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Economic Rent Dynamics in the Thai Automotive Industry: State Allocation During GVC Transition

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ABSTRACT: Within the global value chain, firms' ability to generate economic rents—additional profits above baseline returns—is crucial to their competitiveness, with state-allocated exogenous rents also shaping industry structure. This research examines rent dynamics in the Thai automotive industry, focusing on the interplay between policy rents and GVC rents. It traces these dynamics along the evolving path from the inception of the automotive industry in Thailand to the ongoing disruptive transition to new energy vehicles (NEVs), which accentuates the established configuration of power and interests across the industry. Findings indicate that: 1) local firms occupy subordinate roles throughout the development trajectory due to a lack of policy rents specifically targeting the effective enhancement of indigenous productive competencies; 2) when an industry has matured with established positions within the value chain, stakeholders endowed with significant rents stand to capture more benefits from policy rents, especially during transitional phases; 3) as local firms are not encouraged to proactively accumulate technological rents, they resort to seeking non-productive rents as opportunities permit. This research underscores how the interaction between state policy and foreign investment influences the architecture of the Thai automotive industry, offering insights into broader economic effects in emerging economies.

KEYWORDS: economic rents, industrial policy, global value chain (GVC), foreign direct investment (FDI), automotive industry, NEV transition

1. Introduction

An underlying concept in economics, economic rents denote additional value capture. These are profits that exceed the normal expected returns for a given asset, arising from a unique competitive advantage that sets the earner apart in the market. (Khan and Jomo 2000) In a global value chain (GVC), where firms accumulate rents to enhance their ever-evolving relative positioning for profits, there are four main types of rents: market power rents, natural resource rents, and technological rents—all endogenous, derived from firms' own advantages or resources—and policy rents, which are exogenous rents provided by the government through intervention to support firms' profitability. These rents can interact to reinforce each other, strengthening firms' competitive positioning within the GVC. (Kaplinsky 2019)

Exogenous rents are particularly important in late industrialization, where an emerging economy's attempt to catch up requires substantial investment that surpasses the economic rationale of firms in a normal competitive market. For successful advancement up the value chain in this context, the state must allocate policy rents to lower barriers to entry and enhance local firms' capabilities to upgrade through their engagement with foreign direct investors in the country. (Khan 2000: 47-53; 2004; 2009) The state thus plays a significant role in shaping the local industry of a late developer along its developmental path, determining its position within the GVC and the distribution of benefits within the local chain. By orchestrating exogenous rents, the state enables firms to transform these into endogenous rents, thereby solidifying their long-term position in the GVC.

This phenomenon is vividly illustrated in the Thai automotive industry, where the interaction between state intervention and market forces has influenced the evolving rent dynamics among multinational corporations, local firms, and the state as they navigate the industry's development. While Thailand has become a successful production base for global firms, this achievement reflects a state-driven model prioritizing foreign investment over strong local linkages. Consequently, despite growth, local firms' integration into higher-value activities remains limited. (Doner 2009; Doner, Noble, and Ravenhill 2021) With the ongoing disruptive transition to New Energy Vehicles (NEVs), which reshapes each player's relative position in the value chain, this tension underscores the Thai automotive industry as a compelling case for exploring rent dynamics in GVCs, particularly the interplay between policy rents and endogenous rents and its implications for the industry's structure and trajectory.

This research examines these dynamics in the Thai automotive industry during the GVC transition. The following sections begin with the theoretical frameworks used to investigate industrial relationships among firms and the roles of the state, then proceed to analyze these interactions across distinct phases of Thailand's automotive industry development, and close with a discussion of the findings, followed by a final section on the broader implications for industrial rent dynamics.

2. Theoretical Frameworks

The research analyzes rent dynamics in the Thai automotive industry through theoretical frameworks that revolve around the following three concepts: 1) structural relationships within industrial value chains; 2) the state's role in industrial development; and 3) the politico-economic landscape of industrial interest alignment. These frameworks include:

1) *Global Value Chain (GVC)*: This framework examines the governance structures within an industrial value chain, focusing on the power dynamics and interests among players in the local value chain that are integrated into the global production network.
2) *Developmental State*: This framework emphasizes the state's role in promoting industrial development by effectively upgrading local firms through the efficient allocation of resources and functions.
3) *Growth-Enhancing Governance*: This framework centers on the alignment of interests within the structural and institutional context of the political economy, working in conjunction with an industry's value chain structure to shape the distribution of industrial rents.

