, one of the core sites of our study.

5.3.2 Importance of Baan Tawai

Baan Tawai is one of the villages (Village No. 2) that comes under Khun Khong Tambon Administrative (TAO). This village is famous for OTOP (One Tambon One Product) scheme and also called ‘Economic Village’. There are many micro and small handicraft enterprises operating in this village and they enjoy the benefits of OTOP scheme. Most of these businesses are family businesses, characterized by handicraft products aimed at tourists. Owners of those businesses have their manufacturing units and sales outlets in the village which is a tourist attraction. Logistic companies have also developed in the vicinity due to the nature of handicraft enterprises. This sector provides livelihood to many people in the region and also absorbs those who come from hill tribes to work. Since agriculture is the main source of income in other villages under the Khun Khong TAO, handicraft businesses also work as an additional source of income for those who are in agriculture. Due to the seasonal nature of these businesses, it is important to identify the elements that can help these businesses to become more resilient in low seasons and toward other exogenous shocks.

5.3.3. Objective Analysis Chart

Figure 5.2: Objective Tree



1. Assumption: Price is stable.
2. RM: Raw material

5.3.4 Findings of Objective Analysis

As it is seen from the chart of Objective Analysis in Figure 5.1, for handicraft MSEs in Baan Tawai (target group) to be resilient, the following issues are identified as solutions that can help these businesses to reach a certain level of resilience.

- **Stable Income:** In order to have a stable income for these family businesses in Baan Tawai, it is important to have some degree of stable sales in a year. Since most of the family enterprises face difficulties of low season due to the decrease in number of tourist visits and hence the sales, it is necessary for them to expand the market. Expansion can be achieved by product diversification aiming at high end customers and low end customers. Products could be diversified so that not only tourists but also local people share the lists of customers. Another factor that links to expansion of market is to increase the export capacity of these businesses. To achieve this goal, these MSEs must have appropriate knowledge related to export. There can be more exhibitions or trade fairs aimed at promoting the products of these businesses with the initiative of government organizations and local government bodies. With more involvement of these owners of businesses into exhibitions and fairs, they will try to produce more in quantity as well as more quality products.
- **Stable Supply of Raw Material:** Stable supply of raw material is equally important to produce outputs made to orders. Many of these businesses use teak wood as the main raw material, which is getting scarce and expensive (according to the Public Relation Officer of Baan Tawai). Since Thai law prohibits cutting trees and most of the wood is procured from old wooden fences, waste wood and old wooden houses these days, the supply is restricted due to the limited availability. In such cases, it becomes an urgent necessity to find different substitutes as well. In Baan Tawai case, substitutes like mango & other fruit tree woods are used; however, it is not favored because returns are not the same as Teak. However this problem can be solved through product diversification aimed at low end customers using substitutes and high end customers using Teak wood. A variety of substitutes having a stable supply can help solve the problem to some extent. Moreover, diversifying the sources of raw material supply can also contribute to the stable supply of raw materials. Some shop owners in Baan Tawai, especially the new ones, have to find the suppliers by themselves while the settled owners receive raw materials from regular suppliers. To avoid the present and future problems of raw materials and to build a diverse and stable raw material supply chain, businesses in Baan Tawai need to establish a Procurement Association. This association will link the suppliers of raw material with the businesses in Baan Tawai and find new sources as well.
- **Management of Business:** Most of the owners of micro and small businesses of handicraft in Baan Tawai are artists and are good at craftwork. However, most of them do not have entrepreneurial skills required to manage the business. Formal education of these business owners is also low in average in comparison to the successful cases of export-oriented businessmen in Chiang Mai. With the entrepreneurial training, they can manage their businesses well in terms of allocation of work and fulfilling made-to-order jobs. Also, it is necessary to maintain records and bookkeeping to estimate costs and revenues. Entrepreneurial training will enable those owners to manage their business efficiently and make adjustments whenever necessary. Two

types of entrepreneurial training programs already exist. NEC Project, which stands for New Entrepreneur Center Project, aims to train entrepreneurs to take risks. Another project called 'Incubator' focuses on young entrepreneurs from different backgrounds. These projects or programs need to be disseminated and carried out at the very local level, so more entrepreneurs can access it. Entrepreneurial programs designed for micro and small business owners will help them to manage their business and avoid stagnation in business.

- **Financial Capital Security:** Although some business owners in Baan Tawai did not express explicitly any financial capital problem, it seemed that they do not have easy access to external capital. Availability of cash flows is important for the purchase of raw material and the reception of made-to-order jobs. In this survey, we had the strong impression that bank access is limited and hence there is possibility of business owners without bank account. This can create liquidity problems when it comes to taking risks. Although the nature of northern people is that they are risk-averse and do not want to borrow, the instable income from business forces them not to apply for loans. There are commercial as well as government bank branches in Baan Tawai area. However, commercial banks' procedures for loans are complicated and difficult for small business owners to fulfill. A government bank called BAAC (Bank of Agriculture and Agricultural Cooperatives) provides loans to small businesses and has some schemes as well. However, many business owners are not fully aware of the schemes and do not have any assets to use as collateral. In such a case, a loan facilitator can play an important role in coordinating between banks and micro and small business owners who want to avail of loan facility. This loan facilitator will be providing information about schemes and procedures of bank loans to the owners and also facilitate them in fulfilling the procedures.
- **Branding Promotion:** Baan Tawai is planning to promote the brand 'Baan Tawai' by introducing plastic carry bags with the logo of Baan Tawai to avoid imitation of their brand. Also, they have prepared a sample to introduce an overcoat for the owners so to wear on special occasions. Although the products vary from shop to shop to avoid competition, they lack branding efforts which can identify the so called Baan Tawai products. To consolidate the brand products they can advertise more about their special products for which they want to create a brand. These businesses can develop multiple brands, aiming for high end and low end customers. Also they can add more value through some upgraded packing and different designs. Branding will help promote their products and attract new customers in the form of export. Some of the packing methods and product designs or colors wherever possible can be standardized. It will help pass on the skills from one generation to another and help to attract the younger generations into business inheritance.
- **Space availability:** Space available for parking the vehicles of tourists in Baan Tawai was found to be limited. Provision of more parking space can help attract more tourists which will ultimately lead to the increase in number of customers if other things are in place.

The above analysis makes it clear that following the steps given in the objective analysis chart which characterized the means and end relationship will help the Baan Tawai business owners make their businesses more resilient and they will also become more attractive places to work for younger generations.

5.4. Application of Elements of Empowerment to Other Sites

The table below shows that some of the aspects of these elements are common for Baan Tawai and other sites and some are different.

Table 5.1 Application of Elements of Empowerment to Other Sites

Site & Elements	Borsang Umbrella	Scented Candle	Meng Rai Kilns	Jolie Femme	By Hand Int'l	Hmong Hill Tribe	Borsang Village
Mgt of Resources	△	△	△	△	△	△	△
Marketing	①	△	①	①	△	△	△
Networking	△	①	①	①	①	△	△
Value Addition	①	①	①	①	①	△	△
Branding/Identity	△	△	①	①	△	△	△
Product Differ., Innovation	①	①	①	①	①	△	△
Training & Entrepr. Skills	△	①	①	①	①	△	△
Business Successor	□	●	□	□	●	□	□

①: Satisfactory △: Need improvements ●: Available □: Recommended

Source: Field Survey, October 2008

- ✧ **Management of resources:** The management of resources is not done effectively, especially that of human resources. Having flexible working hours and part-time and take-home workers is a positive side of MSMEs in Chiang Mai, but this also creates problems when there is high demand and experienced workers are on the farm and not at work. Borsang Umbrella Making Center is facing the problem of inconsistency of workers. Also, salaries of the workers other than salesperson, are based on the number of products produced. This helps the workers who want to work more; however, those who are not consistent may cause problems in producing a certain number of outputs. To manage the resources both human resources and capital and raw material resources, owners of MSEs need entrepreneurial skills and support from business associations and local government bodies. Having entrepreneurial training and a network of business associations will solve this problem.
- ✧ **Marketing:** Most businesses in Chiang Mai do not have proper marketing mechanisms. Medium-sized and successful businesses like Jolie Femme and Meng Rai Kilns have their web pages and also advertise through tourist maps of Chiang Mai. Other than these, they often participate in trade fairs and exhibitions for marketing their products. By Hand International has focused mainly on export, and emphasized less marketing its products to local customers. Those micro and small businesses in Hmong Hill Tribe Village, Baan Tawai and also some in San Kamphaeng do not promote their product individually, but get benefits of

location. As Hmong Hill Tribe Village and Baan Tawai are tourist attractions, having outlets in those areas solves the advertisement needs to some extent. Night Bazaar and Saturday and Sunday Evening Walking Street are good market places for micro and small businesses in Chiang Mai to promote their products. Some of those who sell at those places are not the producers, but they buy from medium-sized enterprises and sell. Asking one umbrella seller at Sunday Walking Street market, we found that the umbrellas are bought from Borsang Umbrella Making Center to sell at that market. So, these places are strategically important particularly for micro- and small businesses in Chiang Mai to advertise and promote their products. Medium-sized businesses should also use those places to test the response of the visitors.

