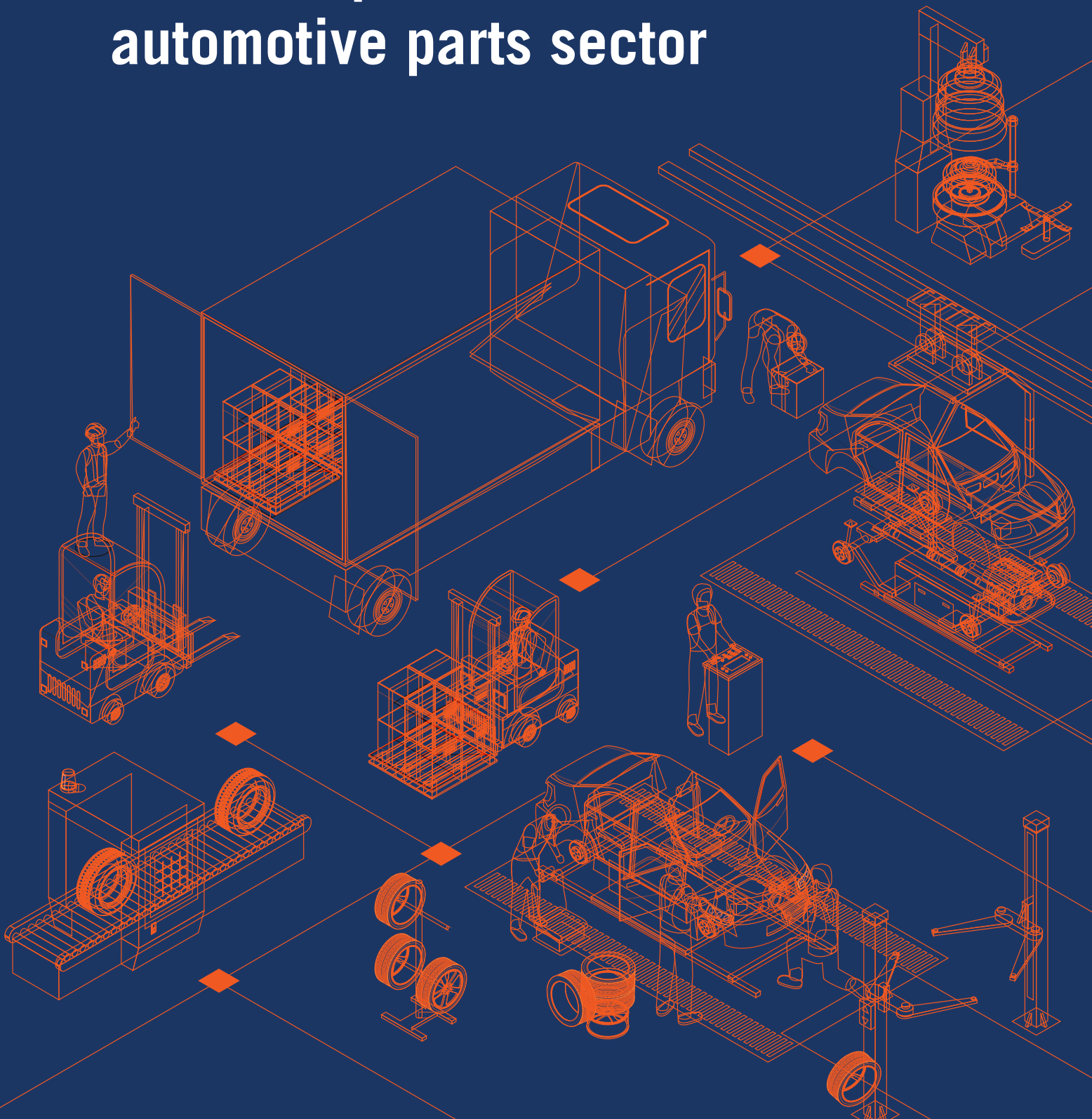


Driving change: A market systems analysis of responsible business practices in Thailand's automotive parts sector



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Foreword

With approximately 2 million vehicles produced yearly, and as the country's second largest industry which employs more than 800,000 people, the auto parts sector is crucial to the Thai economy. Thailand for decades has successfully attracted foreign direct investment for this sector, particularly from Japanese and European multinational enterprises. In 2017, Thailand ranked first in the ASEAN zone for the export of all types of auto parts and fourteenth globally.

Multinational enterprises participating in the auto parts supply chains, either through foreign direct investment or trade, have created jobs for workers in the Thailand as well as contributed to the growth of local suppliers and the skills of workers. While there remains a need for continued job creation, it is also necessary to ensure that the jobs are high quality. This coincides with the trend in today's economic and trading environment in which the promotion and implementation of socially responsible labour practices and responsible business conduct are no longer optional for businesses but a requirement to address related risks in their supply chains. The implementation of responsible business practices also present business opportunities in terms of increments of productivity, competitiveness and access to new markets for the sector. The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy¹, which is the only global instrument on responsible business adopted in the tripartite manner, can be used to provide direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.

Because multinational enterprises have an important role in contributing to economic and social progress and in influencing the advancement of decent work in their respective supply chains, the study presented here was conducted to generate in-depth knowledge and map the automotive sector in Thailand. The study documented good labour practices and the contribution of multinational

enterprises to the competitiveness and productivity of the auto parts sector in Thailand. It also identified decent work deficits in the industry, which currently impede its sustainable growth. The study searched for win-win outcomes that ensure shared prosperity for workers and businesses while contributing to long-term supply chain resilience.

The study was conducted through a collaboration between the Responsible Supply Chains in Asia Programme and the Lab, a knowledge-generating project funded by the Government of Switzerland. Responsible Supply Chains in Asia is a three-year programme conducted by the International Labour Organization and the Organisation for Economic Co-operation and Development and financed by the European Union. The programme is technically backstopped by the ILO Multinational Enterprises and Enterprise Engagement Unit. It encompasses six countries and aims to contribute to an enhanced respect for human rights, labour and environmental standards by businesses engaged in supply chains in Asia, in line with international instruments on corporate social responsibility, responsible business conduct and business and human rights. The work aligns with the first priority of the Thailand Decent Work Country Programme 2019–21, on promoting an enabling environment for the growth of decent and productive employment.

We hope stakeholders within the auto parts supply chains, especially those in the Task Force on Promoting Socially Responsible and Sustainable Business in Auto Parts Supply Chains, find this research enriches their evidence-based dialogues and that it leads to concrete actions to advance decent work and sustainability of the sector.

Graeme Buckley

Director, ILO Country Office for Thailand, Cambodia and the Lao People's Democratic Republic

¹ The provisions of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO MNE Declaration) can be found in the Annex I

Acknowledgements

Kriangsak Teerakowitkajorn conducted an initial literature review and led the data collection in Thailand. He co-authored the study report with Matt Ripley, who headed the research design using market system methodology. Chayanich Thamparipattra led the overall coordination of the study, reaching out to informants, conducted data collection organized an auto parts task force to obtain inputs from stakeholders in the sector. Together with Sara Andersson, they provided substantial technical inputs, drafted some sections and conducted several reviews to finalize the study. Yukiko Arai, Emily Sims, Githa Roelans and Fredy Guayacan provided technical assistance and inputs. Arun Kumar, John Ritchotte and Jittima Srisuknam from ILO Decent Work Team for East and South-East Asia and the Pacific also contributed their technical inputs and comments. Appreciation is also extended to Emily Sims and Karen Emmons for editing the text.

Executive summary

With approximately 2 million vehicles produced yearly, the auto parts sector is crucial to the Thai economy (TAI 2021). Automobiles have been Thailand's main export since 2012, when export sales were valued at around \$22 billion (Techakanont 2014: 21). With the automotive industry's particular success attracting Japanese car manufacturers, Thailand is now the world's ninth-largest auto producer (Warr and Kohpaiboon 2017: 1). In 2018 and 2019, the automotive industry was the largest contributor of foreign direct investment (FDI) in Thailand, and Japan was still its largest source (BOI 2019; BOI 2018a). In addition, this sector is the country's second largest industry which employs more than 800,000 people, the automotive sector is crucial to the Thai labour market (Chantapong and Osatis 2020).

The auto parts sector constitutes a critical link in the wider automotive production supply chain, and is the focus of this analysis. Thailand is the centre of auto parts manufacturing in the region and an important player in the global sourcing of auto parts. In 2017, for exports of all types of auto parts, Thailand ranked first in the ASEAN zone and fourteenth globally.

Demand is increasing for the auto parts business to be more responsible. This study was conducted to determine constraints to improving responsible business practices in Thailand's auto parts value chain, with emphasis on decent work, and disseminate the details of good practices in good business.² A market systems lens was used to go beyond the visible symptoms of a problem to begin to understand their more hidden causes. A systems approach aims to find win-win outcomes that can grow sectors more inclusively to ensure shared prosperity for workers and businesses alike, while contributing to long-term supply chain resilience.

In this study, responsible business practices are ways in which enterprises consider the impact of their operations and supply chains on society and the environment. Responsible business practices refer to corporate conduct beyond compliance with domestic laws and call on enterprises to contribute positively to sustainable development. These practices can help enterprises affirm their principles and values as an integral part of corporate management, helping to both mitigate risks and create value, such as opening up access to new markets.

Methodology

The research is based on the methods of the International Labour Organization's (ILO) *Value Chain Development for Decent Work* guide and The Springfield Centre's *The Operational Guide for Making Markets Work for the Poor M4P Approach*. It uses the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) as a framework to map opportunities and challenges for decent work and to assess good practices for overcoming them.³ The research looked for different types of data (primary and secondary) using multiple methods (observations and interviews).

Findings

In terms of decent work, the study found that the auto parts sector has positively contributed to job creation in Thailand. It has allowed the country to position itself at the centre of auto parts manufacturing in the region and become an important global player. In 2017, the employment in final assembly and auto parts exceeded a quarter million jobs (Warr and Kohpaiboon 2017: 1).

² Chayanich Thamparipattra, Kriangsak Teerakowitkajorn, Matt Ripley and Sara Anderson conducted the research.

³ See <https://www.ilo.org/empent/areas/mne-declaration/lang--en/index.htm>.

Enterprises within the auto parts sector have good practices for occupational safety and health. From the analysis, there seem to be three reasons for this: First, the manufacturing process of auto parts is inherently hazardous and prone to accidents, motivating producers to take action. Second, occupational safety and health is an area prioritized by buyers and then require suppliers to comply with strict requirements to remain competitive. And three, accidents are more visible and thus easily monitored, when compared with other decent work issues.

While the sector has generated significant employment and occupational safety and health improvements, the study also found that there is still room for improvement when it comes to the quality of jobs. There is currently a high prevalence of precarious jobs with low job security. The use of contract and agency labour is commonplace in the automotive supply chains, even among tier 1 suppliers. Low job security links to other decent work issues, such as access to social security and legal protection under labour-related laws.

The prevalence of job insecurity also negatively impacts workers' ability to form or join a trade union. Nonetheless, the data indicate that organized labour is more concentrated in the automotive industry than in most sectors in Thailand; and case studies demonstrate mature workplace collaboration in some enterprises. However, worker representation alone does not guarantee better conditions of employment if the representatives do not have any significant negotiating power. Relevant domestic laws have yet to be aligned with the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

Not surprising, tier 1 suppliers sourcing to global automobile makers are more advanced than their smaller Thai counterparts further down the chain. Consequently, the small and medium-sized enterprises need more support and guidance from multinational enterprises and initiatives. As one carmaker interviewed stated, "The Thai Government has done a good job promoting ISO 9000, with its sign everywhere to be seen. Perhaps in the future, the Government could do the same with ISO 14001 and SA 8000, focusing on worker treatment and well-being." The smaller enterprises also need

greater support from government-sponsored initiatives and an umbrella instrument – the MNE Declaration – to coordinate all of these efforts.

Pivoting from workers' rights to strengthening enterprise competitiveness, the study also found a significant skills mismatch in the sector that is likely impacting the capacity of the industry to meet projected output. This inability to attract workers with the right skills set, or unwillingness to invest adequately in developing the skills of existing workers is likely linked, at least in part, to the precarious nature of employment: A shortage of secure employment acts as a deterrent for workers to invest further in developing their skills. And uncertainty about whether a worker will continue with an enterprise deters it from further investing in the skills of those workers.

Using the market systems approach, the study homed in on five constraints that influence the sector's competitiveness, the prevalence of decent work deficits and opportunities to advance responsible business in Thailand's auto parts sector:

1. Systemic constraints related to skills development is currently causing a bottleneck of skilled labour supply. Public–private linkages in Thailand's automotive sector tend to focus mainly or exclusively on the skill needs of higher-tier enterprises and ignore the needs of small and medium-sized enterprise suppliers. Low skills result in lower productivity and wages, which in turn increases staff turnover, fuelling a further downward spiral.
2. Temporary and uncertain forms of employment as well as other decent work deficits also stem from current production models in the sector that force suppliers to assume risks of short-term fluctuation and incentivize enterprises to maximize flexibility and cost-control at the expense of workers' rights.
3. Attempts to upgrade the production practices of local suppliers have been unsuccessful due to fragmented and underfunded initiatives.
4. Government agencies' efforts to promote and strengthen responsible business practices in the industry lack communication and coordination. The various agencies also

typically need better support and resources to effectively implement policies and programmes to promote responsible business in the industry.