Each of the three theoretical frameworks is outlined in the following subsections.

2.1. Global Value Chain

In the context of globalization, where divisions of labor span across borders, the global value chain (GVC) represents an international network of industrial production governed by a structure of power and interests. This governance shapes the relationships within the chain of value creation in a transnational production network (Gereffi, Humphrey, Sturgeon 2005). The purpose of GVC analysis is to identify key actors in the chain of value-adding activities, pinpoint the geographic locations of those activities, and trace the flow of data and relevant knowledge within the chain, all within a defined governance structure (Sturgeon and Kawakami 2011, 121). It also probes the economic impacts of participating in the global value chain, especially within production networks led by multinational companies (Oikawa 2008).

GVCs differ based on the nature of products within each industry. In the case of the automotive industry, the value chain structure is characterized by a significant concentration of high-tech activities, strengthening the decision-making power and bargaining leverage of a small group of lead firms—typically multinational corporations (MNCs)—that control technology transfer within the chain. This concentration creates substantial barriers to entry and limits productivity upgrading for smaller firms, enabling lead firms to capture a larger share of high value-added activities within the chain (Sturgeon et al. 2009).

Addressing inter-firm relationships within the value chain, this framework uncovers the mechanisms through which firms create, capture, and accumulate rents to enhance their positions relative to other players in the industry.

2.2. Developmental State

A developmental state prioritizes economic development through intervention while adhering to a market-conforming approach within a rational planning system. Aiming to achieve high growth, it allocates resources efficiently to foster targeted economic activities. (Johnson 1987; Cumings 1999, 64; Haggard 2015, 42) This definition of the developmental state highlights the state's central role in allocating resources to enhance economic productivity, which cannot occur if the market functions independently because of coordination failures among private actors, particularly in industrial development and technological transfer and acquisition (Haggard 2015, 43-44). Conflicts that may arise from gains or losses during the transformation of the economic structure necessitate the state to establish and govern politico-economic relationships that facilitate industrial development. (Chang 1999, 182-183).

To drive successful economic development through intervention, a developmental state undertakes key functions that include coordinating collaboration, setting strategic goals, building institutional mechanisms, and compensating for losses (Chang, 1999). Achieving these functions requires synergy among the bureaucratic system, the political system, the market, and pilot organizations (Johnson 1987, 315-320; 1999, 37-39). In developing countries, where the efficient functioning of these components is often not fully realized, securing efficiency within a narrower selective scope that concentrates on core areas with direct roles, especially in the bureaucratic system—known as pockets of bureaucratic efficiency—can still yield successful development outcomes (Haggard 2015, 48-49). To align incentives for investment that fosters development, a developmental state must maintain viable relationships with private firms, enabling it to decisively discipline those firms to whom policy rents are allocated (Amsden 1991, 284). This relationship should be cooperative rather than merely regulatory or authoritatively controlling (Johnson 1987, 309-313). Along these lines, the concept of 'embedded autonomy' suggests that a developmental state understands the specific contexts and needs of interest groups while retaining the ability to act independently from their pressures. This dual capacity allows for informed policymaking that effectively promotes favorable economic activities (Evans 1995).

The developmental state framework provides a lens for analyzing the state's role in industrial development, emphasizing its capacity for efficient intervention in allocating policy rents that foster successful outcomes. The state's relationships with private firms that receive these policy rents are also critically scrutinized.

2.3. Growth-Enhancing Governance

Centered on the capacities required to address market failures that impede a country's economic development, particularly in catch-up industrialization, growth-enhancing governance refers to the state's capability to allocate resources and oversee economic activities to drive economic growth, grounded in the institutional context as well as the structure of interests and benefit distribution within the political economy (Khan 2013; 2012, 16, 22-25).

In this framework, late industrialization is the focal point, as upgrading technological capabilities associated with value creation entails significantly higher costs than merely investing in low-cost countries for profit. Technological learning at a relatively low position in the value chain requires substantial effort and involves considerable risks, which can discourage both local and foreign firms from investing in higher productivity technologies. To address this challenge, the state must allocate conditional policy rents to encourage investments that facilitate upgrading in local industries. This should particularly involve performance-based 'rents for learning', conditioned on competencies that align with the state's objectives for enhancing industrial indigenous productivity. (Khan 2000, 47-53; 2009)

In relation to the other two frameworks, the growth-enhancing governance framework adopts a broader perspective, offering insights into the contextual landscape of the rent process.