- ✧ **Networking:** It is found that only a small number of business owners, most of whom from our sample are graduates from Chiang Mai University, join business associations. However, micro- and probably vulnerable business owners do not have business associations; then, the ability in learning from one another and sharing information is very limited to them. Networking also provides good ways for business owners to help one another solve problems. As it is already explained in Section 3, some of the small and medium-sized enterprises like By Hand International, Baan Benjawan Scented Candles, etc., are members of different business groups and associations like NOHMEX.
- ✧ **Value addition:** Value addition is one of the important elements of empowerment, and some of the sites have done well with value addition. Some small and medium-sized enterprises add value in their products in various ways. One of the common characteristics is that they use both machines and human resources in their production, which helps add value to their products. Some enterprises like By Hand International, Baan Benjawan Scented Candles, and Meng Rai Kilns conduct Research and Development (R&D), which helps in value addition. They consult with the customers to develop a prototype and design. Some standardization of product and design is also found in those medium-sized enterprises. It helps maintain the quality. Hmong Hill Tribe businesses do not usually produce their products by themselves and get it done from the lowland, but they contribute in the designing aspects. Packaging is also one of the ways of adding value. In short, micro- and small businesses add value in different forms, but there seems to be greater scope for value addition from product designing rather than packaging.
- ✧ **Branding/product identity:** In the case of Hmong Hill Tribe Village, the village authority wants to develop the identity of Hmong Hill Tribe through their products. They buy semi-finished products from the lowland and add design of their origin and sell in the village. This Hmong design helps create product identity. This is not restricted to any specific product but a range of products. For Jolie Femme, they have their own brand which is “Thai Silk”. Meng Rai Kilns also has its own brand, “Meng Rai Celadon”. Most of the handicraft enterprises of Chiang Mai apply Lanna culture to their products mainly in the form of design to promote the local brand. However, those businesses which are mostly in the exporting sector do not have their own brand name in the international market. In By Hand International case, the managing director expresses the intention to have “By Hand” brand on its exported products through negotiation with its buyers. In the same essence, skilled workers play an important role in creating brand and product identity as it is mainly

handicraft work like the craftsmanship at Baan Tawai Handicraft Center. For micro businesses, branding and product identity is essential to compete and survive in the local market.

- ✧ **Product differentiation, innovation:** Product differentiation is also equally important for the empowerment of handicraft enterprises. Rather it is one of the pre-requirements for creating a brand and product identity. Sa paper producers in San Kamphaeng area have their brand, but lack variety to some extent. Many products found in Night Bazaar and Saturday and Sunday Evening Walking Street markets seemed to be identical. It is important for small handicraft businesses to be innovative to have product differentiation. One good example of product differentiation is of By Hand International. Their product is artificial flower, but made of paper which is rare in the market and also different with sizes, colors and designs. Borsang Umbrella Making Center coats the paper with natural paints that makes umbrellas useable in the rain. Likewise, Baan Benjawan Scented Candle also has candles with and without fragrance. Small businesses cannot work on a big scale, but can develop some products which are unique in nature.
- ✧ **Training and entrepreneurship skill:** There is a lack of entrepreneurial skills in Handicraft businesses in Chiang Mai as far as the sites we visited are concerned. This shortcoming includes a lack of knowledge to look for sources of fund to expand business or when in huge need of financial capital, poor business management and unwillingness to take risks. It is necessary for the overall environment of the business activity in Chiang Mai that the handicraft enterprise owners become risk takers from their tendency of risk aversion which will result in them entering new avenues and also acquiring financial capital from local financial institutions. Entrepreneurial training will help them to be risk takers in the business to some extent. Above all, entrepreneurial skills can contribute a great degree to fulfill all the above mentioned elements of empowerment. As per our observation, some of the stable and medium-sized business owners are highly educated and some also have undergone the entrepreneurial training. This makes a big difference in managing the business and makes it resilient enough. Local governments should initiate different training programs aiming at such micro and small entrepreneurs at local level.
- ✧ **Business successor:** Only owners' children of larger SMEs such as Baan Benjawan Scented Candle and By Hand International are interested in inheriting their businesses. Handicraft businesses are experiencing crisis in having no successors as their children are more interested in working in FDI firms or migrating to big cities, for example, Bangkok. Finding a successor is not the end in itself but transforming the arts and local culture to the coming generation is. Since the identity of Chiang Mai relies heavily on the local culture and traditional arts, it is necessary to preserve these culture and arts and for that business successor is needed. Institutionalization (business groups and organizational structure) of these businesses is necessary to find a successor who is not necessarily a family member.

6. Foreign Direct Investment Firms and Handicraft MSMEs: Comparative Analysis

6.1 Information of the Northern Region Industrial Estate

The Northern Region Industrial Estate (NRIE) was established in 1985 by the Industrial Estate Authority of Thailand (I-EA-T) in Lamphun Province, about 689 kilometers from Bangkok and 30 kilometers from Chiang Mai. Furthermore, it is close to the Chiang Mai International Airport, about 29 kilometers away. There is a highway network near the NRIE, and it takes one day from the NRIE to Bangkok by tracks. It covers a land area of 715.2 acres, and consists of 4 zones: General Industrial Zone, I-EA-T Free Zone, Residential Area and Commercial Area (Industrial Estate Authority of Thailand web site). There are several incentives to attract FDI firms especially those located in the Industrial Estate in Thailand. For example, the corporate income tax is discharged for 8 years in the NRIE (JETRO web site). As a result of satisfactory transportation access and tax incentives, there are many FDI firms from Japan, Belgium, Hong Kong, Israel, Taiwan, U.S.A, Malaysia, Switzerland, France, China, South Korea and India in this industrial estate.⁶

6.2 Characteristics of FDI Firms and Employees, Products and Resources

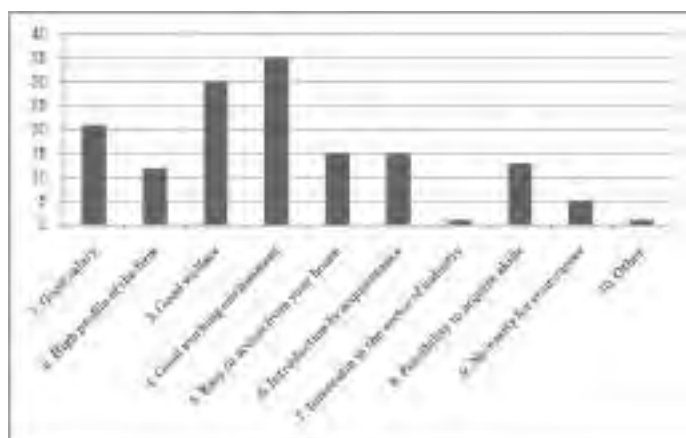
In the NRIE, there are various products produced by the firms. They are high value added products such as electronic components, food processing products, leather products, garments, etc. In this field survey, we visited three Japanese assembly companies. The following table shows the information of these FDI firms.

Table 6.1: The Information of three sample FDI firms

Name of Company	Main Products	Year of Establishment	Number of Workers (2007)
NAMIKI Precision Co. Ltd.	Electronic components (motor, vibration, etc.) and medical equipments (infusion pump)	1990	597
LTEC Ltd. (Lanna Thai Electronic Components)	Electronic components (membrane switches, magnetic coil assembly, optical fiber components)	1989	8,388
Lumphun Shindengen Co. Ltd.	Electronic components (semiconductor, power supply transformer, etc.)	1991	Japanese: 7 Thai: 1,144

Source: Field Survey, October 2008

The manufacturing process in each FDI firm is mainly assembling. They obtain raw materials mostly from foreign countries. Our samples are Japanese companies; therefore, they import the raw materials from the supply chains there. Small parts of the material are also imported from other South-East Asian countries. Almost all supplies from local companies are miscellaneous items, such as office equipment.