5. Dialogue among stakeholders, such as governments, enterprises and social partners, both at the national and international levels, could help to improve production upgrading and coordination of government efforts to promote responsible business practices. But structures to facilitate such dialogue are weak or non-existent.
6. The lack of commercial pressure from buyers or original equipment manufacturers erodes the incentive of suppliers to develop a more comprehensive approach to responsible business.

The study found that in the context of long-term change (the transition to electric vehicles) and shocks (such as COVID-19), there may be an opportunity to develop more responsible business models that yield more and better jobs and that are more resilient in the face of future transformations or disruptions in the automotive industry. To mainstream responsible practices in the sector and address the systemic constraints, the report makes four recommendations.

Recommendation 1: Build and profile the business case on the link between responsible practices and business success.

Due to the lack of commercial pressures from buyers and a strong focus on cost control, there are limited incentives for suppliers to turn a code of conduct or other sustainability policies from paper into practice. There is a need to document good practices and build the business case for responsible business to ensure it can become more integrated into the practices of various actors in the auto parts value chain who can see the benefits of more responsible practices in the longer term. Documenting the business case for responsible business practices would require the

participation of ILO constituents as well as other stakeholders that would need to engage with each other to collect information and make it available to the broader industry.

Recommendation 2: Strengthen tripartite-plus social dialogue to address the labour dimension of responsible business in the sector in Thailand.

The study found weak linkages, fragmented initiatives and lack of policy coordination, all of which currently contribute to a somewhat vague and unclear framework for responsible business in this sector in Thailand. By strengthening tripartite-plus⁴ social dialogue in the industry, decent work deficits could be more effectively identified and redressed. The recommendation is to establish a tripartite dialogue platform that includes stakeholders, including automobile multinational enterprises sourcing from or producing in Thailand. The dialogue platform could identify collaborative solution to address constraints in the sector and strengthen the competitiveness of the industry. This should include: a tripartite assessment of existing production models, in particular constraints related to skills development and upgrading of production methods and technologies; developing agreed targets; allocating roles and responsibilities; and periodic joint reviews of progress.

Recommendation 3: Concentrate on policy coherence and the role of government in promoting responsible business.

There is an opportunity for policy makers to explore ways to better coordinate policies and programmes to promote responsible business in this sector. The National Action Plan on Business and Human Rights and its implementing committee can be one of the potential mechanisms to coordinate policies on responsible business from different ministries to be more coherent and comprehensive (not only focus on the environment but also labour). The Ministry of Labour, through the appointment of the

4 Tripartite-plus in this context refers to the dialogue among the relevant government institutions, employers' organisations, relevant workers' organisations, multinational enterprises of this sector, research institutions in this sector, think tanks, civil society organisations and other representatives of the private sector working in this sector.

National Focal Point of the ILO MNE Declaration in a tripartite manner, should have a role in taking the lead in advocating for and coordinating labour issues under the National Action Plan, both at the ministerial level and among departments within the Ministry of Labour. The National Focal Point could also ensure that the labour dimension is mainstreamed in policies related to responsible business. Under this coordination, government agencies can collaborate in designing a smart mix of voluntary and compulsory measures that incentivize businesses to be more responsible. A more coordinated and coherent responsible business framework could also strengthen Thailand's position in terms of promoting responsible business and creating opportunities for the Government to increasingly engage with governments of home countries of multinational enterprises (such as Japan and within the European Union).

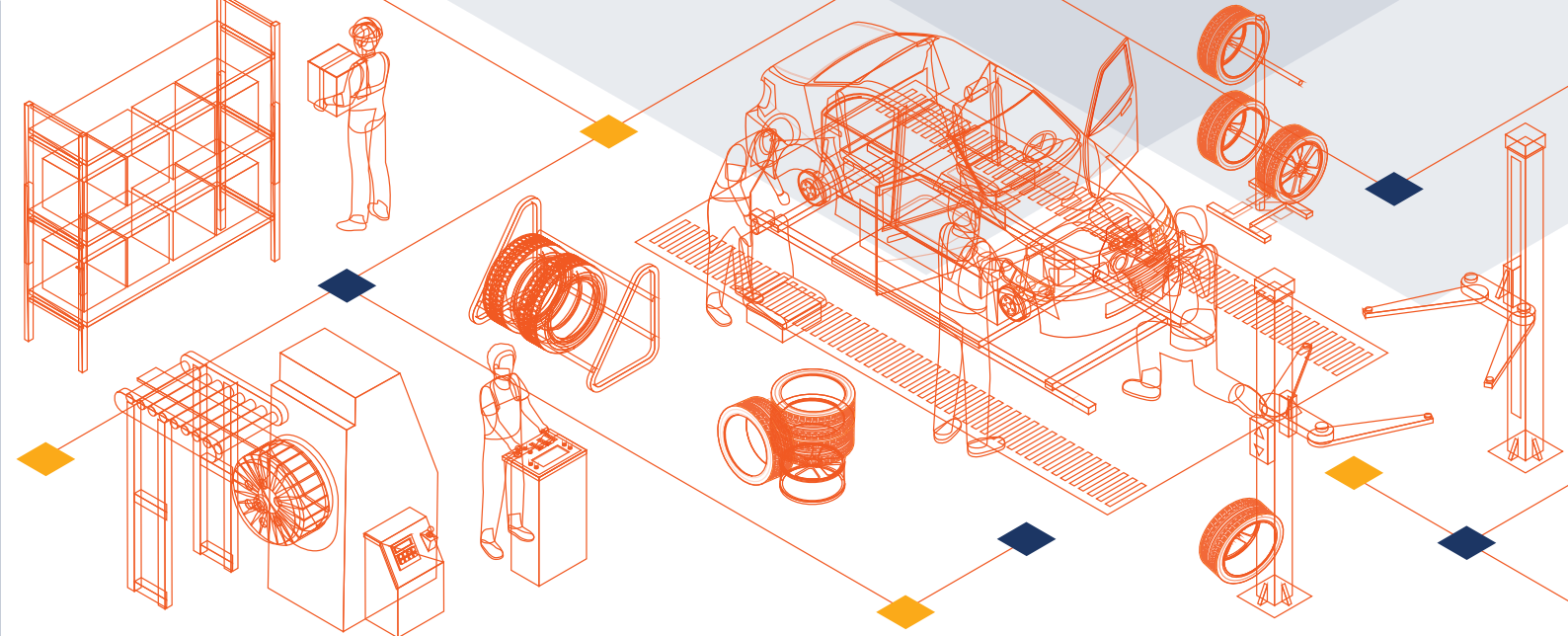
Recommendation 4: Conduct a comprehensive mapping to understand connected sectors.

The study revealed a lack of data and information required to distinguish between responsible business practices at different tiers in the supply chain, especially regarding employment and decent work. This is particularly the case for difficult-to-identify tier 2 and 3 suppliers, who may be part of other sectors, such as rubber. There are risks related to the possible existence of deficits in working conditions in the supply chain, particularly concerning producers of raw materials and inputs further down the chain. These connected supply chains risk infringing human and labour rights in the auto parts and automotive supply chains. The lack of sufficient action may result in reputation damages and costly lawsuits.

Abbreviations

ASEAN	Association of Southeast Asian Nations
BUILD	Board of Investment Unit for Industrial Linkage Development
CSR	corporate social responsibility
FDI	foreign direct investment
IATF	International Automotive Task Force
ILO	International Labour Organization
MNE Declaration	ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
OECD	Organisation for Economic Co-operation and Development
SME	small and medium-sized enterprises

All \$ references are United States dollars.



Introduction

The Responsible Supply Chains in Asia programme of the European Union aims to advance sustainable and inclusive development by integrating responsible business practices into the operations of multinational enterprises and their supply chains.⁵ The programme seeks to contribute to an enhanced respect for human rights, labour and environmental standards by businesses operating in six trading partner countries in Asia, including Thailand. Its work is in line with international instruments on corporate social responsibility, responsible business conduct and business and human rights, notably the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

The objectives of the Responsible Supply Chains in Asia programme in Thailand are to:

1. Increase the understanding and knowledge among employer and business membership organizations, workers organizations, domestic enterprises, multinational enterprises, academia, investors, civil society organizations and policy-makers regarding corporate social responsibility and responsible business conduct from the perspective of decent work.

2. Create a policy environment conducive to promoting socially responsible conduct among enterprises.
3. Increase opportunities for enterprises to dialogue on challenges and opportunities in relation to corporate social responsibility and responsible business conduct.

In Thailand, the programme focuses on two sectors: *agriculture* and *automotive parts*. The present study focuses on the automotive parts (auto parts) sector.

Study scope and purpose

This analysis was conducted to determine the constraints to improving responsible business practices in the auto parts value chain, with emphasis on decent work, and to collect good practice solutions.⁶ A market systems lens was used to go beyond the visible symptoms of a problem to begin to understand their more hidden causes. A systems approach aims to find win-win outcomes that can grow sectors more inclusively to ensure shared prosperity for workers and businesses alike, while contributing to long-term supply chain resilience. The analysis was conducted in collaboration with the ILO Lab, a knowledge-generation project promoting a systems approach to decent work, funded by the Government of Switzerland. In a market systems approach, analysis is a process, not an event: The

⁵ Responsible Supply Chains in Asia is a three-year programme of the ILO and OECD, with European Union funding.

⁶ The research team involved Chayanich Thamparipattra, Kriangsak Teerakowitkajorn, Matt Ripley and Sara Anderson.

initial research kickstarts an ongoing analytical exercise of exploring and uncovering complex root causes that lasts through a project's lifetime.

This study set out to:

1. Generate in-depth knowledge and map the supply chains of the automotive sector linked to Thailand to identify the tiers, characteristics of enterprises, relationship between brands and auto parts producers and ultimately build a baseline for further programme intervention.
2. Identify the systemic constraints that lead to decent work deficits and labour issues in the sector and the ways in which they can be redressed.
3. Document good labour practices in supply chain management and their contribution to the competitiveness and productivity of the supply chain.

This report is only one element in the Responsible Supply Chains in Asia programme's wider work in building a common knowledge base to record and analyse current good business practices and to disseminate models of good practice to industry, trade unions and governments to spark dialogue and influence policy.

Methodology

The research was carried out in two overlapping phases between November 2019 and March 2020.

1. Desk research: Available literature was gathered to provide a framework for the primary data collection process. This included review of national laws, sector data and market trends as well as studies conducted by other development agencies.
2. Field research: Primary research was conducted in Bangkok during December 2019. During this stage, a total of 16 organizations were interviewed, including seven companies. The interviews were semi-structured and conducted with government officials, multinational brand managers, assemblers, parts manufacturers, trade

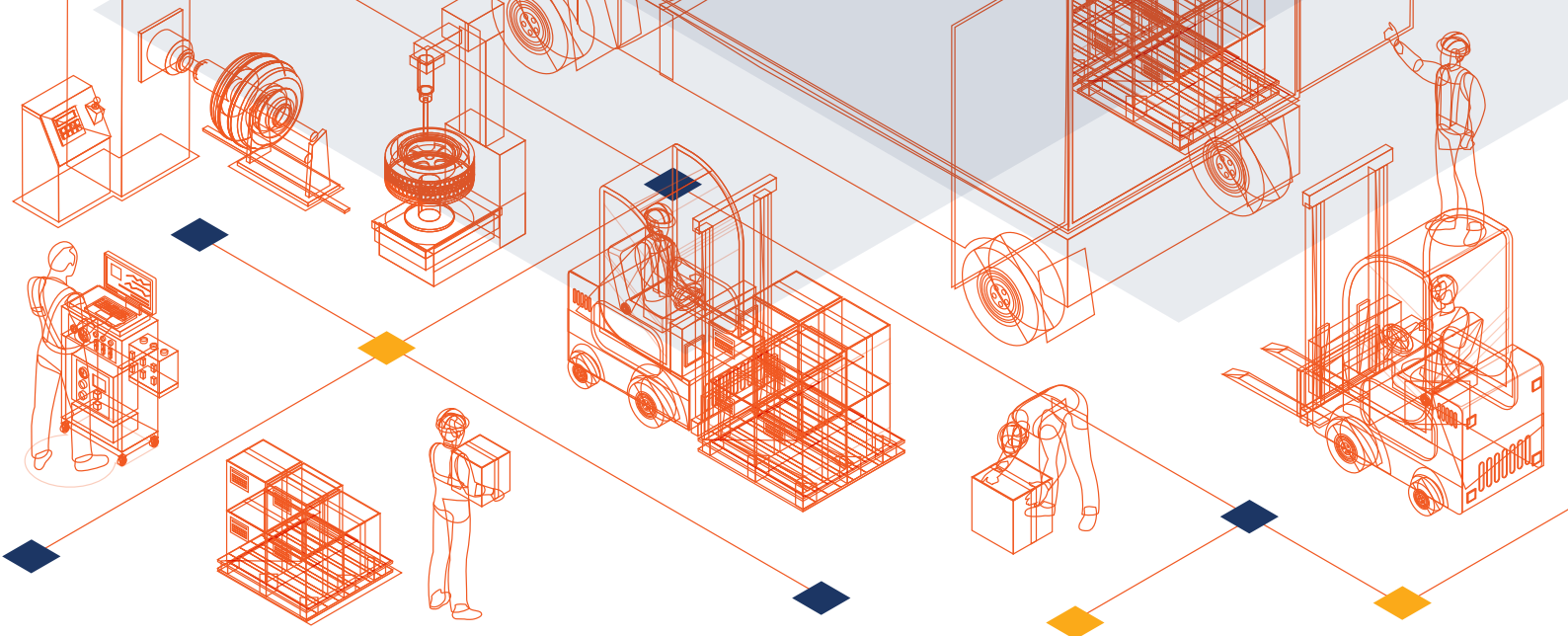
unions' representative, non-government organization staff and industry informants. The interviews provided an in-depth picture of the sector from a diverse set of actors and opinions.