It examines the politico-economic structure that shapes institutional capabilities and the interplay of relationships concerning interests and power throughout an industry's value chain. This landscape, influenced by the prior developmental path, in turn determines the trajectory of industrial development and the distribution of rents across the industry. Combined with the other two frameworks, this approach provides a contextual basis for understanding inter-firm relationships and the roles of the state in the value chain, along with the dynamics of rents among them, offering a comprehensive view.

3. Rent Dynamics in the Thai Automotive Industry

Characterized by the dominance of foreign lead firms and the apparent success as an efficient assembly base, the Thai automotive industry has experienced extensive growth driven by capital accumulation rather than intensive growth fueled by indigenous productivity (Doner, Noble, and Ravenhill 2021, Ch.4). The successful industrial development began with an orientation toward the domestic market before expanding to the regional and global supply chains. However, as the industry progressed, it lost its local supply base and linkages because the competitive capabilities of local firms were not nurtured. This has resulted in their positions at the lower end of the value chain, despite the industry's integration into open markets that emphasize competition and economies of scale (Doner 2009). This outcome stems in part from an institutional context characterized by various uncoordinated government agencies overseeing economic activities within the automotive industry. It exists within a fluctuating political environment where local and foreign interest groups can appeal to the state (Siroros 1997; Natsuda and Thoburn 2014, 1249). Their bargaining power varies according to the relative rents they hold at each point in relation to both local and global economic conditions (Doner 2009; Niyomsilpa 2008; Abbott 2003; Busser 2008).

Amidst these dynamics, a new chapter unfolds, as the foreign-dominated structure of the Thai automotive industry is experiencing significant shifts with the ongoing transition to new energy vehicles (NEVs). This disruptive change in demand and supply is reshaping the relative positions of players within the value chain, as their inherent rents fluctuate with their ability to generate value in a shifting market. The rent dynamics situated in the context of established duality between high growth and low indigenous productivity are accentuated by this transition, offering a unique opportunity to investigate their evolving nature within a shifting landscape.

To examine the interplay between rents and the evolving configuration of power and interests within the Thai automotive industry, this research explores the chronological development of the sector, highlighting the role of policy rents in shaping the local value chain structure and influencing the distribution of benefits along the chain. This exploration provides essential background that sets the stage for the main focus on the implications arising from the transition. In this light, the analysis is outlined in the following two parts: the dynamics of rents in the Thai automotive industry before and during the transition.

3.1. The ICEV Era: The Thai Automotive Industry Before the Transition

Before the transition to NEVs, the Thai automotive industry has been operating with internal combustion engine vehicles (ICEVs) for almost 60 years, having originated in the 1960s. Foreign lead firms, particularly Japanese automakers, dominated the industry, with most local firms positioned at the lower end of the value chain. The historical development of the ICEV era can be divided into three phases:

1) Establishing the Industrial Foundation (1960s-1980s)
2) Expanding through Liberalization (1990s)
3) Driving Growth in the Mature Phase (2000s)

The key developments of each phase that shaped the industry are summarized in the following subsections, illustrating how rent dynamics evolved throughout the traditional period of the Thai automotive sector, from its inception to becoming a prominent industry.

3.1.1. Establishing the Industrial Foundation (1960s–1980s)

Domestic Industry Protection and Local Production Capacity Development

The Thai automotive industry emerged as a key component of the state's industrial development strategy in the 1960s, prioritizing import substitution industrialization. This strategy was implemented through tax incentive policies designed to lower investment risks for multinational corporations (MNCs) and attract foreign direct investment (FDI). As the state-firm relationship became more formalized in the 1970s, business associations were established to serve as public-private platforms for industrial policymaking. Notably, this included the formulation of the local content policy, restrictions on new entrants, and the protection of the domestic industry, thereby safeguarding the benefits enjoyed by incumbent assemblers. However, with the return of the military regime, political ties in the industry led to the revocation of entry restrictions, resulting in inefficiencies due to a lack of economies of scale and contributing to trade deficits. Policies from the 1970s to the mid-1980s fluctuated with political dynamics. During this period, different interest groups emerged and conflicted with one another in their attempts to secure their competing interests by capturing policy rents within the industry (Doner 2009, 235-244; Siroros 1997, 7-21).

