

CHAPTER 6

CONCLUSION AND LIMITATION

The last chapter discusses the conclusion of empirical results on the comparative advantage in Thailand and the weaknesses and limitations of this study.

6.1 Summary and Conclusion

Under the assumption of difference in technologies and perfect capital mobility, the study investigates the determinants of the comparative advantage in international trade, using 11 countries and 10 industrial sectors for 1970-1994. The main findings are as follows.

First, the comparative advantage in Thailand industrial sector seemed to be significantly dynamic during the period of 1974-1994, which was examined by the comparative advantage index (CAI) approach. It indicated that there were both improvements and losses in comparative advantage in the same industry such as textile and clothing, electrical machinery, and transport equipment. The improvement and declines in most industrial sectors were mainly determined by the productivity effect.

Second, there were five industrial sectors in Thailand which seemed to have a comparative advantage over the other ten countries (developed countries and developing countries). These outstanding sectors were the following: food and beverage, paper, rubber, electrical machinery, and transport equipment. In addition, this study found that domestic protectionist policies may not encourage an improvement Thailand's textile and clothing industry. This finding was very consistent with the result of the comparative advantage index (CAI).

Third, in this study, there was no exact evidence that differences in relative labor productivity were closely related to (i) differences in relative rates of technical progress in light industries and (ii) differences in relative capital-labor ratio in heavy industries, Saito (1999), between developing countries and developed countries.

Finally, the analysis of CAI result indicates that the development in technology level in developed countries had helped to keep their competitiveness or reduce their comparative dis-advantage such as in the case of food and beverage, footwear, furniture, and rubber.

In conclusion, this study is less able to suggest exactly the details of policy implication for ten industries. However, there are two general policy implication suggestions. The first is that government should encourage private manufacturers to improve their technological development. Moreover, government should improve Thai labor skills in order to increase labor productivity. Since improvements in technological development and human resource requires a large of budget and is time-consuming, the government should choose certain targeted industrial sectors to improve their production. The second is to support Thai private manufacturers to invest in and produce comparative dis-advantage products (for example, textiles and clothing) in other countries which have a comparative advantage over Thailand.

6.2 Limitations and Weaknesses

In this study, there were two limitations in analysis and policy implications. The important limitation of this study is the shortage of data systems, especially fixed capital formation in developing countries. In fact, the shortage of data system is about 7 % of total data system. It seemed to not be a significant problem. However there was the large shortage of data in Thailand. The shortage of data system in Thailand was about 30 % of total data system in Thailand. To compute the comparative advantage index, we need to solve the problem by estimating all of the lost data in 11 countries, except USA, Japan, and Korea. Then we use a new data system to estimate parameters and compute the CAI. Therefore, there was a problem of error in the data system. This study may be not reliable.

This study focused on the comparative advantage in ten industrial sectors by 3- digit ISIC. Thus we can not recommend policy implication too much because the data of 3 digits ISIC comprises many commodity goods. Based on the results, we cannot conclude that all commodity goods in each sector has a comparative advantage in production. In other words, there was not a deep analysis in each industrial commodity. In case of FTA negotiation, the details of negotiations are very deep and specified in terms of each commodity. The result of this study seemed to be less suggestive of which commodities in which Thailand has comparative advantage vis-à-vis negotiation countries

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In further studies, we should compare the result of CAI with other comparative advantage measurements such as RCA in order to observe differences between CAI and other measurements.