The research relied on the methods promoted in the ILO *Value Chain Development for Decent Work* guide and the Springfield Centre's *The Operational Guide for Making Markets Work for the Poor M4P Approach*. It uses recommendations of the MNE Declaration as a framework to map opportunities and challenges for decent work and to identify good practices to address them.⁷ The findings were validated through triangulation of data and methodologies, and discussed during an online consultation meeting with the Task Force on Promoting Socially Responsible and Sustainable Business in Auto Parts Supply Chains in May 2020. The research looked for different types of data (primary and secondary) using observations and interviews.

This research project faced two major limitations. First, despite the industry's significance, the researchers found a lack of primary analysis of the workforce, especially labour practices, and little disaggregated data on different workforce categories, especially by supply chain tier. Second, the researchers did not always receive positive responses and cooperation from the auto parts companies among the interviews, likely due to the high competition among the upper tiers and fragmentation in the lower tiers. For example, most top-tier representatives refused or did not respond to requests to interview their suppliers; and other company executives stated that they did not see the benefits of sharing information or participating in the research.

Note: All data collected through primary research have been anonymized so that individual brands, manufacturers and suppliers cannot be identified. Instead, we refer in generic terms to "some buyers" or a second-tier supplier. Company names are only used in reference to good practices, where these are already in the public domain (in published articles or sector analysis documents) or, where not already public, if permission was given from the company.

7 See <https://www.ilo.org/empent/areas/mne-declaration/lang--en/index.htm>.



1. Thailand's automotive sector

1.1 Mapping the auto parts supply chain

The auto parts supply chain consists of different tiers of suppliers (figure 1). At the top of the chain, filling orders for global customers, are the assemblers which source the production of parts to the suppliers (Yongpisanphob 2019a; Boonsothonsatit and Jungthawan 2015). Assemblers are large-scale enterprises that are fully foreign or foreign–Thai joint ventures. These brands are commonly referred to as original equipment manufacturers.

Under original equipment manufacturers, there are several tiers of suppliers, ranging from raw material and component suppliers at the base up to system suppliers and fully integrated production partners.

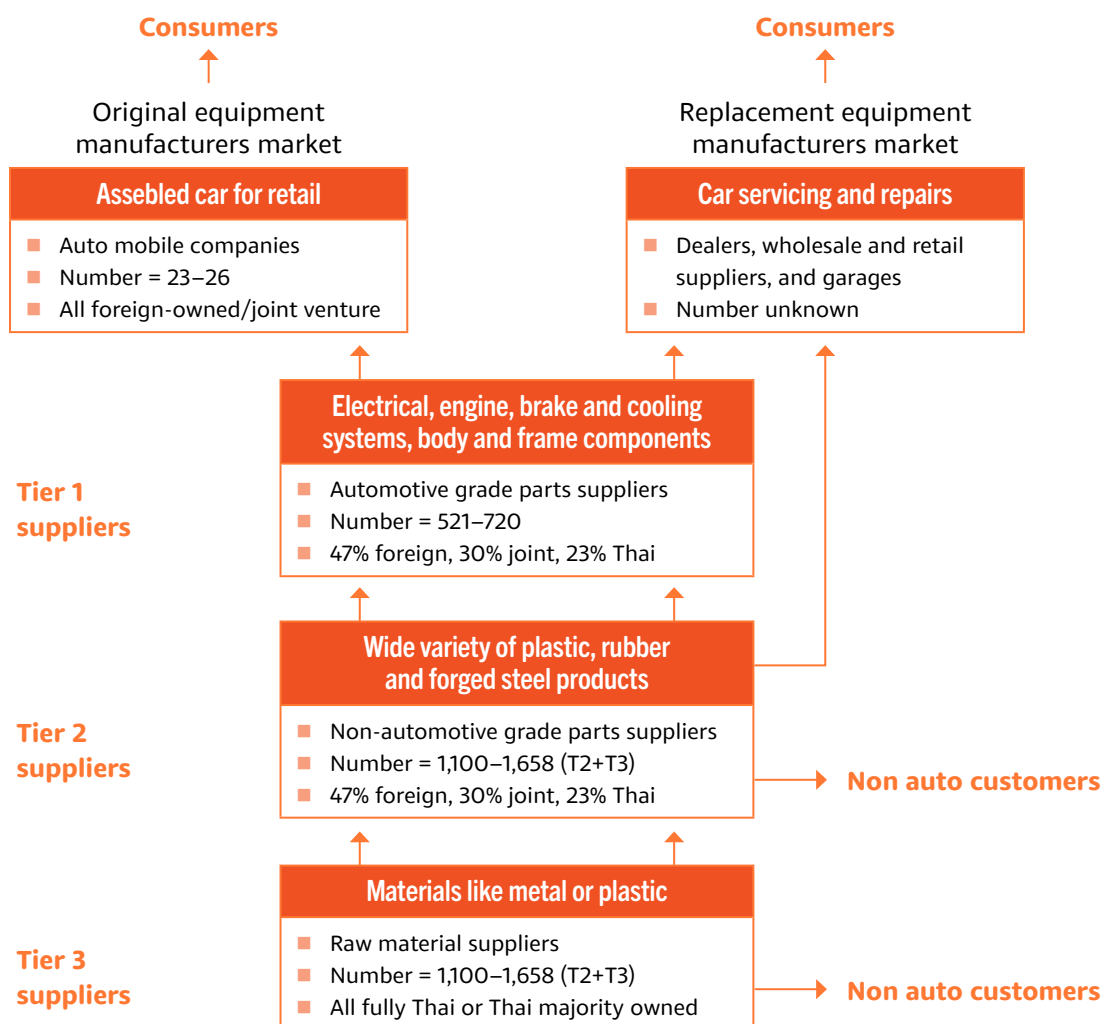
Companies that supply parts or systems directly to original equipment manufacturers are called tier 1 suppliers. They specialize in making automotive-grade hardware. This means hardware that withstands the motion, temperature and longevity demands of original equipment

manufacturers (carmakers). As expected, tier 1 producers concentrate on highest-value, fast-moving products, including (Layton and Rustandle 2007):

- electrical systems (batteries, battery cables, wiring harnesses, starters, halogen lamps, etc.);
- engine systems (air, oil and fuel filters, valves, gaskets, pistons, etc.);
- brake systems (brake shoes, pads, and linings, disc brakes, etc.);
- cooling systems (air conditioning components, radiators, etc.);
- body and frame components (chassis, doors, windows, etc.); and
- suspension systems (shock absorbers, front forks, dampers, etc.).

These suppliers usually work with a variety of car companies, but they are often tightly coupled with one or two original equipment manufacturers and have more of an arms-length relationship with other original equipment manufacturers.

Figure 1. Auto parts supply chain mapping



Source: Authors' adaptation from Krungsri Research 2019.

Many enterprises supply parts wind up in cars, even though these enterprises themselves do not sell directly to original equipment manufacturers. These enterprises are called tier 2 suppliers. Examples include computer chip manufacturers like Intel or NVIDIA. Tier 2 suppliers are often experts in their specific domain, but they support many non-automotive customers, and they do not have the ability or desire to produce automotive-grade parts. They typically produce a variety of plastic, rubber and forged steel products.

In the automotive industry, tier 3 refers to suppliers of raw, or close-to-raw, materials like metal or plastic. Original equipment manufacturers and tier 1 and tier 2 companies all need raw materials, which the tier 3 enterprises can supply all levels.

Consequently, the line between a tier 2 supplier and a tier 3 supplier that sells into tier 1 is blurry.

Auto parts vary widely, each with their own supply chain. In Thailand, parts sectors of particular significance include (Krungsri Research 2019):

- Auto parts fabricated from rubber, manufacturers of which benefit from access to Thailand's abundant supplies of rubber. These products include hosing, belts, window seals and vehicle tires, the latter being products that involve high-tech manufacturing processes. Production of these parts relies on investment from transnational corporations.
- Engines and powertrains. Producing these parts involves a lengthy supply chain. In internal combustion engine-powered automobiles,

these parts account for more than a third of all production costs. When developing engine production capacity in Thailand, the Government made the decision to support the entire supply chain, including production of radiators, exhaust and fuel systems, petrol tanks, ignition systems and gears.

- Parts for use in the assembly of electric vehicles. These are the latest target of government support, which is taking the form of a package of measures covering vehicle assembly and the production of major parts, such as batteries, traction motors, air-conditioning systems and components, battery management systems, control systems, onboard chargers, plug-in chargers, DC/DC converters, inverters, portable electric vehicle chargers, electrical circuit breakers, front and rear axles for electric buses and electric vehicle smart charging systems.

1.2 Structure of the auto parts supply chain in Thailand

In general, tier 1 auto parts suppliers are large-scale enterprises. In Thailand, there are four distinct groups: European suppliers (such as Michelin, Bosch); Japanese suppliers (such as Denso); Thai-listed companies (such as Somboon and Thai Rung) and Thai small and medium-sized enterprises (SMEs). Tier 2 and tier 3 suppliers are SMEs. According to 2018 data from the Thailand Automotive Institute, there are 1,658 tier 2 and tier 3 suppliers, 66 per cent of which are fully Thai or Thai majority owned, 521 tier 1 suppliers, 66 per cent of which are fully foreign or foreign majority owned (TAI 2019: 20). In contrast to those numbers, a 2019 Krungsri Research report highlighted 720 tier 1 operators (47 per cent foreign-owned, 30 per cent jointly owned and 23 per cent Thai-owned) and 1,100 tier 2 and tier 3 suppliers.

As of 2020, there were 28 automotive assemblers (two are new electric vehicle producers) in Thailand, 21 of which assemble automobiles (cars, buses

and trucks) and seven that assemble motorcycles (Kulkolkarn 2019). The top five automakers are (in order of largest sales) Toyota Motors (Thailand), Honda Automobile (Thailand), Mitsubishi Motors (Thailand), Auto Alliance and Isuzu Motors (Thailand).

A total of 28 assemblers produces for 26 brands in the market. In fact, statistics on total assemblers could be confusing, and several sources often conflict in terms of the exact numbers. The main reason is that certain brands such as Honda, have both automobile and motorcycle assemblers, whereas multiple assemblers may be involved in the assembling of the same brands. For example, before Honda established its own plants in Thailand in the early 1990s, Honda was assembled by Bangchan General Assembly Co., Ltd., which continued to assemble Honda cars until 2000.⁸

1.3 Development of the auto parts supply chain

The development of Thailand's auto parts sector exhibited a trajectory that is inextricably connected to the wider automotive industry. Local content requirements that coincided with import substitution policies facilitated local supplier participation in the auto value chain, and they are now an essential part of the local supplier network, even though local content requirement regulations were abolished in 2000. With policies that impose local sourcing of compulsory parts (radiators, batteries, exhaust pipes, diesel engines) in the 1980s, auto parts enterprises, covering simple to high-tech parts proliferated (Kuroiwa and Techakanont 2017: 11). Auto parts SMEs account for around 70 per cent of the total auto parts companies, or approximately 1,750 of 2,500 companies. Around 75 per cent of the SME suppliers tend to produce similar, non-technologically advanced products, such as accessories and car body parts (not much affected by the electric vehicle transition). Another 25 per cent (around 150 companies) produce engine parts, powertrains, fuel tanks and supply systems (TAI 2019).