Picture 3: Operational Workers at NAMIKI Precision Co, Ltd.**Figure 6.1: Motivation to Enter Company**

Source: Field survey, October 2008

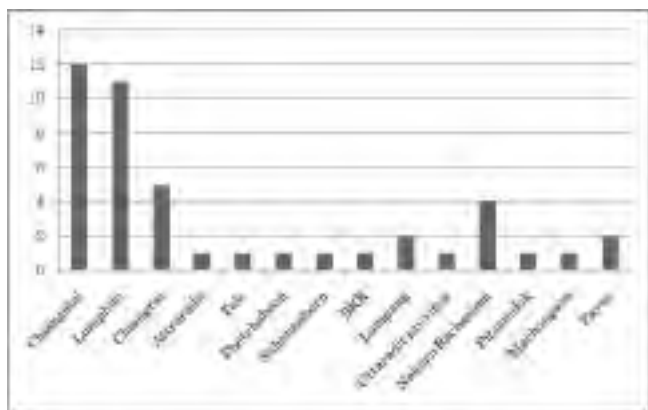
choose “Good welfare” as important factors to decide which company they want to apply. To make employees work efficiently, the FDI firms keep the company clean and comfortable as good working environment by providing the air conditioner and clean facilities. As good welfare, the FDI firms provide the health insurance and some allowances to promote workers’ motivation. Besides, more than 20 workers choose “Good salary” as an important factor. The company also thinks that an insufficient welfare system will lead to the employees’ dissatisfaction and to the fall of productivity at the end. Therefore, FDI firms recognize that attractive welfare schemes, working environment and wage are important factors for recruiting and settling employees. There are several elements of the welfare system, including allowance, awards and vacation. About the allowances, there are allowances for food, transportation, perfect attendance, special working, etc. Moreover, there is some special welfare for pregnant workers and workers’ family, such as medical fee support. In terms of wages, perspectives of employees and the company are different from each other. Employees naturally seek high wages; however, the company finds it hard to increase wages. Companies decide wages based on a minimum wage, 156 Baht per day in Lamphun Province, which is decided by the Thai government. In 2006, the minimum wage in Lamphun was 145 Baht per day (JIL web site). The minimum wage has been increased by 11 Baht over 2.5 years. This increase

Since our samples are assembly firms, the employment characteristics may differ from other sectors. Assembly firm employees are dominated by young women. There are more female workers because the assembly work requires high precision and women are more suited to the job. In general, the minimum education requirement for applying as workers at operator level is junior high school graduate.

The welfare, working environment and wages are important factors for employees to choose a company to apply for. Figure 6.1 shows that from 51 samples, and respondents can choose more than one answer from 10 options. “High profile of the firms” means that employees can be proud of their jobs and get acknowledgement from the neighbourhood because of the status of foreign companies or their location in the NRIE. One of the respondents chooses “Other”, and she mentioned that the announcement of the firms was attractive for her. More than 35 workers choose “Good working environment” and more than 30 workers

of minimum wage adds a burden to the financial aspect of FDI firms. The additional expenses become 2,640 Baht per year if an employee works 5 days per week. If there is 5,000 employees, the additional cost becomes 14,520,000 Baht per year. Consequently, FDI firms tend to provide attractive welfare systems instead of increasing wages.

Figure 6.2: The Number of Workers by Origin



Source: Field survey, October 2008

According to the questionnaire results, most employees come from the Lamphun and nearby provinces such as Chiang Mai and Chiang Rai. It means that FDI firms in the NRIE have a positive impact on society in local and nearby provinces by providing job opportunities. Moreover, the significant characteristic of FDI firms in the NRIE is employment flow inside the NRIE. Employees, especially operational workers, tend to move from one company to another. Therefore, the employee retention rate is low in FDI firms. In the case of LTEC, more than 10% of employees are leaving the company every year.

There are several reasons why employees tend to move to other companies. A similar job description in each company is one reason. In the NRIE, there are many companies whose main activity is assembling, which employees find it easy to move to another company requiring similar skills. Employees are attracted by the companies which offer better working conditions and welfare. In other words, the differences of welfare and working conditions can be another reason for frequent movement of operational workers in the NRIE.

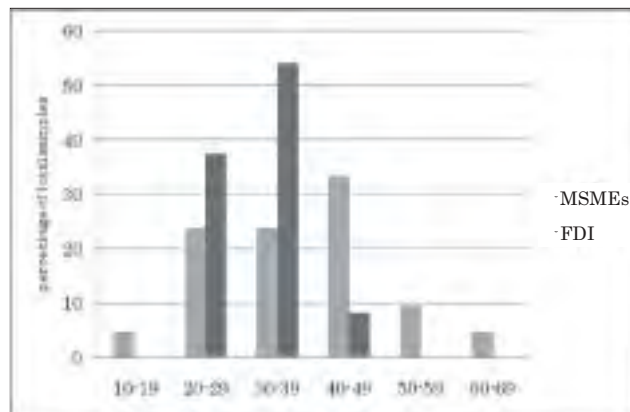
6.3 Comparison between Employees in FDI Firms and MSMEs

Both FDI firms and Handicraft MSMEs play a vital role in the local economy in terms of income generation and job creation. They have different characteristics, so their contributions are made in different ways. FDI firms usually produce in large scale, while MSMEs obviously produce in smaller scale. Based on the interviews with both FDI firms and MSMEs employers, there are big differences in managing the capital (physical and financial capital) and human resources. FDI companies import raw materials from the investor's home country – Japan, in our samples' case. Most of MSMEs obtain raw materials from local areas. Employees in FDI firms are given on-the-job training and fixed salary plus various allowances every month. On the other hand, most MSME workers already have skills inherited from their family, so they rarely get any training from the company. Only a few of them are paid by salary, mainly those who get variable wage calculated based on the quantity produced. The different production scales also make FDI firms and MSMEs require different criteria in recruiting employees.

In this study, we focus on the differences in employee aspect between FDI firms and MSMEs. From the field survey, we obtained information about the employment characteristics from each industry and we compared them

based on the following aspects: (1) age, (2) education background, (3) motivation, (4) working disadvantages, and (5) future plan.

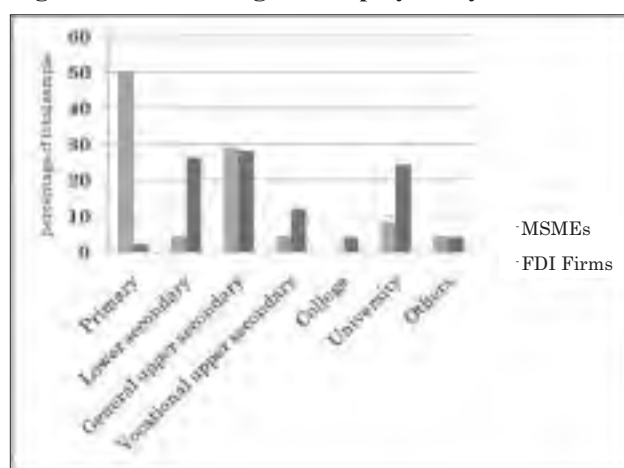
Figure 6.3: Percentage of Employees by Age in FDI Firms and MSMEs



Source: Field survey, October 2008

Figure 6.3 shows that FDI firms have more younger workers than MSMEs. In FDI firms, more than 50% from total 51 respondents are between the ages of 30-39 years old and almost 40% are between 20-29 years old. There are only less than 10% of 40-49 year-old workers. The employees we interviewed in FDI firms were mainly line workers. MSMEs employees show different tendencies. Most of the workers, more than 30%, are between the ages of 40-49 years old. The proportion is bigger than 20-29 year-old (23%) and 30-39 year-old groups. There are still 9.5% of employees aged between 50-59 years old and 4.7% between 60-69 years old. FDI firms need young people to be line workers because the job requires great precision. So, the workers must have good eyesight and great ability to deal with micro-sized components, so young people are highly in need. Handicraft MSMEs need workers with art skills and experiences held mostly by middle-aged people. Moreover, we found that young generation are less interested in working in handicraft enterprises.

Figure 6.4: Percentage of Employees by Education Background in FDI Firms and MSMEs

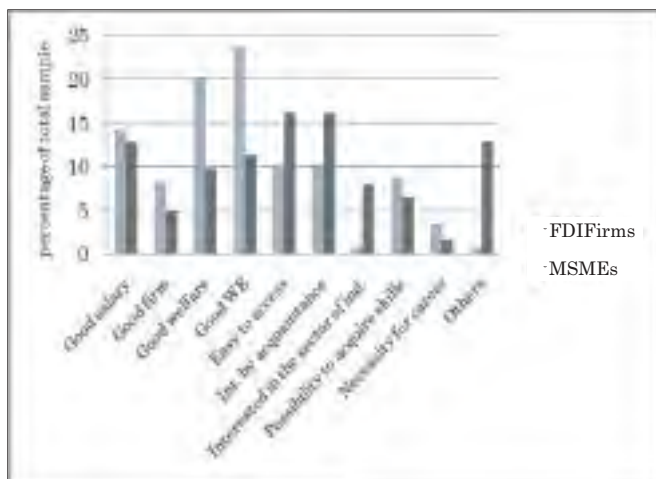


Source: Field survey, October 2008

As shown in Figure 6.4, FDI firms and MSMEs have different criteria in recruiting employees in terms of education background. About 50% of MSME workers graduated from elementary school and some of them do not even finish the primary level. There are around 30% of employees graduating from high school, only 8% from university and the rest are from junior high school, vocational school, college, and others. Based on the interviews with MSME owners, education is not the important aspect in hiring workers. The most important thing is talent and the next thing is skill. It sounds sensible because the crafting skills are usually transferred from generation to generation informally. Ability to read and to do some simple calculation is enough for the employees. On the other hand, there is no primary-school-graduate employee in FDI firms because one the minimum education requirements to enter the companies is junior high school level of education. The FDI

companies are dominated by workers who graduated from junior high school (26%), high school (28%), and university (24%). Education holds a more important role in FDI firms than in MSMEs, especially for those who wish to be promoted.