The early development of the Thai automotive industry witnessed the emergence of various interest groups, facilitated by the state's role in opening up the sector, each with conflicting benefits vying for policy rents. Their strategies involved appealing to political powers, highlighting how the interplay between political influence and economic interests shaped the industry's structure during its formative years, affecting both firm positions and productive efficiency. Notably, local firms were still vocal and held significant roles with considerable bargaining power in this initial stage of development.

3.1.2. Expanding Through Liberalization (1990s)

Export Growth Promotion

In the 1990s, Thailand's automotive industry pivoted to export-oriented industrialization as the state embraced liberalization policies to enhance global competitiveness. Influenced by the Plaza Accord of 1985, which led to yen appreciation and spurred Japanese automakers to seek more cost-effective production locations, Thailand became a prime destination due to its inherent rents manifested in advantages such as low-cost labor and a favorable geographical location. The state actively facilitated this shift, reducing trade barriers, cutting tariffs, and relaxing ownership restrictions to encourage foreign investment. Then the Asian Financial Crisis (AFC) of 1997 accelerated these changes, with the state further opening the industry following the crisis downturn by allowing full foreign ownership, a move that nearly wiped out local firms unable to compete technologically. While the crisis acted as a catalyst, local firms' competitive position had already been weakened due to limited productivity upgrading during the local content era, which left them ill-prepared for the challenges of a liberalized market. As a result, rent dynamics shifted dramatically, with foreign firms gaining dominance and most local players losing bargaining power and political influence across the industry (Doner 2009, 244-251; Niyomsilpa 2008; Siroros 1997, 23-33).

The reorientation to export-oriented industrialization during this period significantly altered the power dynamics in the Thai automotive industry, underscoring the critical role of policy rents in shaping industry structure by favoring certain interest groups based on their capacity to generate growth—specifically, their endogenous GVC rents. The shock from the crisis revealed underlying issues stemming from the inadequate allocation of learning rents for productivity upgrading among local firms in the previous era, where the exogenous rents from the protectionist policies failed to be transformed into competitive endogenous rents, leaving them vulnerable to foreign competition. This shift highlights how the distribution of policy rents can determine competitive positions and influence the long-term viability of domestic players in a liberalized market.

3.1.3. Driving Growth in the Mature Phase (2000s)
Tax and Trade Strategies for 'Product Champions' Under Limited Policy Windows
In response to WTO regulations restricting trade and industrial policies, the Thai government shifted its strategy to product champion policies in the automotive industry, designating pick-up trucks as the “champion” to effectively drive significant growth, later followed by small-engine eco-cars to replicate this success. This approach built on the previous liberalization era’s focus on export promotion and, through the appropriate targeted efforts, achieved remarkable export success in the sector. To support these goals, the government employed tax incentive policies and trade agreements to attract foreign investment and expand market reach, demonstrating that incentives could still be aligned within the confines of WTO restrictions. However, this trajectory continued to disproportionately favor foreign lead firms, who benefitted significantly from policy rents due to their dominant role in the industry, while most local firms remained minimal players, primarily functioning as low-tier suppliers (Natsuda and Thoburn 2013; 2014; Schroder 2021; Doner 2009, 254-255)

The Thai automotive industry has reached a stage where positions within the value chain have been firmly established as a result of prior development efforts. The allocation of policy rents toward targeted segments of the industry highlights the state’s significant role in orchestrating exogenous rents as incentives to attract firms that offer favorable endogenous rents for growth, even within limited policy windows. This success in fostering growth through such arrangements diminishes the perceived necessity to enhance the value-generating capabilities of low-tier local firms with low inherent rents, leading to a continued focus on directing policy rents to more lucrative opportunities that require less effort, ultimately perpetuating a trajectory of low indigenous productivity.