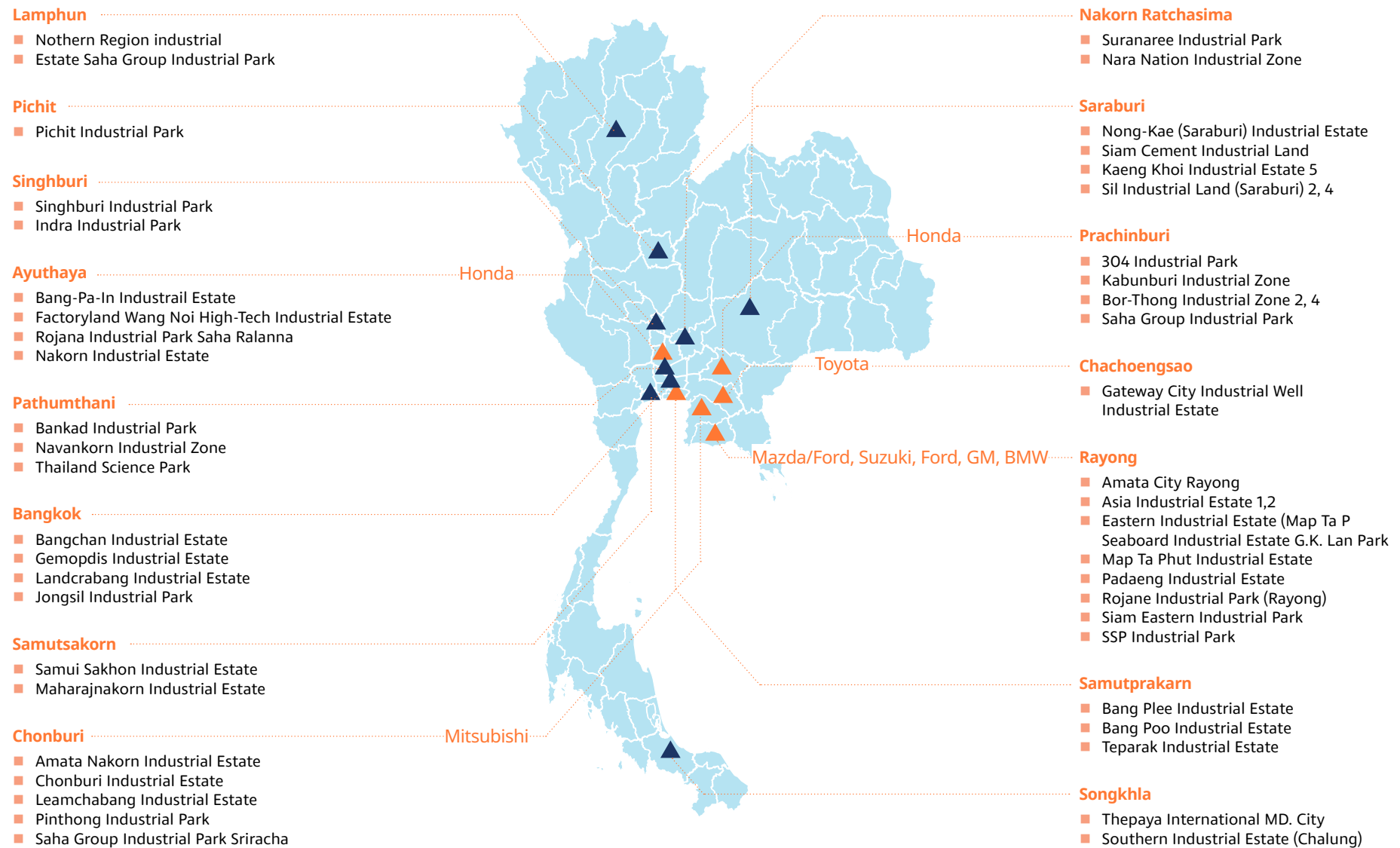
8 See <https://www.pnagroup.com/index.php/ourgroup/detail/p2>.

Table 1. Auto assemblers (original equipment manufacturers) in Thailand, as of November 2020

Company	Brand	Country
1. Toyota Motor Thailand Co., Ltd	Toyota	Japan
2. Toyota Auto Works Co., Ltd	Toyota	Japan
3. Mitsubishi Motors (Thailand) Co., Ltd	Mitsubishi	Japan
4. Nissan Motor (Thailand) Co., Ltd	Nissan	Japan
5. Isuzu Motors (Thailand) Co., Ltd	Isuzu	Japan
6. Honda Automobile (Thailand) Co., Ltd	Honda	Japan
7. Auto Alliance Co., Ltd	Ford & Mazda	USA–Japan
8. Suzuki Motors (Thailand) Co., Ltd.	Suzuki	Japan
9. Hino Motors Manufacturing (Thailand) Co., Ltd	Hino	Japan
10. General Motors (Thailand) Ltd	Chevrolet	USA
11. Ford Motor Company (Thailand) Ltd	Ford	USA
12. BMW Manufacturing (Thailand) Co., Ltd	BMW	German
13. Thai-Swedish Assembly Co., Ltd. (Volvo)	Volvo	Sweden–Thailand
14. Scania	Scania	Sweden
15. SAIC Motor - CP Co., Ltd	GM	China–Thailand
16. Thonburi Automotive Assembly Plant Co. Ltd	Mercedes Benz and TATA	Germany–Thailand
17. Tan Chong (TC) Manufacturing	Fuso and Subaru	Malaysia
18. Thai Rung Union Car Public Co., Ltd	TR (previously assembling for Isuzu, Toyota, Nissan and Chevrolet)	Thailand
19. Bangchan General Assembly Co., Ltd (now owned by Phranakorn Automobile Group)	Daihatsu and previously assembling for BMW, Isuzu and Honda	Thailand
20. Mine Mobility Research Co, Ltd (owned by Energy Absolute Public Co., Ltd)	Mine (electric vehicle)	Thailand
21. Vera Automotive (scheduled to launch in 2017 but suspended)	Vera (electric vehicle)	Thailand
Motorcycle assemblers		
22. A.P. Honda Co., Ltd	Honda	Japan
23. Thai Suzuki Motor Co., Ltd	Suzuki	Japan–Thailand
24. Thai Yamaha Motor Co., Ltd	Yamaha	Japan
25. Kawasaki Motors (Thailand)	Kawasaki	Japan
26. Ducati Motorcycle (Thailand)	Ducati	Italy
27. BMW Manufacturing (Thailand)	BMW	Germany
28. Triumph Motorcycle (Thailand)	Triumph	United Kingdom

Source: Author's compilation, based on company websites.

Figure 2. Industrial parks and estates in Thailand



Source: Itoh et al. 2018: 7.

Over time, multinational enterprises began participating in the expansion of the local auto parts industry. In particular, multinational enterprise carmakers increased local procurement to strengthen their international competitiveness due to sizable trade costs for bulky parts and the need for close cooperation between auto manufacturers and parts suppliers in the production process (Athukorala and Kohpaiboon 2011: 10). Reflecting Japan's dominance in Thailand's automotive industry, several Japanese suppliers also set up assembly plants in country due to the high logistics costs of shipping large engines, seats and instrument panels (Munehiko et al. 2018: 98). To date, such global enterprises as Bosch, Denso, Magna and Continental, among others, have established parts factories in Thailand (Yongpisanphob 2019a: 1).

Along with the proliferation of parts suppliers, there has been a trend of geographic clustering of the industry, with parts suppliers located in surrounding areas of the assemblers (Munehiko et al. 2018: 99; Kuroiwa and Techakanont 2017: 33). Assemblers are linked to many parts suppliers, which are both foreign and domestically owned SMEs, and many new ones are located in areas around the assembly plants (Warr and Kohpaiboon 2017: 16). Several such plants are located in Bangkok and other central region locations, such as Ayutthaya, Pathumthani, Samut Prakan and Prachinburi as well as in the Eastern Seaboard (now rebranded as the Eastern Economic Corridor) provinces of Chachoengsao, Chonburi and Rayong (TAI 2019: 20; Munehiko et al. 2018).

Assembly plants are concentrated in the Eastern Seaboard area (Chonburi, Rayong and Chachoengsao provinces) in which Japanese and non-Japanese carmakers are located. Outside of the Eastern Seaboard, Toyota, Nissan and

Isuzu plants are also located in the outskirts of the Bangkok Metropolitan Area (Samut Prakan Province) while Honda plants set up in the middle region (Prachinburi and Ayutthaya provinces). Figure 2 shows locations of the industrial parks and estates in Thailand, with automobile assembly plants marked by the circled dots.

1.4 Value addition and value capture

Due to its capital- and technology-intensive nature, the automotive value chain is controlled by automakers and thus recognized as an automaker-driven network (ESCAP 2009). In general, automakers act as the standardizers who research, develop the car concept and design specifications. However, tier 1 suppliers can collaborate with the automakers in designing components.

A representative of the Federation of Thailand Industry confirmed that in Thailand the multinational enterprise carmakers are the ones who control the automotive supply chains. In practice, after a vehicle is designed outside Thailand, tier 1 suppliers, mostly Japanese companies, are given the car blueprints and design the auto parts and select domestic component makers. In other words, decision-making power is mostly concentrated among the carmakers and gets more diluted moving along the supply chain. Consequently, local parts makers are the price-takers without negotiation power. The highest-value elements involved in car assembly are therefore closely controlled or produced by brands. Table 2 shows the global picture of component parts, share of cost per vehicle, global market size and likelihood their production is outsourced (Pollack 2012).

Table 2. Component cost breakdown of a mid-range automobile

Component system	US\$ CPV	% of total content	Total market size (US\$ billion)	Outsourcing	Concentration	Growth
Engine	\$2 550	17.8%	\$195.9	▲ Low	▲ Low	High
Body & structural	\$2 475	17.2%	\$190.1	▲ Low	▲ Low	▲ Low
Electronics & electrical	\$1 805	12.6%	\$138.7	▲ Medium	▲ Low	▲ High
Interior	\$1 355	9.4%	\$104.1	▲ High	▲ Medium	▲ Low
Transmission	\$1 325	9.2%	\$101.8	▲ Low	▲ Low	▲ High
Axles, driveshafts & components	\$850	5.9%	\$65.3	▲ Medium	▲ Low	▲ Low
Climate control & engine cooling	\$735	5.1%	\$56.5	▲ High	▲ Medium	▲ Low
Suspension	\$500	3.5%	\$38.4	▲ High	▲ Medium	▲ Medium
Braking	\$450	3.1%	\$34.6	▲ High	▲ Medium	▲ Low
Steering	\$395	2.8%	\$30.3	▲ High	▲ Medium	▲ Low
Wheels & tires	\$400	2.8%	\$30.7	▲ High	▲ High	▲ Low
Fuel system	\$365	2.5%	\$28.0	▲ High	▲ Medium	▲ Medium
Passenger restraints	\$365	2.5%	\$28.0	▲ High	▲ Medium	▲ Low
Audio & telematics	\$335	2.3%	\$25.7	▲ High	▲ Medium	▲ Medium
Exhaust	\$300	2.1%	\$23.0	▲ High	▲ High	▲ Medium
Body glass	\$145	1.0%	\$11.1	▲ High	▲ High	▲ Low
Total	\$14 350	100.0%	\$1 102			

Note: Total market size was calculated using global production of 77 million units, as reported by J.D. Power-LMC. CPV=cost per vehicle.

Source: BOFA Merrill Lynch Global Research.

In interviews, both carmaker and supplier representatives concurred that profit margins are squeezed across the sector. Because automakers have high fixed costs (factories, tooling, labour contracts) and face fierce competition, their margins are thin even during good economic times. For instance, an original equipment manufacturer or tier 1 automaker with an 8 per cent operating margin is considered to be doing well. For lower-tier suppliers, margins are even leaner. Structurally, as the market has become global, the margins are also pressed by the global

competition from China, India and Viet Nam. Local suppliers face cost pressure from both ends: increased competition from foreign suppliers (especially Chinese suppliers), on one hand, and cost pressure from tier 1 multinational enterprises suppliers on the other.

Profits of automakers and their suppliers rise and fall with the level of new car sales, which is closely correlated to consumer confidence (Rosevear 2019). The interviews and discussions with industry stakeholders⁹ revealed that carmakers transfer the

9 Discussions with members of the Task Force on Promoting Socially Responsible and Sustainable Business in Auto Parts Supply Chains, 22 May 2020.

cost pressures downward. Therefore, SME suppliers face constant pressure to cut production costs. With high fixed costs, they have little room other than to aggressively control labour costs, which, in turn, significantly impacts employment outcomes and working conditions in the sector (resulting in temporary contracts and subcontracted workers). A supplier's anecdotal story offers a case in point for this analysis: According to an interview with the owner of a tier 2 supplier, once the company is chosen as a supplier, the customer sends a team to visit and learn about the work process in the factory. The goal is to figure out whether this supplier can lower the cost and price. Normally, customers have a 4 per cent cost-down policy, meaning that suppliers, which are in a weak bargaining position, are required to lower the production cost by 4 per cent every year.

Future industry transformations present both a challenge and an opportunity for suppliers in terms of value capture. Automotive companies specializing in software, technology enterprises, original equipment manufacturers or suppliers that recognize the opportunity and capitalize on it early are expected to gain the most.