Figure 6.5: Employees' Motivation to Work in FDI Firms and MSMEs

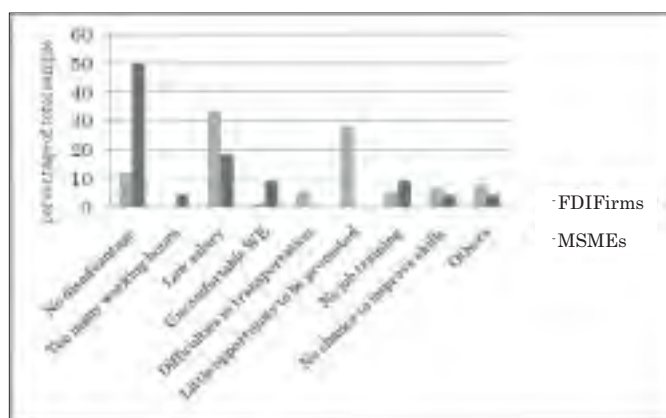


Source: Field survey, October 2008

The motivation for workers to apply for a particular job is different between those who work in FDI firms and those in MSMEs. As we have mentioned in the previous part, FDI firm employees are attracted to the good working environment (24%) and good welfare (20%), while MSMEs employees mostly work there because their working places are close to their shelters (16%) and the owner or the colleagues are their acquaintances (16%). Salary is also one of the considerations for 14% FDI firm employees and 12.9% MSMEs workers in choosing the company. Although we found some of the FDI

firm workers are not satisfied enough with the amount, at least they are still able to meet their daily needs. From Figure 6.5 we can conclude that the main attraction of FDI firms is benefit for workers and comfortable working place while the main feature of MSMEs is location and acquaintance.

Figure 6.6: Employees' Disadvantage in Working in FDI Firms and MSMEs



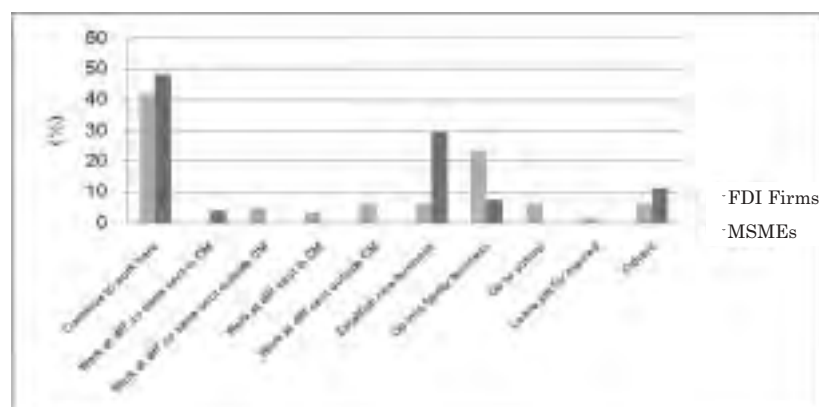
Source: Field Survey, October 2008

Figure 6.6 illustrates the disadvantages considered by employees in FDI firms and MSMEs. There are 33% of FDI firm employees feeling dissatisfied with their salary amount. They think that the amount is sufficient for daily life, but still not enough. Little opportunity of promotion is also seen as a disadvantage by 28% of the workers, especially line workers. But it is easy to be promoted when they have reached managerial level. Surprisingly, 50% of MSME workers do not experience any disadvantage in working. Although MSME workers receive mainly

variable wages, only 18.2% of them feel unhappy with the wage amount. Hence, the workers' wage highly depends on the sales number. There are also just a few (9%) respondents feel uncomfortable with the working environment. Based on our observation, the MSMEs' working places are mainly small space without air conditioner. The working environment in FDI firms is far better. Spacious and air-conditioned room is very

comfortable in a hot and humid country like Thailand. However, there is one advantage defined by employees working in MSMEs. The relationship between employer-employee and among employees themselves is very close and as one craftsman in Baan Tawai said, “When art is in our heart and we can still live with it, we will not feel any difficulty.”

Figure 6.7: Employees’ Future Plan



Source: Field survey, October 2008

As seen in Figure 6.7 below, future plans of both workers in FDI firms and MSMEs show almost the same tendency. There are 42% of FDI firm employees that are willing to continue working in current company and 48.2% of MSMEs workers answered the same. Most of them are already satisfied with their job and they would not like to move to other places

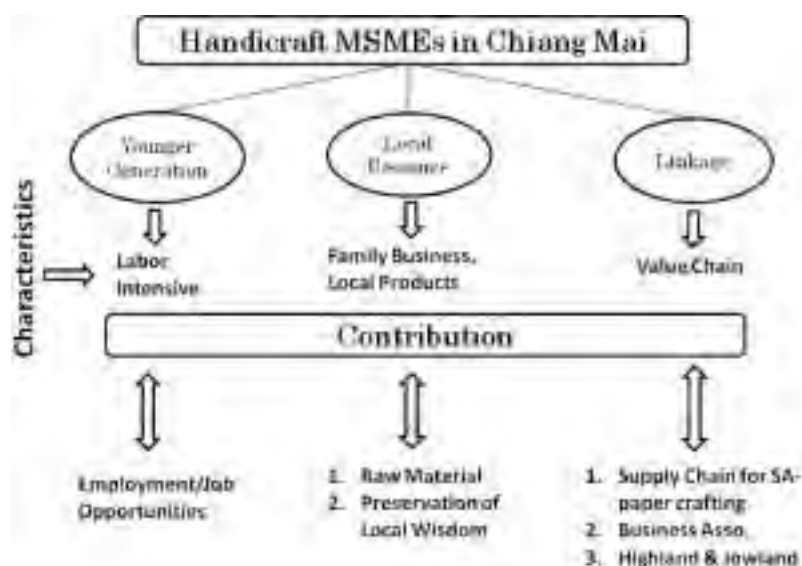
where they need to start adapting from the beginning again. But other big fraction (30%) of MSMEs workers wishes to have their own business in the same sector as they are working now. We found that there is possibly an indirect financial capital transfer from FDI firm workers to MSMEs. There are 23% of FDI employees that have a desire to help their family business and 6.3% would like to start new businesses, mainly retail shops. From the interviews with those who are willing to run a business, they will keep working there and save their salary until it is enough for the start-up or to support the family business.

There is no direct linkage between those FDI firms and MSMEs in our sampling since they are dealing in different fields. They have different types and different sources of input. FDI companies import raw materials, while MSMEs utilize more local resources. They have different characteristics in terms of employment. FDI firms offer more opportunities to young educated people, while handicraft MSMEs provide more jobs to middle-aged or less-educated people. Thus, there is no tight competition between those sectors in recruiting employees. But there is difficulty faced by MSME owners in finding the successors because their children are more interested in working in big companies like FDI firms than continuing their family businesses. Another interesting finding is about indirect contribution of FDI firm workers to MSMEs establishment. There are some employees who keep working at FDI companies to collect financial capital for establishing their own MSMEs.

7. Conclusion

In this survey, we examined the effects of handicraft MSMEs on the Chiang Mai's economy, mostly based on the literature review, by focusing on their contribution to the job creation in Chiang Mai, the use of local resources, and the supply chain of handicraft MSMEs. While we were on the field trip, we came across the main eight challenges faced by handicraft MSMEs in Chiang Mai and tried to find ways to empower them, in which resilience was identified the core element in empowerment of handicraft MSMEs in Chiang Mai. As shown in Figure 7.1, we focused on the three issues of younger generation issues, local resource issues, and the supply linkage issue in replying to our three research objectives.

Figure 7.1: Contribution of Handicraft MSMEs in Chiang Mai



When looking at the contribution of MSMEs to the Chiang Mai's economy from three aspects, Employment, Local Resources and Linkages among MSMEs of handicraft sector, factors like absorbing capacity in terms of employment because of the labor-intensive nature of this industry, preserving and utilizing local wisdom, etc., which were introduced in Section 3, contribute to the Chiang Mai's economy as well as society as a whole. The literature review highlighted contributions of MSMEs to the Chiang Mai economy, the size of MSMEs, percentage, and number of persons engaged in MSMEs. In our field work, it became clear that one of the main contributions by MSMEs is provision of opportunities. Local people enjoy those benefits from MSMEs. Those who do not have a strong educational background can have access to employment opportunities, though the present scenario is different in the way that education is also playing an important role in providing different opportunities for the younger generation. As a trend, options for which people can choose their future plans are widening, even if people do not take education and there is enough room to get knowledge, develop skills and earn money to open their business in a good working environment has been found. In the process of running a business, raw materials, human resources and culture and knowledge are utilized, which in turn contribute to the

Chiang Mai economy. At the same time, products in the supply chain are added value by MSMEs. The existence of MSMEs is also crucial to attract tourists and helping other industries like logistics/shipping in the region. Also utilizing such raw materials and the other aspects help provide employment opportunity to housewives, farmers as well. MSMEs have a significant important role not only to keep providing employment opportunity but also to preserve culture and knowledge of Lanna. In order to keep the contribution, those factors such as Younger Generation, Local Resource and MSMEs Linkage should be reinforced. Specific plans and solutions are talked in Section 4.