3.2. The NEV Era: The Thai Automotive Industry During the Transition

The Thai automotive industry exhibited its initial responses to the emerging transition to NEVs in the 2010s by launching new policies encompassing electrified engines. This was followed by a significant inflow of battery electric vehicle (BEV) manufacturers, predominantly from China, in the 2020s. This transitional period so far can thus be divided accordingly into two phases:
1) Taking Incremental Steps Toward Transition (2010s)
2) Welcoming Influx of New Players (2020s)
In these subsections, key changes during each of the two phases of the ongoing transition are discussed to demonstrate how the transition sheds light on the established structure of the industry.

3.2.1. Taking Incremental Steps Toward Transition (2010s)
Early Policy Adaptations and Emerging Tensions
The Thai government first responded to rising signals of a shift toward NEVs in the early 2010s by incrementally introducing tax incentives for investments in hybrids (HEVs), plug-in hybrids (PHEVs), and battery electric vehicles (BEVs) parts production (Schroder 2021). While echoing the eco-car program’s focus on reducing emissions, the new policies increasingly leaned toward electric vehicles (EVs), even as eco-cars remained the “second product champion.” This shift led to tension between the state and major Japanese automakers who had invested heavily in eco-car production and were unwilling to pivot quickly to EVs. Together, these automakers pushed back, formally opposing the state’s pressure to diversify their investments to "eco EV" production, underscoring the friction between ongoing commitments and the government’s new direction (Ministry of Industry 2019; Maikaew 2019a; 2019b). Meanwhile, small local firms saw little support provided by policy rents to develop capabilities for the EV era, indicating the government's lack of full motivation to comprehensively prepare the local industry for the transition.

The initial transition to new energy vehicles in Thailand before the disruption took hold unfolded within the established dynamics of bargaining power shaped by prior developments and accumulated endogenous rents. Significant policy rents targeted only major foreign lead firms with the capacity to commit substantial resources. Some early tensions that arose showed how these firms could resist the government when their benefits did not align with the policy, suggesting that the government's hesitance to fully commit to EV preparation may have partially stemmed from a desire to maintain stability in relationships with these powerful stakeholders. Consequently, this reluctance not only hindered more aggressive policy initiatives aimed at advancing the EV agenda but also reinforced a path dependence that marginalized local firms, leaving them without the support needed to adapt to the emerging market demands.

3.2.2. Welcoming Influx of New Players (2020s)

Foreign Leadership Transformations and Engagement with Established Dynamics

In the 2020s, the Thai automotive industry is experiencing a disruptive influx of Chinese EV manufacturers, who enter with significant rents of their own, derived from home-market advantages, state support, technological advancements pertinent to the transition, and control over key natural resources essential for EV batteries (Xiong et al. 2022; South China Morning Post 2023). The entry of these firms is encouraged by Thai government subsidies for imported cars that mandate a compensatory local production (BOI 2024). While intended to boost domestic manufacturing, this policy leads to market distortions, raising concerns among Chinese firms about their long-term viability, which they collectively communicated to the Thai government (Thansettakij 2024; Prachachat 2024), showcasing their emerging bargaining power. These entrants form partnerships with major local assemblers, placing Thai firms in subordinate roles (PPTV 2022), while some focus on non-productive functions as dealers (Thairath 2024). Additionally, substantial policy rents extend to logistics conglomerates through lucrative land sales as part of the state's mega project for new cluster developments (Thairath 2022; Bangkok Biz 2023), highlighting the broader economic implications of the state's approach.

The disruptive entry of new players highlights the Thai state's misguided reliance on quick monetary incentives to attract foreign investment during a transformative moment, aiming to leverage policy rents to harness the inherent rents of these rapidly rising firms on a global scale. This approach not only distorts market dynamics but also underscores the risks of prioritizing short-term gains over sustainable industrial development, as reflected in the lack of indigenous productivity in the industry. Striking spillovers of considerable policy rents to non-productive players and activities accentuates the contrast to in the lower end of the industry, where most local players remain concentrated due to past policy directions.

4. Discussion

Tracing the progression of rent dynamics in the Thai automotive industry as it evolves and matures reveals nuanced interactions among stakeholders, each strategically leveraging accumulated resources to generate and sustain their value creation capabilities within the industrial chain, in turn shaping the structure of the industry. Policy rents, the focal point of this research, underscore the pivotal role of the state in navigating economic conditions that mirror the varying levels of rents held by each stakeholder in the industry, shaping not just interactions but the very fabric of industrial dynamics. The case of Thailand, with its dual success and structural challenges, highlights how policy rents are allocated in response to each player's relative rents to stimulate growth. The state's preference for foreign firms with high inherent rents—which signify their ability to drive growth more effectively and with less risk—creates a vicious cycle, where the insufficient allocation toward enhancing indigenous productivity perpetuates a lasting impact on the industrial structure, relegating most local firms to the lower end of the value chain.