At present, the value of an average automobile is 90 per cent hardware and 10 per cent software. The future value distribution will look very different when hardware's share drops to 40 per cent and the profit pool sinks, while more value will lie in the software (40 per cent) and content (20 per cent), including the apps that bridge and integrate the software and hardware (Gaenzle et al. 2016).

Counting every part down to the smallest screws, an internal combustion engine car has about 30,000 parts. The internal combustion engine has nearly 2,000 parts. However, there are only around 20 moving parts in an electric engine, so not only will auto assembly require fewer parts but electric vehicles will need much less maintenance. As electric vehicles take on a more important place in the market, the battery will become the major component in auto assembly, as opposed to the engine, and this is expected to consume up to 30 per cent of all production costs.

These changes will have an impact on supply chain governance and structure. Transformations will involve "new players" in the industry – tech companies, IT and data enterprises and specialized battery manufacturers – that will work in a "networked" or "circular" (as opposed to linear) supply chain (Leingchan 2018: 8, cited in Krungsri Research 2019). Ultimately, this evolution will alter the dynamics in the automotive value chain and force supply chain actors to work together in a more interconnected fashion and on more equal terms.

1.5 Current market and production trends

The Thai automotive industry has grown exponentially since its inception in the 1960s. In 1961, at the start of the industry's import-substitutions phase, only 525 cars were locally produced, out of a total of 6,080 units sold domestically (Kuroiwa and Techakanont 2017: 6). From the 1970s to the 1990s, Thailand developed the industry by imposing local content requirement policies that stipulated that manufacturers must source the majority of their parts locally (Techakanont 2011: 200–201). Local content requirements for engine manufacturers, for example, stipulated that at least 20 per cent of engine parts had to be produced locally beginning in 1989 and increase by 10 per cent each subsequent year to achieve 70 per cent local content by 1995 (Athukorala and Kohpaiboon 2011: 4). By the 1990s, the industry began transitioning to an export-facilitation phase as Thailand started to liberalize the policy environment surrounding the industry. In 1993, for example, the Government allowed full foreign ownership of production facilities (Warr and Kohpaiboon 2017: 16). Local content requirements were abolished in 2000.

Production capacity quickly expanded after 2000, as Thailand's automotive industry rapidly became a "global and regional manufacturing hub in East Asia" (Kuroiwa and Techakanont 2017: 9). There was a tenfold increase in production from 1989 to 2006, with 90 per cent of the growth coming from Japanese manufacturers (Athukorala and Kohpaiboon 2011: 6). With its export-oriented

focus, the industry's annual production capacity continued to expand to produce 2 million units in 2010 and 2.8 million in 2015 (Kuroiwa and Techakanont 2017: 7).

Automobiles have been Thailand's main export since 2012, with a value of around \$22 billion that year (Techakanont 2014: 21). With particular success attracting Japanese car manufacturers, Thailand is now the world's ninth largest auto producer (Warr and Kohpaiboon 2017: 1). With approximately 2 million vehicles produced yearly, the auto parts sector is crucial to the Thai economy (TAI 2021), the industry contributed 6.5 per cent of Thailand's gross domestic product.¹⁰ Now hailed as the "Detroit of Asia" due to its capacities and reputation as a car manufacturing hub in the region, Thailand is considered a success story among automotive industries in developing countries.

As in most modern global supply chains, few companies produce, distribute and sell products end to end. The car industry can be divided into two separate but connected value chains: vehicle assembly and auto parts.¹¹ Vehicle assembly enterprises make the final product, producing ready-for-retail light commercial vehicles, heavy-duty vehicles, buses and motorcycles. Vehicle assembly in Thailand includes both large multinational car manufacturers operating large plants and small Thai-owned assemblers producing for niche markets.

The larger foreign-owned vehicle assemblers are linked to numerous auto parts suppliers that tend to be small to medium-sized and include both foreign and domestically owned enterprises.¹² A large number of component parts go into assembling an automobile. Beyond the basic building blocks – engines and transmissions, there are the interior parts, such as instrument panels, seats, heating, ventilation and air-conditioning (Maverick 2020).

The auto parts sector constitutes a critical link in the wider automotive production supply chain and is the focus of this analysis. In Thailand, most auto parts are traded domestically, accounting for 65–70 per cent of the sector's total income (Krungsri Research 2019).¹³

There are two domestic markets for auto parts, according to market research carried out by Krungsri Research (2019):

- i. **Vehicle assembly:** demand for parts from manufacturers of new vehicles (called original equipment manufacturers – see section 2) has grown in line with the domestic vehicle production. This market now represents 30–40 per cent of the total domestic auto parts market. Vehicle manufacturers in Thailand use more than 80 per cent domestically produced parts, with the remainder tending to be specialist electronic parts, often imported from the manufacturer's parent company or a supplier of the parent company.¹⁴
- ii. **Replacement equipment manufacturers:** The remaining 60–70 per cent of the domestic market for auto parts is driven by the need for replacement and spare parts for existing vehicles. Unsurprisingly, growth in the replacement equipment manufacturers market tracks growth in the total number of vehicles registered in Thailand. Most replacement parts are sourced domestically, although Chinese imports currently account for 16 per cent of the value of the market and are a growing presence.

Exports contribute around 30–35 per cent of the auto parts sector's total income. Parts for vehicle assembly account for 80–85 per cent of exports and replacement markets, with 15–20 per cent exported for spare parts and replacements.¹⁵ Thailand is the centre of auto parts manufacturing in the region and an important player in the global

10 According to the World Economic Outlook April 2021 database, Thailand had a GDP of USD 413 billion in 2016.

11 The industries of interest in this study are ISIC 3410 "Manufacture of motor vehicles" and ISIC 3430 "Manufacture of parts and accessories for motor vehicles and their engines".

12 The latter includes companies assembling buses and certain types of trailer trucks, using imported new or used parts. These companies undertake little actual manufacturing activity within Thailand.

13 All the data in the remainder of this subsection are drawn from Krungsri Research 2019.

14 Examples of products in this category include the microcontroller chips, which are exported from Japan to Thailand.

15 The most important exports are parts for engines, electrical wiring, bodywork, windows, gears, tires and other rubber products (table 2).

sourcing of auto parts. In 2017, Thailand ranked first in the ASEAN zone for the export of all types of auto parts and fourteenth globally. By value, 28 per cent of Thai exports go to the ASEAN zone and predominantly to other production facilities in Malaysia, Indonesia and Viet Nam. Other export markets include production facilities in the United States (at 15 per cent of exports) and Japan (at 8 per cent).

Since the 1990s, Japan has become the largest source of Thailand's foreign direct investment (FDI). Average net FDI from Japan rose from \$510 million in the 1980s to \$5,418 million annually in the 2000s (Ghazali et al. 2011). In 2017, the top-three countries that invested in Thailand were Japan (at \$1.3 billion), Singapore (at \$403 million) and the United States (at \$275 million). Japanese FDI accounted for 47 per cent of the total \$2.8 billion (Thailand Business News 2018, cited in Tanchoun 2018). In 2018 and 2019, Japan was still providing the largest FDI investment in Thailand.

The automotive industry and auto parts sector receive the most FDI in Thailand, amounting to \$730.58 million in 2017 (BOI 2018a). Total asset value that year in the automotive industry was \$524.41 billion, with most investment made by tier 1 manufacturers (Tanchoun 2018: 4). The biggest investor in 2017 was General Motors. And the automotive industry was the largest recipient of FDI in Thailand, accounting for 37 per cent in 2018 and 32 per cent in 2019 (BOI 2019; BOI 2018a).

The current trend of investment shift from conventional vehicles to hybrid electric vehicles and battery electric vehicles was recently marked by the number of FDI projects approved by Thailand's Board of Investment. In 2018, for example, four of the ten biggest projects with investment of more than \$30 million were automotive related, two of which were electric cars. The four were the investment in hybrid electric vehicles production by the American-Japanese Auto Alliance (Thailand) Co., Ltd.; battery electric vehicle manufacturing by the Thai-Japanese Nissan Motors (Thailand) Co., Ltd.; car and small truck assembly plant by the Chinese-Singaporean Projen Holding (Thailand) Co., Ltd. and tire production by Chinese-Hongkong LLIT (Thailand) Co., Ltd (BOI 2018a).

1.6 Outlook and future transformations

Some analysts predict that the global car industry could change more in the next 10–15 years than it has changed in the past 50 years (Rosevear 2019). There are already significant transformations taking place, with the trend towards electric vehicles, the emergence of self-driving technology and new technology-enabled models of personal mobility upending the industry's long-established order. According to Volkswagen Chief Executive Herbet Diess, "The auto industry is in the middle of a far-reaching upheaval." The consultancy Bain & Company says that no auto companies "will survive in the form they exist today", underlining the need for radical transformation and innovation.

Dinsdale et al. (2016) envisioned four future states of mobility that will co-exist, with each having an impact on both the demand for cars and the types of automobiles produced: In future state 1 (incremental change), consumers continue to purchase traditional driver-driven cars. And original equipment manufacturers and dealers maintain their conventional roles. The future state 2 (a world of car sharing) has begun with the expansion of carsharing and ridesharing, such as Uber and Lyft. Many original equipment manufacturers have become players in the market. In the future state 3 (the driverless revolution), the autonomously driven-car is personalized, and the cabin becomes a multipurpose living or office space. And the future state 4 (a new age of accessible autonomy) allows consumers complete flexibility, providing them with access to on-demand mobility with the features and capabilities needed for a particular trip.

With its reputation as a reliable car manufacturing hub firmly in place, Thailand seeks to enter a new phase of automotive production focused on "next-generation" vehicles (BOI 2018b). These new automotive products include eco-cars, plug-in hybrid electric vehicles and fully electric vehicles. Reflecting a commitment to becoming a producer of the next-generation vehicle supply chain, the Thai Government established a target of 1.2 million electric vehicles in use by 2036 (Yongpisanphob 2019: 8). To produce these vehicles, auto manufacturers will adopt new automated production systems, robotics, 3-D printing, artificial

intelligence and digitization technologies. In 2017, the Government introduced a tax incentive covering electric vehicles that are assembled domestically and use batteries and components made in country (Tunmuntong 2017).

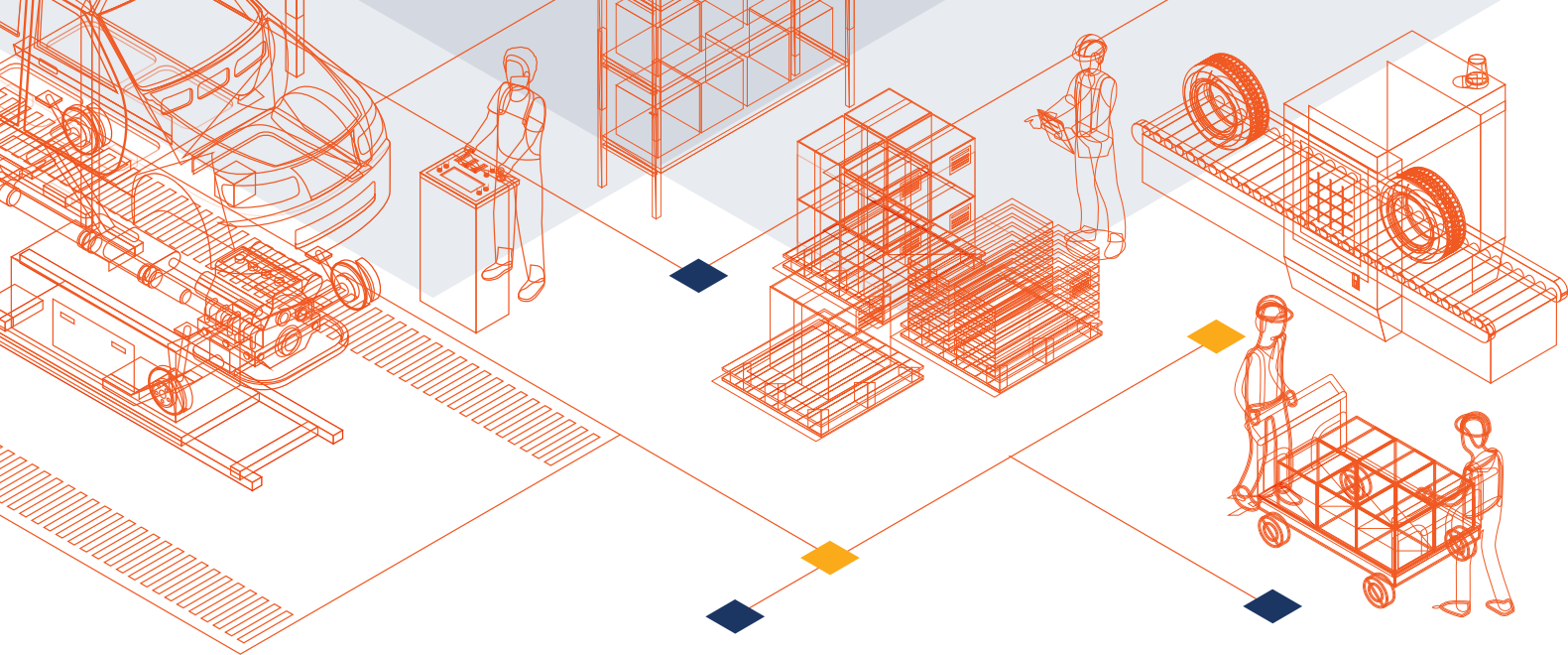
Before the COVID-19 pandemic, Thailand's auto parts sector was expected to see 3–5 per cent growth in income between 2019 and 2021 (Yongpisanphob 2019a: 6).