As far as the linkage of MSMEs and FDI firms is concerned, no backward/forward linkages have been found between MSMEs and FDI companies in terms of raw materials. Handicraft sectors in Chiang Mai use different raw materials such as teak wood, Sa-tree, and bamboos, while FDI companies in the area procured their raw materials from Japan and other Asian countries. However, it seems that there is an indirect relationship between the two sectors in terms of manpower, as MSMEs find it difficult to attract people as FDI firms are coming up as the new pulling factor of educated and skilled labor. It is because of the fact that FDI firms are more attractive to workers as they provide better working conditions, benefits and wages.

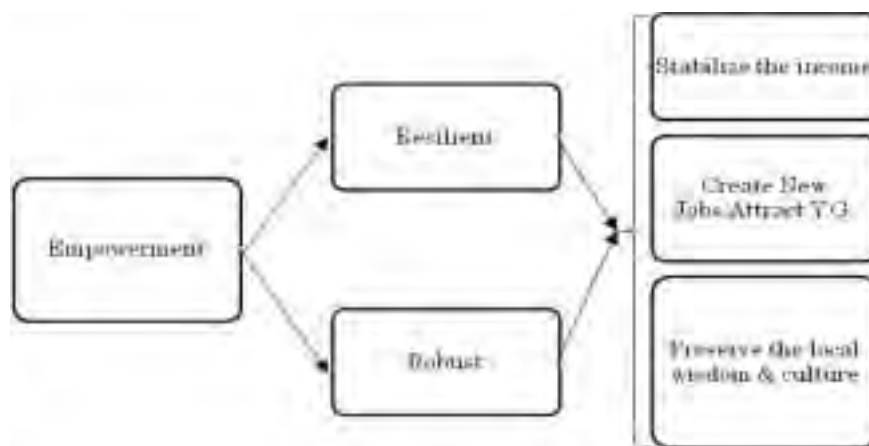
Figure 7.2: Challenges of Handicraft MSMEs and Elements of Empowerment



MSMEs, especially Micro ones are experiencing various challenges. Some problems are more of visible and common for most of the firms we visited. The above Figure 7.2 illustrates some challenges faced by MSMEs. Unstable income is linked to the seasonality of business, which meant drop in demands of products from tourists and overseas result from both Thailand and in the world's economic and political situation. Scarcity and increase in price of wood namely Sa-tree and bamboo make it difficult for MSMEs in Chiang Mai to procure the raw materials. However, other than those traditional problems, there are some issues which are specific to some firms and need equal attention. MSEs are not well managed by their owners due to the lack of entrepreneurship skills and business knowledge to deal with both internal problems such as poor management of capital flow and unwillingness to borrow money from banks when their companies need more funding. The ability of the owners to deal with external problems such as seasonality and bad economic and political situation is still limited.

Entrepreneurship training is provided, but only for a small segment of people. New Entrepreneur Center Project (NECP) and Incubator, focusing on young generations from different backgrounds have been provided. These programs should target more micro and small entrepreneurs in general so that they can have enough capacity to manage and solve their business' problems. Younger generations are not interested in inheriting or creating handicraft business, making those businesses troubled over finding successors. Because micro business owners' children obtain higher education such at Chiang Mai University as well as at other universities in Thailand and overseas, they wish to work for FDI companies or open their own business not related to their parents'. Only children of larger enterprises intended to continue their parents' businesses. This points to the fact that this sector should undergo some changes that will attract more of younger generation.

Figure 7.3: Future Impact on Empowerment of Handicraft MSMEs



This field survey and research leads to a direction wherein handicraft enterprises need to be empowered using elements discussed in earlier sections, so that they can obtain more leverage regarding available resources, ranging from diverse cultural aspects reflecting in every aspect of life to artist, diligent, hard-working nature of local people to very well established infrastructure and famous tourist spot as an additional supporting factor. Since MSMEs are the lifeline of the local economy, targeted support should be extended to the handicraft sector to help empower them. The role of local government agencies and business associations and small business groups is important in effective and sustainable use of raw material as well as finding new avenues. The young generations in the region now have more educational options which will make them a good human resource. However, absorbing those in this sector depend on the kind of new job options this industry creates. Moreover, FDI firms are one of the pulling factors of this young and educated human resource. Although the handicraft industry became the best option for those who are artists and have had skills and those who wanted to work for part-time, mainly women, the biggest challenge they are confronting is how to make this industry resilient to different shocks and create new jobs for the young and educated ones. The survival of this sector also contributes to preserve the local wisdom and culture. Our survey based on observations on and off the field with literature survey and first hand data analysis from interviews and questionnaires point to the need of these challenges and tried to provide suggestions in the form of elements of empowerment.

8. Acknowledgement

Many thanks will go to those who helped our Working Group 1 in conducting research in Chiang Mai Province, Thailand. We especially thank the owners, managers and the like, and workers in MSMEs and Japanese FDI firms, TAO, SME Promotion Office, Chiang Mai University and Chulalongkorn University. We would like to express our sincere thanks to Professor Otsubo Shigeru and Professor Phaisal Lekuthai for their comprehensive guidance and constructive comments. We also greatly appreciate Professor Ohashi Atsuko and Assistant Professor Ngov Penghuy for their coordination and arrangement. Without their help we could not have completed our research successfully. We wish them happiness and prosperity in the future.