The ongoing transition to NEVs, poised to disrupt the entire industrial landscape, underscores the transient nature of competitiveness that must be actively sustained through the strategic orchestration of industrial rents. Simultaneously, it accentuates the path-dependent outcomes of previous developments, revealing how past decisions and allocations influence current dynamics. Probing into the development of the Thai automotive industry with a focus on the transition brings to the fore three critical points regarding the dynamics of rents across the industry:

1) *Subordinate roles of local firms*: Throughout the evolution of the automotive industry, local firms have consistently found themselves in subordinate positions, primarily due to the lack of policy rents specifically designed to enhance their technological competencies. Historical patterns reveal that the insufficient allocation of learning rents for productivity improvements during earlier phases—when exogenous rents from protectionist policies were not effectively transformed into competitive endogenous rents—has rendered these firms vulnerable to foreign competition. This reliance on foreign expertise has further constrained their potential for growth and innovation within the value chain.

2) *Disproportionate gains for the giants*: As the Thai automotive industry matured, it became increasingly evident that stakeholders with significant rents were far better positioned to capture the benefits of policy rents allocated by the state during transitional phases. The state's focus on firms with higher value-added capacities perpetuated a vicious cycle that favored their dominance and led to better growth outcomes for them. This dynamic was evident throughout the development of the industry, where established foreign players leveraged favorable policy frameworks to reinforce their market position, often sidelining local firms and exacerbating existing power imbalances. A select few major local firms have been able to significantly benefit from their partnerships with foreign firms—albeit in subordinate roles—and the recent entry of Chinese EV manufacturers further highlights this trend as an outcome of how state policies, through the allocation of policy rents, distort the distribution of gains within the industry and influence its overall structure.

3) *Pursuit of non-productive rents*: When local firms are not encouraged to proactively accumulate productive technological rents along the entire developmental path, they resort to seeking non-productive rents, either within or beyond the automotive sector. This trend is particularly notable among a limited number of larger firms and industrial conglomerates, which, while possessing the financial resources to drive value-added growth, opt instead for less intensive growth strategies. Their behaviors illustrate a broader tendency within the Thai automotive industry to prioritize extensive growth over more productive avenues, which reinforces the marginalization of local firms and impedes the growth prospects of indigenous productivity, as highlighted in the historical analysis of the sector's evolution. Correspondingly, the significant channeling of policy rents toward non-productive major entities and activities stands in stark contrast to the insufficient allocation aimed at enhancing indigenous productivity.

In summary, the analysis of rent dynamics within the Thai automotive industry reveals a complex interplay of stakeholder relationships shaped by the state’s allocation of policy rents, which prioritizes extensive growth over productive enhancement. While foreign firms and a select few local conglomerates have capitalized on favorable conditions to enhance their positions, the persistent marginalization of most local players—due to the disproportionate distribution of policy rents—underscores the need for more strategic policies aimed at fostering indigenous productivity. As the industry transitions to NEVs, addressing these structural inequalities will be crucial for ensuring sustainable growth and competitiveness.

5. Conclusion

The exploration of rent dynamics within the Thai automotive industry serves as a microcosm of the broader complexities inherent in human economic societies. The interplay of power and interests in productive activities reveals that the allocation of policy rents not only shapes market structures but also perpetuates existing imbalances among stakeholders. As firms navigate the economic landscape, the significance of relative competitiveness becomes paramount, necessitating a continuous accumulation of endogenous rents to sustain their positions and drive innovation.

This broader perspective underscores the critical importance of strategic policy frameworks that promote harmonized coordination of resources in economic development. By fostering an environment conducive to both extensive and intensive growth, societies can enhance indigenous capabilities, ultimately leading to a more resilient and competitive economic fabric. Ultimately, addressing the disparities in rent dynamics is essential for ensuring that all players can contribute to and benefit from sustainable economic development.

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