The growth of the next-generation vehicle market could also lead to changes in auto parts sector activities, reflecting new attention towards new cars and their different parts, such as batteries and electronic systems. Parts suppliers will face major adjustment issues. Not all parts currently produced will be required, and many new types of parts will be needed (Warr and Kohpaiboon 2017). For example, an estimated 816 of the 2,500 Thai-based companies producing engines, engine parts, radiators, fuel tanks and exhaust pipes risk becoming redundant with the increase in electric vehicles, which do not use them (Kulkolkarn 2019). These companies employ approximately 326,400 workers, or 36 per cent of the total workforce in the auto supply chain (Kulkolkarn 2019). According to Kulkolkarn (2019), the electric vehicle transition likely will increase demand for high-skill professionals, such as engineers, software developers and industrial designers, while the remaining semi-skill jobs for the production of electric vehicle will include testing, assembling and

monitoring of batteries, electric engines, power electronics and fuel cells. In general, shifts in the types of products and innovations in production processes will bring changes in the types of labour needed, posing threats to lower-skilled workers' employment.

Technological developments are thus likely to reshape the labour process, raising the threat of workforce contraction and transformation, which could push out existing lower-skilled labour. The next decade will be a major turning point for Thai auto parts manufacturers, which in the past focused strongly on developing the supply chain for internal combustion engines. This will have an impact on supply chain governance and structure.

The technology required to innovate and the information and communication technology, management and marketing will all be costly. As a report from Krungsri Research (2018) states, "New trends in the automotive sector will lead to a revolution in the entire automotive ecosystem: parts, players, process, and production chains." In short, future industry transformations present both a challenge and an opportunity for suppliers in terms of value capture. Automotive companies specializing in software are expected to gain the most: These companies could be technology enterprises, existing original equipment manufacturers or suppliers that recognize the opportunity and capitalize on it early.



2. Responsible business frameworks

2.1 Overview of responsible business

Responsible business refers to the way in which enterprises consider the impact of their operations on society and the environment.¹⁶ It entails corporate conduct beyond compliance with domestic law and calls on enterprises to respect workers' human rights and contribute positively to sustainable development. Such an approach to business can help enterprises to affirm their principles and values as an integral part of corporate management and to mitigate reputation risks and create value by, for example, opening up access to new markets.

The main **international instruments** that provide guidance on responsible business are:

1. The ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy Declaration. The MNE Declaration is the only international instrument that

has been adopted and supported by governments and employers' and workers' organizations. It provides direct guidance to enterprises (multinational and national) on social policy and inclusive, responsible and sustainable workplace practices based on international labour standards as well as guidance to governments and social partners in home and host countries of multinational enterprises.¹⁷

2. The **United Nations Guiding Principles on Business and Human Rights** are guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations.
3. The OECD Guidelines for Multinational Enterprises provide "non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards" (OECD 2011).

¹⁶ Also known as corporate social responsibility. The European Union defines it as "the responsibility of enterprises for their impacts on society", while the ILO definition includes: "a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. Corporate social responsibility is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law". In Thailand, it is often more related to charitable or philanthropic activities that have no relationship with core business operations, such as tree planting, scholarship giving and donations.

¹⁷ The ILO Declaration on Fundamental Principles and Rights at Work, although formally addressed to governments, has been referenced widely in codes of conduct and guidelines for businesses, as well as the OECD guidelines for multinational enterprises and the United Nations Guiding Principles. This Declaration makes it clear that the specified rights (freedom of association and the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation) are universal, and that they apply to all people in all countries, regardless of the level of economic development.

The MNE Declaration is the most comprehensive and authoritative of the three instruments concerning labour issues. Guidance contained in this Declaration of particular relevance to the auto parts sector includes:

- local sourcing and supplier capacity development (paras 18, 20, 37–40);
- consideration of impact of technology on employment promotion (para. 19);
- prevalence of employer-sponsored social security programmes (para. 22);
- prohibition and elimination of forced or child labour in their operation (paras 23–27);
- equal opportunity employment (paras 28–31);
- provide stable employment for workers (use of contracted labour and involvement in planning future operations that have an effect on employment) (paras 32–35);
- relevant training is provided for all levels of workers (on the job; participation in lifelong learning and vocational training and programmes led by government or social partners) (paras 37–40);
- wages (needs of workers and levels of productivity) (paras 41–42);
- occupational safety and health (risk prevention, mitigation and awareness) (paras 43–46);
- industrial relations (right to organize, collective bargaining, grievance mechanisms) (paras 47–68); and
- working time (hours and work–life balance) (para. 41).

Several **industry-led initiatives** have also emerged to tackle issues concerning sustainable automotive manufacturing. Prominent among these:

- Drive Sustainability, formerly known as the European Automotive Working Group on Supply Chain Sustainability, is coordinated by CSR Europe and consists of several automotive manufacturers working together – in addition to their own efforts – to enhance sustainability in their supply chains. While Drive Sustainability has a global focus, many companies in Thailand (aside from European brands) are not yet aware of it or do not use

it as an operational framework. This initiative developed guiding principles¹⁸ that outline expectations for suppliers on responsibilities, including for the environment, business ethics, human rights and working conditions. In terms of human rights and working conditions (in the same category), members and suppliers are expected to uphold the fundamental labour standards, including no child and forced labour, non-discrimination in respect of employment and occupation, equal employment opportunities, freedom of association and collective bargaining as well as compliance with local laws regarding safety and health, wages, benefits, working hours and harassment.

- The International Automotive Task Force (IATF) is a group of automotive manufacturers and their respective trade associations, formed to provide improved-quality products to automotive customers. IATF certification 16949 emphasizes the development of a process-oriented quality management system that provides for continual improvement, defect prevention and reduction of variation and waste in the supply chain. The goal is to meet customer requirements efficiently and effectively. The certification contains a commitment to corporate responsibility (including anti-bribery) and employee motivation and empowerment as well as operator (worker) safety. Although IATF primarily gears towards harmonization of different quality and management certifications in the global supply chains, it could be expanded to develop an industry-wide approach to respecting workers' rights because IATF members are major carmakers from the United States and Europe, some of which have already taken measures to address labour issues in their supply chains. For example, the Ford Motor Company includes a specific requirement to comply with basic working conditions (Ford Motor Company 2021), and Daimler requires suppliers to ensure a high level of safety and continuous improvement of working conditions (Daimler AG 2017).

18 See Automotive Industry Guiding Principles to Enhance Sustainability Performance in the Supply Chain, <https://www.drivesustainability.org/wp-content/uploads/2020/07/Guiding-Principles.pdf>.

- The Japan Auto Parts Industries Association published the *CSR Guidebook* and a CSR Check Sheet covering 30 items in eight areas (safety and quality, human rights and labour, environment, compliance, information disclosure, risk management, social contribution and implementation of corporate social responsibility throughout the company and business partners) (ILO Forthcoming: 27–29).

International trade unions and company-led initiatives

Several automotive multinational companies and the Global Union Federation have established international framework agreements (sometimes also referred to as global framework agreements) to ensure that companies adhere to the same standards in all countries where they operate. Unlike other initiatives and codes, international framework agreements are negotiated responsible business instruments. IndustriALL, for instance, signed international framework agreements with BMW, Bosch, Daimler, Ford Motor Company, Umicore, PSA Peugeot Citroën, Renault, Saab and Volkswagen. The first five companies mentioned have operations in Thailand. The global framework agreements generally commit the carmakers to comply with the ILO fundamental Conventions along with provisions on relevant issues, such as remuneration, working time, occupational safety and health and the work–life balance. The framework agreements also commit the signatory companies to support and encourage their suppliers to do the same.

2.2 Concepts and practices of responsible business in Thailand

The concept of responsible business is reflected in various terms in Thailand, including but not limited to corporate social responsibility; sustainability, environmental, social and corporate governance; business and human rights; and creating shared value. This section discusses the local cultural context and evolving meanings of corporate social responsibility, which is one of the main frameworks of responsible business.

There are two caveats regarding the use of this terminology in Thailand: First, because corporate social responsibility is often associated with volunteerism and philanthropy, it is a loaded and controversial term, especially viewed from the civil society perspective. Second and due to more recent developments, in practice the business sector increasingly prefers other perhaps more neutral concepts, such as sustainability or corporate governance.

2.2.1 Development of corporate social responsibility in Thailand

Corporate social responsibility in Thailand is loosely understood as social responsibility and is rooted in philanthropy (Rajanakorn 2012; Prachayakorn 2010). Its conceptualization is also often associated with volunteer, governmental and charitable work. Scholars have historically credited the contributions of the *sufficiency economy philosophy* put forward by the late King Rama IX to the corporate social responsibility and sustainability agenda in Thailand (Mongsawad 2010). In this vein, corporate social responsibility engagement among Thai business is often linked with the goals of building good will and thus positive corporate image (Prayukvong and Olsen 2009). Surveys of Thai companies have found that although many companies had corporate social responsibility policies, actual awareness and implementation of them were low (Prachayakorn 2010; Yodprudikan 2010).

Thai companies often view responsible business through the lens of environmental impacts and potential conflicts with surrounding communities. Some academic papers argue the Government's promotion of automotive clusters via industrial estates led to conflicts over land rights and environmental impacts between companies and communities (Doner 2009). Our interviews with the Department of Industrial Works support the argument that companies involved in such controversial projects view responsible business (or corporate social responsibility) as a way to reconcile with the communities; consequently, resulting programmes tend to be charity-oriented.

Corporate social responsibility in Thailand has developed over time. Srisuphaolarn argued that, prior to 2007, corporate social responsibility programmes within Thai companies could be categorized as “reactive corporate social responsibility” (Srisuphaolarn 2013). They relied heavily on donations and contributions to surrounding communities or on “turn-key corporate social responsibility”, utilizing a company’s resources in project-based altruistic

appeals. In both cases, corporate social responsibility activities were not relevant to the company’s core operations. Over time, Thai companies began to develop corporate social responsibility strategies more related to their core operations (table 3). However, the corporate social responsibility programmes are still recipient-based and not yet integrated into core competencies per se.

Table 3. Characteristics of Thai corporate social responsibility

Characteristics/ CSR pattern	Reactive CSR	Turn-key CSR	Issue-based CSR	Recipient-based CSR	Integrated CSR
Company's role	Be timely responsive to request of donation	Reduce/relief immediate social problems	Reduce/relief social problems	Improve standard of living, environments	Improve standard of living, environments
Means	Things/money	Company's resources, especially implicit assets – knowledge, expertise, and competency	Company initiated, independent project(s)	Company and community collaboration	Company products and process
Outcome	Short-term need fulfilment	More effective/efficient project management	Well-being, better standard of living	Further area development by community initiatives	Greener product/process: product that contribute to better society
Company's role	Donor/giver	Assistant to the project	Project initiator and manager	Coach/supporter	Producer and contributors via products
Parties involved	Representatives of the two organizations (receiver/donor)	Benefit recipient group and company with company as main actor	Benefit recipient group and company with company as main actor	Group and company with high interaction	Company and society as a whole

Note: CSR=corporate social responsibility.

Source: Srisuphaolarn 2013.

The Stock Exchange of Thailand and the Securities and Exchange Commission contributed early to the introduction of corporate social responsibility in Thailand by establishing an associated award for listed companies as early as 2006 and then created the Corporate Social Responsibility Institute in 2007 (Sharma 2013; Srisuphaolarn 2013). In 2014, the Stock Exchange of Thailand joined the United Nations Sustainable Stock Exchanges initiative, making Thailand the first South-East Asian

country committed to promoting sustainability within its capital markets. The Stock Exchange of Thailand publishes an annual list of companies that fulfils their sustainability, environmental, social and corporate governance performance criteria (Zembrowski 2019). It also drives the sustainable business agenda by providing training and tools on sustainability, environmental, social and corporate governance and disclosure.

As the regulator of the capital market, the Securities and Exchange Commission has contributed extensively in recent years to the sustainability concept, having gained much traction among Thai corporations. Its Sustainability Development Roadmap, established in 2013, incorporates the corporate social responsibility concept. The Commission also has required listed companies to disclose corporate social responsibility policies and activities in their annual statements (Issarawornrawanich and Wuttichindanon 2019: 322). This has led Thai companies to increasingly refer to sustainability instead of corporate social responsibility. The Stock Exchange Commission issued a new Corporate Governance Code in 2017 to outline good practice principles for boards of directors, as the leader and governing body of a listed company, to fulfil all these expectations. Principle 5.2 includes social responsibility towards employees (fair wage and benefits, occupational health and safety, training, skills development) and suppliers (inform and verify that suppliers respect human rights and treat workers fairly).