Appendix

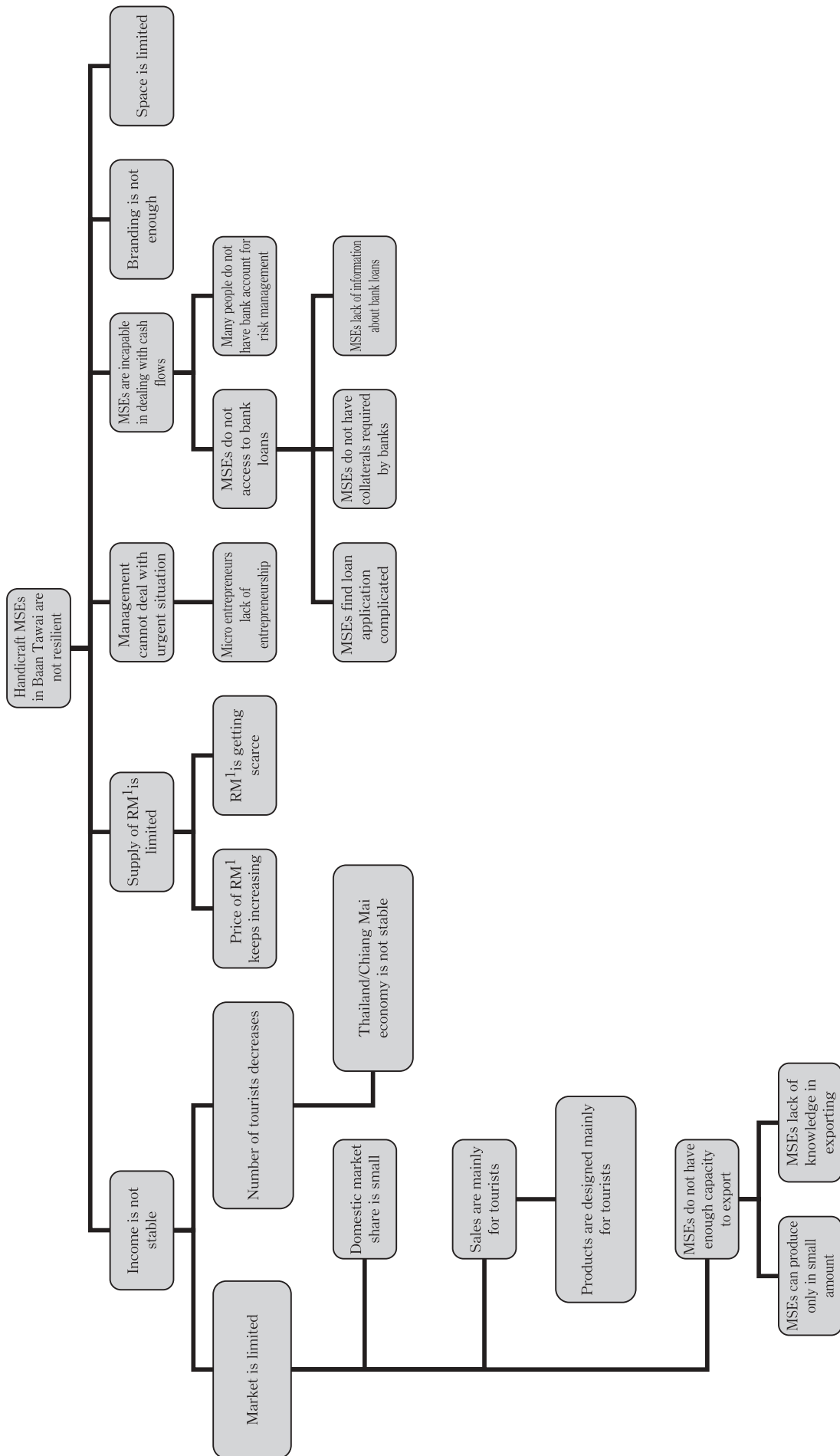
A.1. Fieldwork Itinerary

Date	Site Name	Characteristics	Activities
2-Oct	Namiki Precision (Thailand) Co., Ltd.	Japanese FDI firm, NRIE Electronic components & medical equipment, 95% female workers	Interview with Chief Administrative Officer Factory tour
3-Oct	Khun Khong Tambon Administrative Office	Local government (lowest level)	Interview with TAO's Chief of Staff
	Baan Tawai Handicraft Center	Family business, Micro, OTOP village	Site observation
	Wat Sri Suphan	Silverware handicraft center	Site observation
4-Oct	Baan Tawai Handicraft Center	Family business, Micro, OTOP village	Interview with PRO
	Baan Tawai Handicraft Center	Family business, Micro, OTOP village	Interview with employers and employees
	Siam Commercial Bank Bank of Bangkok	Commercial banks	Interview with bank staff
5-Oct	Borsang Umbrella Making Center	Medium enterprise Major customers: foreign tourists	Factory tour Shop visit Interview with employer and employees
	Borsang Village	Sa paper production	Interview Site visit
	Sunday Walking Street		Observation
6-Oct	Hmong Hill Tribe Village	Micro enterprises Hmong branding Business tourism (80%)	Interview with Village Head Interview with shop owners
	Doi Suthep (Mountain Temple)	-	Observation
7-Oct	By Hand International	Family business, Medium, mainly export	Factory tour Interview with Managers and employees
	Jollie Femme (Thai silk)	Medium enterprise RM Imports mainly from China Lanna culture Major customers: foreign tourists	Factory tour Interview with Manager and employees Questionnaire
	Meng Rai Kilns (Factory)	Family business Medium enterprise Export to US	Site observation Interview with Factory Manager and workers
9-Oct	LTEC Ltd.	Japanese FDI firm, NRIE Electronic components	Interview with GM and HR Manager
	Lumphun Shindengen Co., Ltd.	Japanese FDI firm, NRIE Electronic components	Interview with Production + HR Managers Interview and Questionnaire for workers
10-Oct	Meng Rai Kilns (Sales Office)	Family business Medium enterprise Export to US	Interview with GM Interview with employees
	Baan Tawai Handicraft Center	Family business, Micro, OTOP village	Interview with PRO
	BAAC	Agriculture bank	Interview with bank staff
	Baan Benjawan Scented Candle	Family business	Interview with the Manager
	Deco Moda	Design shop	Interview with young architect
	Daung Tawan Hotel	-	Interview with successful Hmong businesswoman
13-Oct	Office of SMEs Promotion (OSMEP)	-	Interview with Manager of Chiang Mai
		Via phone call	Interview with Baan Tawai Village Head

A.2. Site Matrix

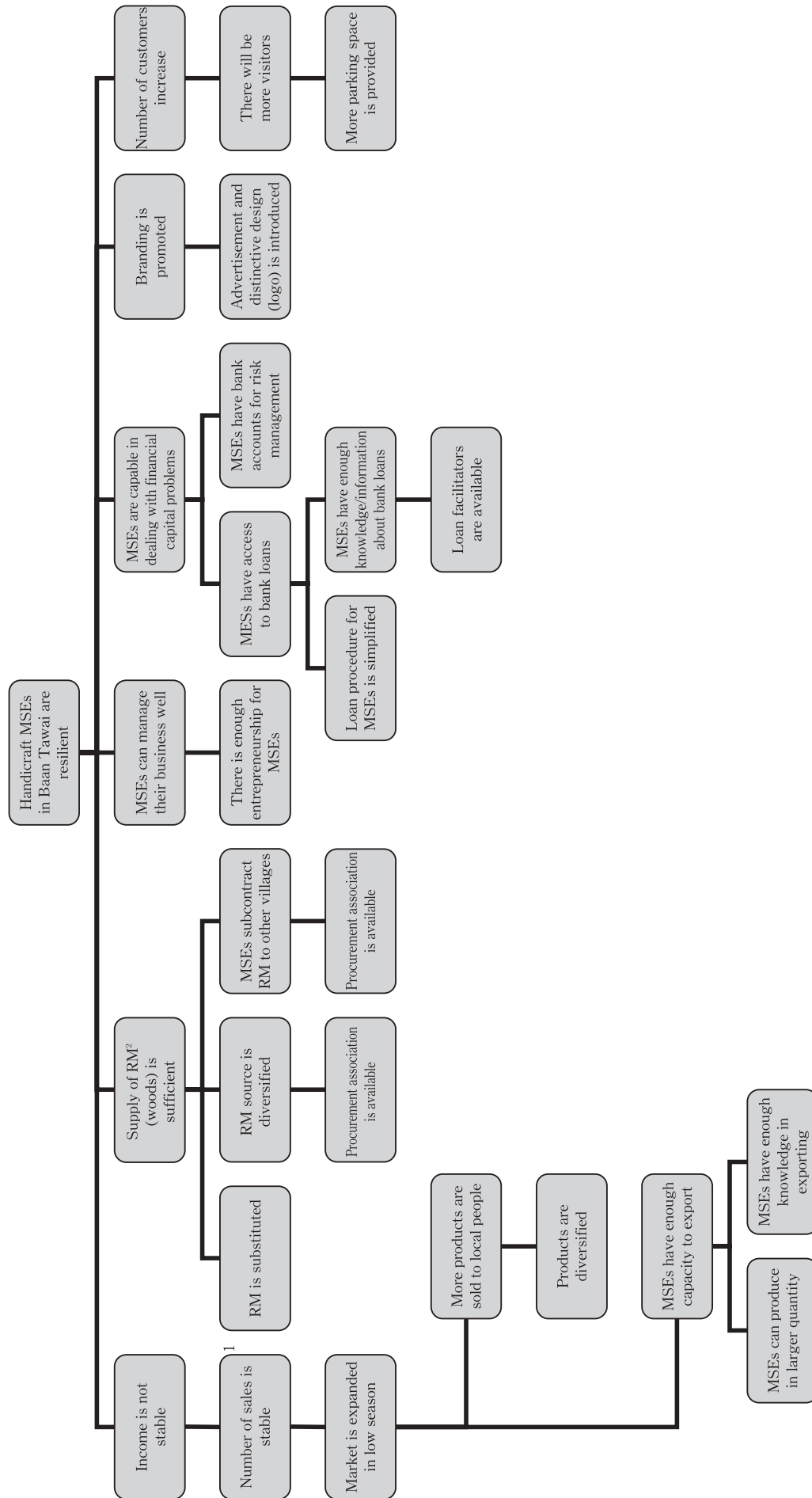
	Baan Tawai	Tambon Administrative Organization (TAO)	Borsang Umbrella Production	Borsang Village (Sa-paper)	Sunday Walking Street	Hmong Hill Tribe Village (village head)	Hmong Hill Tribe Village (villagers)	By Hand (Artificial Flower)	Jolie Femme (Silk Production)	Meng Rai Kilns (Ceramic Products)	Baan Benjawan (Scented Candle)	Silver workshop (Silver/Aluminum Products)
Younger Generation	<ul style="list-style-type: none"> - Family business - Good atmosphere - Illegal workers from Myanmar 	<ul style="list-style-type: none"> - Offering job opportunities to Younger Generation - Suitable jobs for female - Workers are relatives and friends - Wage depends on skills - Good atmosphere 	<ul style="list-style-type: none"> - Lack of successors - Good atmosphere 	<ul style="list-style-type: none"> - Raw material is Mulberry tree - Mixing other paper and strengthen density 	<ul style="list-style-type: none"> - Offering market places to Younger Generation 	<ul style="list-style-type: none"> - Some Younger Generation go to school in urban area and stay there - Change of preference, namely recent diverse options 	<ul style="list-style-type: none"> - Offering job opportunities to Younger Generation - Looking for local people first as main power - Steamed rice is provided for free - Good atmosphere 	<ul style="list-style-type: none"> - Offering job opportunities to Younger Generation - Absorb local people - Suitable jobs for female - Good atmosphere 	<ul style="list-style-type: none"> - Main raw material is paraffin - Raw material price is increasing 	<ul style="list-style-type: none"> - Raw material is clay - Hiking raw material price 	<ul style="list-style-type: none"> - Main raw material is paraffin - Raw material price is increasing 	<ul style="list-style-type: none"> - Raw material is mainly Aluminum
Local Resources	<ul style="list-style-type: none"> - Buying pillars of old houses - Storage of raw material 	<ul style="list-style-type: none"> - Buying old pillars as a new material source 	<ul style="list-style-type: none"> - Utilizing Mulberry tree & bamboo - Storage of raw material 	<ul style="list-style-type: none"> - Raw material is Mulberry tree - Mixing other paper and strengthen density 	<ul style="list-style-type: none"> - Market place for handicraft producers 	<ul style="list-style-type: none"> - Original design is used - Major value added come from Hmong Brand - Problem is how to maintain their own brand/identity 	<ul style="list-style-type: none"> - Growing Yai-kanhong tree as raw material of textile in the village with support of "Royal Project" - Permission to be required from official Dep. to fix their shop because of maintaining landscape 	<ul style="list-style-type: none"> - No local culture contained 	<ul style="list-style-type: none"> - Partly using Lanna design 	<ul style="list-style-type: none"> - Design is influenced by other countries' culture (Myanmar etc.) 	<ul style="list-style-type: none"> - Hiring old workers because they are patient - All are hand-made 	<ul style="list-style-type: none"> - Utilizing Lanna culture - Tradition of Salah
Human Resources	<ul style="list-style-type: none"> - Skills of woodcrafting are inherited generation to generation. - No successor - Institutionally it's not difficult to change job - Not well-educated workers 	<ul style="list-style-type: none"> - Using skills of Salah - TAO are composed of village members - 10% of workers are illegal from Myanmar 	<ul style="list-style-type: none"> - Making partly by hand (partly by machine) - Training for workers by dispatching to foreign countries - Skills are learned from generation to generation 	<ul style="list-style-type: none"> - Learned from parents - Less educated workers - Mainly adult people working 	<ul style="list-style-type: none"> - All shoppers are registered 	<ul style="list-style-type: none"> - People who are less educated tend to stay in the village and do business while those who are well educated tend to live in low land 	<ul style="list-style-type: none"> - Recruit by applicants' talent, not education level. - Take-home workers → flexible working style - Temporary workers come from village and in harvest season, they go back to their hometown 	<ul style="list-style-type: none"> - Hiring skilled labor especially making textile - Skill of weaving textile has been inherited from generation to generation - Workers are women except one - Salesgirls have to speak at least 2 foreign languages 	<ul style="list-style-type: none"> - Producers are well skilled (university graduates) - Lack of human resources 	<ul style="list-style-type: none"> - Hiring old workers because they are patient - All are hand-made 	<ul style="list-style-type: none"> - Market is 80% export and 20% import - Procuring raw material from China - Business association (NORMEX) member 	<ul style="list-style-type: none"> - Open school for local people, tourists etc.
Supply Chain	<ul style="list-style-type: none"> - Utilizing festival in Chiang Mai to promote their products - The U.S. is the biggest buyer 	<ul style="list-style-type: none"> - Market is Bazaar. Religious Place. International Mkt. Big customer is tourist and outsider like Thai-food restaurant in foreign countries 	<ul style="list-style-type: none"> - 80% of customers are foreigners 	<ul style="list-style-type: none"> - Procuring raw material from local suppliers - Procuring Mulberry tree from Laos, scarcity of the material in Chiang Mai - Utilizing festivals in Chiang Mai to promote their products - Final products such as photo album, note, etc. are also produced in the village 	<ul style="list-style-type: none"> - Offering market place to SMEs of handicraft sector 	<ul style="list-style-type: none"> - Mainly procuring intermediate products from low land area and selling with small printing 	<ul style="list-style-type: none"> - Selling products in Phuket - Main customers are tourists 	<ul style="list-style-type: none"> - Procuring Sa-paper from Lamphun and Central Thailand - Market is nearly 100% export 	<ul style="list-style-type: none"> - Procuring raw material (Cocoon) from China, a regular supplier - Customers are tourists visiting the shop rather than exporting 	<ul style="list-style-type: none"> - The biggest customer is the U.S. people (70% are exported) 	<ul style="list-style-type: none"> - Market is 80% export and 20% import - Procuring raw material from China - Business association (NORMEX) member 	<ul style="list-style-type: none"> - Open school for local people, tourists etc.
Linkage		<ul style="list-style-type: none"> - Lack of cooperation by urban area (no attend meeting) - Making sub-groups to share the knowledge of entrepreneurship, shipping issues and business union - Having a monthly meeting with police, association, housewives, community development organization, etc. - Trying to control basic quality (certificate in future) - Having recreation activities, aerobics 					<ul style="list-style-type: none"> - Member of NOHMEX 					<ul style="list-style-type: none"> - Open school for local people, tourists etc.