Focusing on raising business awareness of sustainability via the framework of environmental, social and corporate governance disclosure, it requires publicly listed companies to submit a “56-1 One Report” to disclose the company’s commitment to business sustainability, corporate governance and responsible environmental and social footprints, including carbon emissions and human rights. Labour rights are the main topics in the sustainability section. In the manual for reporting, companies are encouraged to have human rights policies based on the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the MNE Declaration.

2.2.2 Responsible business initiatives in Thailand

On the side of **government-led** initiatives, Thailand’s Cabinet adopted the National Action Plan on Business and Human Rights in October 2019. The plan is structured around four priority areas: (i) labour; (ii) community, land, natural resources and the environment; (iii) human rights defenders; and (iv) cross-border investment and multinational enterprises (UNDP 2020). For each priority area or pillar, the plan provides an

assessment of the business and human rights situation and challenges and provides an action plan to respond to those challenges, including activities, responsible agencies, timelines and indicators linking to the national strategies and the Sustainable Development Goals.

For labour issues, the action plan includes activities related to ratification of ILO Conventions, amendment of laws and policies, labour management systems, fair recruitment, fair wages, capacity development for workers, eliminating discrimination in employment and the workplace, suitable working conditions, access to health care, protections for children of migrant workers, protection from human trafficking and forced labour, protection from labour replaced by technology, protection of labour in supply chains, Thai labourers working abroad and various tools or systems for the business sector. One of the activities entails conducting a study on the MNE Declaration and development of operational guidelines to promote it.

The Department of Industrial Works within the Ministry of Industry also developed a corporate social responsibility framework in 2008 that it promotes to industrial enterprises. Since 2013, the Department of Industrial Works has published and regularly updated its *Guideline for Standard of Corporate Social Responsibility*, which serves principally as a companion document to the coaching programme facilitated by the Department officials and operated by an external consultant. Although the manual contains useful information of terms and lays out several ways in which companies could integrate the framework with policies and operations, the overall goal is success of the companies as participants in the Corporate Social Responsibility–Department of Industrial Works programme.

That programme is divided into beginner and advanced levels, and its major incentives are the Corporate Social Responsibility–Department of Industrial Works certificate and award, often used commercially as an official recognition of a company’s operational standards and trustworthiness. Nevertheless, owing to its participation cost and time, the programme is more accessible to larger companies with human and financial resources than SMEs.

The Bureau of Labour Standards Development under the Department of Labour Protection and Welfare within the Ministry of Labour leads the issuance and implementation of the Thai Labour Standards, which is a voluntary corporate social responsibility labour management standard for employers to improve their labour management system. It is officially known as TLS 8001, which was launched in 2003 and has been updated to the recent version, TLS 8001–2020 (DLPW 2020). It refers to the Thai labour laws, ILO instruments (such as ILO Conventions and Recommendations, the MNE Declaration, the Declaration on Social Justice for a Fair Globalization and the ILO Code of Practice on HIV/AIDS and the World of Work), international human rights standards and international standards for trading companies, such as the Social Responsibility Standard SA 8000: 2008 and the Social Responsible Guidance on Social Responsibility (ISO 26000: 2010). The primary goals are to encourage national companies, especially exporting companies, to voluntarily use the Thai Labour Standards' guideline for self-declaration or auditing to receive the certification. There are two types of evaluation systems: (i) self-declaration, in which companies conduct a self-evaluation and their names are listed on the website of the Bureau and (ii) evaluation through certification carried out by either the Department of Labour Protection and Welfare or an independent inspection and certification body, depending on the level of certification (Ministry of Labour 2020).

During the first five years of its implementation, the Government targeted export companies by offering generous financial support. However, the

Thai Labour Standards programme has not gained much traction among Thai companies, especially SMEs. Because the standards expect more than the domestic laws, most SMEs are either not willing to abide by them or unable to bear the high operational and adjustment costs.¹⁹ As of 2021, there are 1,263 companies participating in the Thai Labour Standards programme. According to Suttawet and Yawichien, the Thai Labour Standard's unpopularity among enterprises is primarily due to the lack of incentives and inability to comply with the more restricted use of overtime.²⁰

2.3 Responsible business practices in the auto parts sector

In the automotive industry, almost all large global brands have a comprehensive approach to managing supply chain sustainability. The auto parts sector tends to focus on environmental sustainability, workplace environment and occupational safety issues. Table 4 maps the topics addressed in the corporate social responsibility policy of some brands that were highlighted during interviews for this study.

Tier 1 companies are likely to carry out responsible business activities and have established compliance and sustainability departments in addition to sourcing departments. Compliance departments mainly focus on safety and productivity issues (Issarawornrawanich and Wuttichindanon 2019; Welford 2005; Chambers et al. 2003), which are the first issues required by customers to be audited.

19 Interviews by researchers in December 2019.

20 *ibid.*

Table 4. Corporate social responsibility policies in Thailand's automotive industry

Carmaker	Policy
Toyota	Toyota (Thailand) Corporate Social Responsibility Code of Conduct consists of 3Rs and 4Is: 1. Reduce CO₂ 2. Reduce energy usage 3. Reduce waste 4. Improve happy and green workplace 5. Improve employee and stakeholder satisfaction 6. Improve employee's participation in corporate social responsibility activities 7. Improve Toyota Motor Thailand's corporate social responsibility network
Honda	Honda (Global) Code of Conduct:²¹ 1. Relationships with customers 2. Relationships with business partners 3. Relationship with colleagues or work environment a. Communication in the workplace b. Respect of human rights: "I will respect fellow associates, interact with them in a sincere and appropriate manner, and never engage in any form of harassment or unjust, discriminatory behavior in the workplace." c. Safety and health Honda Thailand Foundation focuses mainly on charitable and philanthropic activities.
Mitsubishi	Mitsubishi (Thailand) Four policy themes: 1. Support for the next generation 2. Traffic safety 3. Environment preservation 4. Participation in local communities.
Isuzu	Isuzu Motor Company (Thailand) Limited ²² 1. Endorsement of educational activities 2. Environmental conservation activities 3. Community and social development activities (such as provision of assistance and relief to people affected by natural disasters)

As more institutional investors embrace the Sustainable Development Goals, national and global trends in sustainable investing are affecting large tier 1 suppliers listed on public exchanges, such as the Thai Stock Exchange. Listed companies are now expected to integrate sustainability,

environmental, social and corporate governance factors into their business operations and disclose their performance. Sustainability, environmental, social and corporate governance disclosure is crucial for auto assembly and auto parts companies seeking to attract more investors.

21 See Honda Code of Conduct. Available at: https://global.honda/content/dam/site/global/about/cq_img/codeofconduct/pdf/HondaCodeofConduct_en.pdf.

22 See Isuzu's Corporate Social Responsibility, <https://www.isuzu-motors.co.th/en/csr-and-activity/>.

The Sustainability Accounting Standards Board – an international non-profit organization that sets financial reporting standards – helps investors by fostering company disclosures of sustainability, environmental, social and corporate

governance and other sustainability data that are comparable, consistent and financially material.²³ The Sustainability Accounting Standards Board has identified priority sustainability issues for the sector (table 5).

Table 5. Material sustainability, environmental, social and corporate governance issues relevant to investors in the auto and auto parts sectors

	Auto sector	Auto parts
Environmental	■ Material efficiency and recycling	■ Energy management ■ Materials efficiency and waste management
Social capital	■ Product safety	■ Product safety
Human capital	■ Labour relations	
Business model and innovation	■ Fuel economy and use-phase emissions	■ Product lifecycle management
Leadership and governance	■ Materials sourcing	■ Materials sourcing ■ Competitive behaviour

Lower-tier (tier 2 and tier 3) companies do not produce major components for brands and thus are not key suppliers. Tier 2 suppliers also can be classified as tier 1, depending on the buyer and specific component. So, it may be that some initiate their own responsible business initiatives. In practice though, Thai companies tend to mirror international practices by focusing primarily on occupational safety and neglecting workers' other rights (Issarawornrawanich and Wuttichindanon 2019; Welford 2005; Chambers et al. 2003).

2.4 Decent work in the sector

This section provides an overview of decent work performance in Thailand's auto parts sector by topic areas of the MNE Declaration.

Decent work involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, to organize and to participate in

the decisions that affect their lives. It also ensures equality of opportunity and treatment for all women and men. In short, it is productive work for women and men in conditions of freedom, equity, security and human dignity. Decent work for all is the focus of Sustainable Development Goal 8.

There are four pillars of the ILO Decent Work Agenda,²⁴ with gender equality a cross-cutting theme:

- 1. Job creation:** generating opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods.
- 2. Rights at work:** recognizing and respecting the rights of all workers, particularly disadvantaged or poor workers who need representation and laws that work for their interests.
- 3. Social protection:** policies and programmes designed to reduce and prevent poverty and vulnerability. Social protection includes benefits for children and families, maternity,

²³ Financially material environmental and social factors could have a significant impact – both positive and negative – on a company's business model and value drivers, such as revenue growth, margins, required capital and risk.

²⁴ See <https://www.ilo.org/global/topics/decent-work/lang--en/index.htm>.

unemployment, employment injury, sickness, old age, disability and survivors as well as health protection.

4. **Social dialogue:** all types of negotiation, consultation or simply exchange of information on issues of common interest in the world of work. It can exist as a tripartite process, with the government as an official party to the dialogue, or it may consist of bipartite relations only between labour and management (or trade unions and employers' organizations), with or without indirect government involvement. Involving strong and independent workers' and employers' organizations through social dialogue, workplace cooperation and collective bargaining is central to increasing productivity, preventing and resolving disputes at work and building cohesive societies.

The following presents analysis of the auto parts sector in relation to the four labour issue headings within the MNE Declaration.

Employment

■ Employment promotion

With growth in the automotive industry has come growth in the labour market. Employment thus increased from 121,576 in 2001 to about 300,000 people in 2011 (Techakanont 2014:

21). Employment in final assembly and auto parts in 2017 exceeded 250,000 workers, mainly concentrated in tier 2 (Warr and Kohpaiboon 2017: 1). In 2019, the automotive industry employed around 890,000 workers, of which 590,000 were in the auto parts sector, 100,000 in vehicle assembly and 200,000 in sales (Kulkolkarn 2019: 56).

Globally and despite the growth in the complexity of vehicles and auto parts since the 1970s, labour input has fallen. In contrast, the amount of software code within vehicles continues to grow, with up to 100 million lines in many modern vehicles. This may have caused a significant skills shortage because only a minority of workers have a post-secondary education. In 2017, an estimated 62 per cent of the Thai workforce had an education level of middle school or less (DOE 2018).

As table 6 illustrates, although the proportion of workers with an education lower than secondary school to the level for the overall workforce has shrunk over time, in 2011, the Thai automotive workforce had a large number of workers with a lower-secondary school level of education or less. These proportions appeared to be more pronounced moving down the supply chain, from automobile assembly to auto parts and components to motorcycle assembly.

Table 6. Education level of the Thai automotive workforce, 2001 and 2011

Education level	Manufacturing sector (%)			
2001	Automobile assembly	Autoparts & components	Motorcycle assembly	Total
Lower secondary or less	45.8	50.2	71.1	52.1
Upper secondary	20.9	16.4	10.6	17.0
Vocational education	7.7	7.4	8.4	7.7
Higher vocational education	15.8	10.1	5.4	11.2
Higher education	9.8	12.9	4.6	10.6
Unknown		2.9		1.5
Total	100	100	100	100
2011				
Lower secondary or less	29.0	41.5	57.3	39.9
Upper secondary	19.8	26.8	19.3	25.0
Vocational education	11.5	7.1	3.8	7.8
Higher vocational education	18.1	14.4	8.8	14.8
Higher education	20.9	9.7	10.8	11.9
Unknown	0.8	0.5		0.6
Total	100	100	100	100
Education level	Manufacturing sector: Number of persons			
2001	Automobile assembly	Autoparts & components	Motorcycle assembly	Total
Lower secondary or less	17 808	32 054	13 434	63 294
Upper secondary	8 128	10 499	2 001	20 628
Vocational education	2 987	4 729	1 589	9 305
Higher vocational education	6 135	6 457	1 021	13 613
Higher education	3 789	8 250	862	12 901
Unknown				1 835
Total	38 845	63 824	18 907	121 576
2011				
Lower secondary or less	17 204	92 935	9 533	119 672
Upper secondary	11 778	60 047	3 212	75 037
Vocational education	6 927	15 951	631	23 409
Higher vocational education	10 734	32 213	1 462	44 409
Higher education	12 387	21 660	1 800	
Unknown	454	1 207		
Total	59 384	224 013	16 638	300 034

Source: ILO 2014: 22.