A.3. Problem Tree (A Case of Handicraft MSEs at Baan Tawai Handicraft Center)



1. RM: Raw material

A.4. Objective Tree (A Case of Handicraft MSEs at Baan Tawai Handicraft Center)



1. Assumption: Price is stable.

2. RM: Raw material

A.5 Summary of Interviews of MSMEs' Employers: Company and Business Management

No.	Reason to choose	Entrepreneur Training	Organization Structure	Recruitment Criteria	Employee Training	Benefits	Wage System	Raw Material	Competing Factors	R & D	Market
1		No		No employee	No	No	No	Yes, increased price	Normal	No	Local demand
2	Like the Job	No		No employee	No	No	No	Supplied from lowland	Finished product from CM	No	Tourists foreign and local
3						Health insurance			Design, MKT, RM		Exports to EU, Japan
4	Friend recommend	Yes	Yes	Yes, salespersons and workers	Yes	Health insurance	Yes	From China	Design, MKT, RM	Yes	Tourists foreign and local
5	Family Business	Yes, at university	Yes	Yes, based on workers	Yes	No	Yes	From China	No competition	Yes	Export and local demand
6	Family Business	No		Recommended by neighbor	No	No	Daily, Monthly	Yes	No competition	No	Tourists
7	Family Business	No		Recommended by neighbor	No	No		Yes	No competition	No	Tourists
8	Family Business	No		Recommended by neighbor	No	No		Yes	Design, Uniqueness	No	Tourists
9	Family Business	N/A	Yes	Painter: from art school	No, but for salesperson	No	Per item, Monthly		Design	No	Foreign tourists
10	Baan Tawai is Tourist Spot	No		No criteria	No	No	Based on raw material	Yes	Own detail and style	No	Tourists foreign and local
11	Following her husband	No		No workers		No		Yes	Design	No	Tourists
12	Following her husband	From Royal Project		No workers		No		Yes	Unique product	No	Tourists foreign and local
13	Family Business succession	No		No workers		No		Yes, but price increase			Tourists foreign and local
14	Family Business succession	Just a short lecture		Friend to friend, some experience and education	OJT	Wage raise	Monthly		Design Color, Skills, RM	Yes	Tourists foreign and local

A.6. Summary of Interviews of MSMEs' Employers: Expansion Aspect

No.	Why that Product	What to expand	Constraints for expansion	Member of association	Gov't Support expectation	Future plan
1	Required design by customers	No need for expansion	High RM price, Not interested	No	?	No
2		Want to expand but do not know how	Lack of Capital and Knowledge	No	Yes	No
3						Expansion of market to other countries
4	Design, Culture, Quality	Capital	Silk is a slow job	?	Yes	Expansion
5		Capital	Lack of capital, Drop in demand, Increased RM prices	Yes	Yes	Expansion
6	Wholesaler			Yes	Yes	No idea
7	Wholesaler	No need for expansion		Yes	Yes	No idea
8	Wholesaler	No need for expansion		Yes	Yes	No idea
9					Yes	N/A
10	Unique style	Financial capital	Higher wage	Baan Tawai		Export more products to USA
11	Unique design	Design innovation	Not interest	Baan Tawai		Expand the business
12	Unique product, Price		Location of the shop from Parking lots, less demand			Expand shop, move closer to parking space
13		Financial capital	Increased price of RM, Small number of tourists, Political situation			Produce silver by himself, Move to Hmong Village
14	Thai design	Improvement of design	No plan for expansion, Limited Demand	No	Satisfied	Export products to rich country

A.7. The Questionnaire for Employees of FDI firms**Personal Information**

Sex:	1. Male 2. Female	Age:	
Birth Place:			
Education	1. Primary school 2. Lower secondary school 3. General upper secondary school 4. Vocational upper secondary school	5. College 6. University 7. Others, ()	
Present Job:	Company:	Position:	Starting Year:
Previous Job (if any):			
Type of House:	1. Owned single-family house 2. Rented single-family house 3. Company's dormitory 4. Prefectural/Municipal residence	5. Owned Flat (in Apartment, tenement house) 6. Rented flat 7. Others, ()	
	Size of house:rooms Baths: Floors:		
Owned Vehicles:	1. Car:units 2. Motorbike:units 3. Others, ()		
Civil Status:	1. Married 2. Single	Number of Children:	

Please choose the answers below (you can choose more than one)

1. How did you know about job offers from this firm?

1	Company homepage	5	Introduction by acquaintance
2	Career service agency	6	Employment bureau in school
3	Newspaper, magazines, etc.	7	Recruiting fair
4	Television, radio, etc.	8	Others.....

2. Why did you choose this company to apply for?

1	Good salary	6	Introduction by acquaintance
2	High profile of the firm	7	Interested in the sector of industry

3	Good welfare	8	Possibility to acquire skills
4	Good working environment	9	Necessity for your career
5	Easy to access from your house	10	Other.....

3. What are the disadvantages of working in this company?

1	Too many working hours	5	Little opportunity to be promoted
2	Low salary	6	No job training
3	Uncomfortable working environment	7	No chance to improve skills
4	Difficulties in transportation	8	Others.....

4. To what extent your education background, skills, and experience help you in your present job?

Not important

Very important

Education: 1-----2-----3-----4-----5-----6

Skills : 1-----2-----3-----4-----5-----6

Experience: 1-----2-----3-----4-----5-----6

5. Did you have OJT/training when you started working?

a. Yes

b. No

6. How is the working environment in this company?

Very bad

Very good

1-----2-----3-----4-----5-----6

Please state your reason
.....

7. How easy or difficult is it to change the job?

Very easy

Very difficult

1-----2-----3-----4-----5-----6

8. Are you worried about your career/ your jobs?

a. Yes

b. No

Please state your reason
.....
.....

9. Do you have any suggestion/idea to the company to improve working environment, productivity, quality, design etc of your company?

.....

10. What kind of future plan do you have?

1	Continuing to work at this company	6	Establishing new company
2	Working at different company in the same sector in Chiang Mai	7	Going into your family business
3	Working at different company in the same sector in other places (i.e. Bangkok etc.)	8	Going to school (Business school, Vocational school, etc.)
4	Working at different sector in Chiang Mai	9	Leaving the job due to getting married
5	Working at different sector in other place	10	Others.....

Description

- We distributed the 50 questionnaires to NAMIKI Precision Co. Ltd., and collected 45 samples from them. In Lumphun Shindengen Co. Ltd., we interviewed 6 employees by using this questionnaire. Therefore, our total sample is 51.
- “High profile of the firms” has four meanings: (1) foreign, especially Japanese, company, (2) prestigious, (3) located in the Northern Region Industry Estate, and (4) export-oriented.
- “Good welfare” is that company provides some policy to promote the worker’s motivation to work more effectively apart from wage, such as insurance, allowance and etc.
- “Good working environment” is that the FDI firms provide the good environment which workers can work comfortably and demonstrate their best performance, such as providing air conditioner and clean facilities. And also, not only physical environment but also social environment, like favorable and close relationship between managers and operators and among workers themselves.
- “Other” means the company announcement. One respondent chose “Other”, and mentioned the reason that she chose this company because of the job announcement of this company was attractive for her.
- At question 3, 4 and 6, we used the scale. We want to avoid neutral answer; therefore, we used the scale which is leveled from 1 to 6.

A.8. The Interview Questions for Employers of FDI firms

Personal Information

Sex:	1. Male	2. Female	Age:	
Birth Place:				
Education:	1. Primary school 2. Lower secondary school 3. General upper secondary school 4. Vocational upper secondary school 5. College 6. University 7. Others ()			
Present Job:	Company: Position : Starting Year :			

Company Information

Name of the company:	Location:
Year of Establishment:	Company Ownership:
Main Products:	Major Clients:
No. of Employees:	Average age of employees:

For Company as a Whole

1. Why did you choose this business and Chiang Mai/Lamphun as the location for your business/investment?
2. How do you get raw materials and intermediate products to produce your company's products? Through SMEs in Chiang Mai/Lamphun?

Recruitment and Employment

3. How often do you recruit workers? Is this common in all regions in Thailand?
4. What kind of skills do you require your workers to have?
5. How do you recruit staff and workers? Is there any specific channel do you use for recruitment?
6. What is the minimum level of education do you require?
7. What are the recruitment criteria for the staff and workers?
8. Is there any difficulty to recruit staff and workers?
9. What is the share of local staff and workers in the total labor force of your company?
10. How do you motivate your employees for better performance and productivity? (e.g. OJT, Promotions, Bonus etc)
11. Is there OJT for workers? If not, what kind of other trainings are given to workers? How long is the duration of training? Is it only for regular employees?
12. Do you promote your workers after they have gone through the On-Job-Training?
13. How do you decide the wages and salaries of your employees? (e.g. minimum wage, market rate etc)
14. How does the manager adjust the number of employees? (Possibilities of the expansion of the number of workers, etc) What are the criteria of expanding and reducing the number of employees (ratio of the number of regular and temporary employment)?

A.9. The Questionnaire for SMEs Employees

Personal Information

Sex:	1. Male 2. Female	Age:	
Birth Place:			
Education	1. Primary school 2. Lower secondary school 3. General upper secondary school 4. Vocational upper secondary school	5. College 6. University 7. Others, ()	
Present Job:	Company:	Position:	Starting Year:
Previous Job (if any):			
Type of House:	1. Owned single-family house 2. Rented single-family house 3. Company's dormitory 4. Prefectural/Municipal residence	5. Owned Flat (in Apartment, tenement house) 6. Rented flat 7. Others, ()	
	Size of house:rooms Baths: Floors:		
Owned Vehicles:	1. Car:units 2. Motorbike:units 3. Others, ()		
Civil Status:	1. Married 2. Single	Number of Children:	

Please choose the answers below (you can choose more than one)

1. How did you know about job offers from this firm?

1	Company homepage	5	Introduction by acquaintance
2	Career service agency	6	Employment bureau in school
3	Newspaper, magazines, etc.	7	Recruiting fair
4	Television, radio, etc.	8	Others.....

2. Why did you choose this company to apply for?

1	Good salary	6	Introduction by acquaintance
2	High profile of the firm	7	Interesting in the sector of industry
3	Good welfare	8	Possibility to acquire skills
4	Good working environment	9	Necessity for your career
5	Easy to access from your house	10	Other.....

3. What are the disadvantages of working in this company?

1	Too many working hours	5	Little opportunity to be promoted
2	Low salary	6	No job training
3	Uncomfortable working environment	7	No chance to improve skills
4	Difficulties in transportation	8	Others.....

4. To what extent your education background, skills, and experience help you in your present job?

Not important

Very important

Education: 1-----2-----3-----4-----5-----6

Skills : 1-----2-----3-----4-----5-----6

Experience: 1-----2-----3-----4-----5-----6

5. Did you have OJT/training when you started working?

b. Yes

b. No

6. How is the working environment in this company?

Very bad

Very good

1-----2-----3-----4-----5-----6

Please state your reason.....
.....

7. How easy or difficult is it to change the job?

Very easy

Very difficult

1-----2-----3-----4-----5-----6

8. Are you worried about your career/ your jobs?

b. Yes

b. No

Please state your reason.....
.....
.....

9. Do you have any suggestion/idea to the company to improve working environment, productivity, quality, design etc of your company?

.....
.....
.....

10. Are you aware of job opportunities available in foreign firms?

a. Yes

b. No

If yes, why don't you join those companies?

.....
.....

11. What kind of future plan do you have?

1	Continuing to work at this company	6	Establishing new company
2	Working at different company in the same sector in Chiang Mai	7	Going into your family business
3	Working at different company in the same sector in other places (i.e. Bangkok etc.)	8	Going to school (Business school, Vocational school, etc.)
4	Working at different sector in Chiang Mai	9	Leaving the job due to getting married
5	Working at different sector in other place	10	Others.....

End Notes

- ¹ Prof. Phaisal's Presentation: GSID 2008 OFW in Chiang Mai, Thailand, October 1-15, 2008
- ² Chiang Mai's GPP/GDP ranks 16th in the country (Source: Office of the National Economic and Social Development Board)
- ³ <http://www.chiangmaicraft.com/>
- ⁴ By Hand International produces artificial flowers; Meng Rai Kilns produces ceramic, celadon, and stoneware; and Jolie Femme produces silk products.
- ⁵ Sa paper is made from Sa trees and is used to produce umbrella, artificial flowers, and paper boxes.
- ⁶ Prof. Phaisal's Presentation: GSID 2008 OFW in Chiang Mai, Thailand, October 1-15, 2008

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