■ Social security

In 2019, the automotive industry employed around 890,000 workers, of which 590,000 were in the auto parts sector, 100,000 in vehicle assembly and 200,000 in sales. As of April 2020, approximately 380,802, or 43 per cent, of the auto parts total workforce had registered in the social security fund (Kulkolkarn 2019: 56). Contract and agency labour is prevalent due to legal loopholes and lack of legal protection as well as tight competition and widespread use of the just-in-time inventory system and lean production methods. While some analysts contend that lean production increases labour input and leads to an upskilling in the production workforce, there is evidence that this has not been the trend in countries such as the United States, where there has been more detailed, data-driven studies into the phenomenon (Womack et al. 1990). The prevalent use of contract and agency labour also leads to increased informalization of work and job insecurity as well as difficulty for workers to fully access social protection.

Migrant workers are prevalent in the auto parts sector. In one large auto parts group interviewed for the study, for instance, the majority (70 per cent) of workers were Cambodian. Migrant workers also lack access to social security. While migrant workers receive wages and benefits required by law, because of their fixed-term contracts, it remains unclear how they fully access such social benefits as pensions after they return to their country of origin. Although outside the realm of social security, migrant workers, are provided with accommodation while employed in Thailand; however, the costs are usually deducted from their wages in which case it cannot be considered an additional benefit.

■ Skills development

Trainees and interns exist across all tiers in the sector. In theory, these closely supervised work experience programmes are blended with classroom learning and overseen by the Office of the Vocational Education Commission. In

reality, trainees work as if they are workers – they must work overtime, work in shifts and usually are not supervised by the trainer as required. Because they are not employees, they cannot be registered under the social protection system (for social security and workmen compensation) and cannot join a union. The trade union assessment is that trainees are subjected to a worse situation than subcontracted workers. And there have been cases of students younger than 18 who had to do hazardous work or work at night; if they refused to work, they would not “graduate” from the placement.²⁵

■ Risks of forced or compulsory and child labour

In the Thai auto industry, there have been reports of recruitment fees being deducted from workers' wages (Weerasombut, 2017), which is prohibited in the international labour standards and increases the risk of workers remaining in debt bondage.

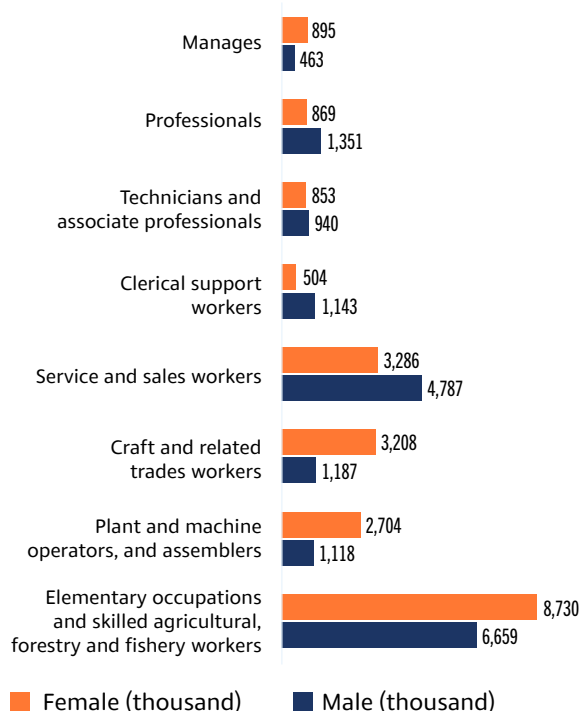
■ Equality of opportunity and treatment

Thailand's annual report on employment by sex and occupation gives an overview of gender representation in industrial work. Occupations relevant to auto assembly and parts manufacturing include technicians and associate professionals, plant and machine operators and assemblers. In terms of technicians and association professionals, female and male proportions were almost equivalent, with the number of female technicians slightly smaller than the male counterparts. This proportion is actually similar to the general male and female workers proportion within manufacturing factories, at 49.8 per cent and 50.2 per cent, respectively (NSO 2018).²⁶ In the group of plant and machine operators and assemblers, women accounted for more than 60 per cent of the total number in 2017. Considering female and male workforce participation rates, which were 59.4 per cent and 76.2 per cent in 2019, respectively (NSO 2020), it is fair to say that women workers are generally over-represented among the operators and assemblers.

25 Based on interviews in December 2019.

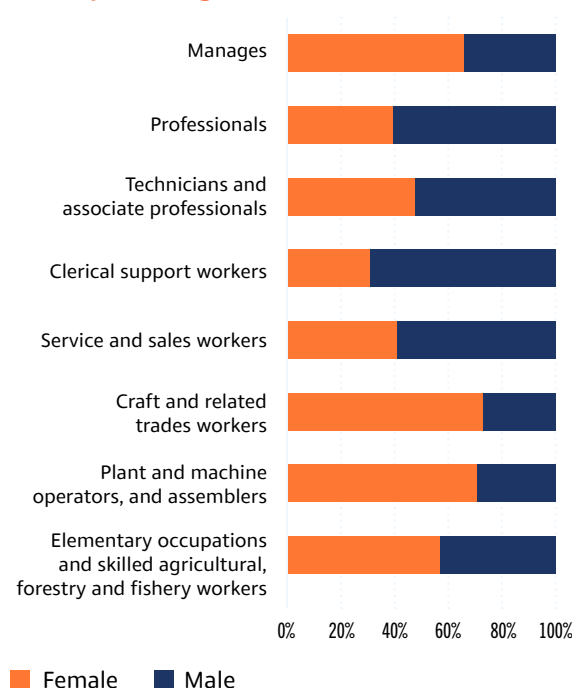
26 Industrial Census.

Figure 3. Annual employment in Thailand, by sex and education, 2019



Source: ILOSTAT, www.ilo.org.

Figure 4. Employment, by sex and education, 2019 (percentage)



Source: ILOSTAT, www.ilo.org.

Despite women's over-representation in the operational types of work in general, women are not the majority workforce in heavy industries, such as automotive and auto parts. Although data disaggregated by sex are not available for the automotive industry and the auto parts sector, gender stereotypes seem to be significant in determining which jobs go to men and which to women. Interviews with tiers 1 and 2 auto parts producers revealed that women comprise only 15–20 per cent of the workforce, mainly engaged in white-collar or professional jobs, such as in accounting, sales or the human resources department rather than in operations. An interview with a manager with a tier 2 company producing aluminium die casting and plastic moulds for cars highlighted the gender bias in the job market that seems to be present in the industry, even though women are needed for more detailed tasks in the factory. In his misguided view, it was not appropriate for women to work in the factories in which men are the majority; and they viewed women as mainly responsible for household chores, such as cooking and raising children.

By not working to achieve gender equality, some companies operating in the sector could be missing out on a competitive advantage.

Concerning pay equity, Wathanamsuk surveyed 200 male and 200 female semi-skilled workers from 50 automotive plants located in one of the private industrial estates in the eastern province of Chachoengsao. The study found that women workers were paid less than their male counterparts across the employment period, spanning the probation, early career and after periods (Wathanamsuk 2011). On average, women's wages amounted to 92.8 per cent of their male counterparts pay; this gap is much smaller than the average gap across industries, where Thai women earn 77 per cent of their male counterparts' earnings for similar work. The same study also revealed that no women held managerial and supervisory positions.

Instances of gender discrimination have been reported in electronics and rubber plants. There are also reports of dismissals of pregnant women: If workers are pregnant, companies will “return” workers to the subcontracted companies, which will then dismiss them. In other cases, workers may be asked to work in another area to pressure them to leave.²⁷ This happens mostly in tier 3 companies.

■ Security of employment

As a general trend, automotive enterprises in Thailand adopted flexible employment systems for production after the 1997–98 financial crisis, simultaneously hiring both permanent and temporary workers, the latter primarily for less skill-intensive jobs (Kohpaiboon et al. 2010: 109). According to our interviews, certain brands among carmakers and top-tier companies employed more flexible workers than the others.

The use of contract and agency labour is commonplace in automotive supply chains, even among the tier 1 suppliers. Contract and agency labour accounts for an estimated 40–50 per cent of the total workforce in the automotive industry, which appears closer to 70 per cent in some companies.²⁸ These workers are generally found in the production line or logistics rather than in office or technical roles.

In 2009, the ratio of temporary to total workers in the entire industry was 23 per cent. However, the ratio associated with car assembly was higher than auto parts suppliers,²⁹ perhaps due to the fact that auto parts suppliers are also more likely to use migrant labour.

Electronics companies producing and procuring parts for vehicles (integrated circuits and LCD screens) use a particularly high percentage of contract and agency labour. One of the fundamental issues is that companies often provide subcontract workers with different benefits and welfare than full-time workers (Supasitthumrong 2014). Most important, the law authorizes employers to calculate workers' minimum wage based on 26 rather than 30

days, which creates less of a money-wage base for workers' pension. In addition, workers do not receive holiday pay. To make matters worse, since 2015, certain companies have unilaterally modified the terms of employment from four to six working days per week, replacing three shifts of eight hours with the two-shift system of 12 hours each (Schipper 2015). With this change, companies calculate the wage by using 20 days, and workers lose the overtime pay that they previously received. Although a petition was filed with the Department of Welfare and Labour Protection in 2013, the officials ruled that these new terms do not violate existing laws, contradicting the opinions of the national human rights commissioners (Manee 2019).

The national human rights commissioners also have found that the new terms reduce the income of daily workers and hence amount to a change in working conditions that is not favourable to employees. The new terms amount to forcing employees to do overtime work and affect opportunities for workers, their resting hours and even their cultural and religious practices precluded by working on holidays. They also affect the severance pay and benefits under the social security schemes (Manee 2019).

History has shown that temporary workers have been the most vulnerable to retrenchment amid economic downturns. This is due partly to the nature of temporary employment because enterprises are not obliged to pay compensation when retrenching temporary workers with a contract shorter than 120 days. When the global recession hit in 2008–09, 64 per cent of those who were retrenched were temporary workers, and most were semi-skilled production workers. Workers experienced a 41 per cent contraction in real income after the global crisis, impacting many families who lost remittances from internal (rural–urban) migrant workers. These impacts were not always due to being laid off but often came as a result of a reduction in hours. Reducing working hours can have the same effect of retrenchment because

27 For gender-based discrimination in Thailand, particularly for migrant workers, see Fair Labor Association 2018.

28 Interviews conducted in December 2019.

29 *ibid.*

rural–urban migrants return home if they do not have sufficient hours to earn enough to make the distance worthwhile (Kohpaiboon et al. 2010). On the other hand, according to our interviews, overtime is a common issue where SMEs failed audits is because Thai laws allow workers to work a maximum of 84 hours per week, far in excess of most codes of conduct, which cap hours of work at 60 hours or, in line with international labour standards, at 48 hours, with up to 12 hours of overtime on an exceptional basis.

Skills and training

The automotive industry has experienced labour shortages for years, with a labour shortage of 3–4 per cent in 2011, the most serious being among the group of unskilled workers with low education levels (production line operators) (Techakanont 2014: 28). Skilled technicians and engineers have also been in short supply, with a shortfall of 12,500 such workers in 2011. In addition, parts suppliers, especially those in tier 2 and tier 3 companies, have reported pressures from the new minimum wage requirements along with a labour shortage (Techakanont 2014: 31). Since January 2013, the enforcement of the universal minimum daily wage rate of 300 Thai baht increased the average wage level by 80 per cent. Given the labour shortage in the sector, the parts suppliers felt much more competitive pressure from the raise than the original equipment manufacturers and tier 1 companies. In response, some suppliers have started using unskilled migrant labour from Cambodia and Myanmar to cope with the labour shortages, which raises some issues with language and communication in the labour process (Wasprasertsuk et al. 2015; Techakanont 2014: 37).

Labour shortages among both skilled and less skilled workers are expected to increase in the automotive industry due to general demographic trends of Thailand's ageing society. Thailand Automotive Institute and Ministry of Industry recognize the need to develop the skills of operations personnel and specialists, such as engineers, researchers and executives, and to promote technology transfer from Japan to Thailand (TAI and MOI 2012).

Analysts have also identified the problem of skills mismatch, which is expected to worsen with the expansion of production and the development of new car and parts technologies (Techakanont 2014: 32). In particular, there is a “bottleneck of skilled labour supply” that could impact the capacity of the industry to meet projected output (Warr and Kohpaiboon 2017: 27). The near future transition towards electric and autonomous vehicles will necessitate skills development, automation, new machinery and advancement up the value chain to value-added products and parts. “Accelerating productivity growth and skills development [is] critical in addressing the challenges fraught with the labour shortage and skills mismatch. The structure of labour demand in the automotive industry will need to change to encompass more semi-skilled and high-skilled labour” (Techakanont 2014: 38). In contrast to such analysis, the Board of Investment claimed that Thailand had an “abundance of skilled labour” – more than 700,000 workers in all parts of the auto industry in 2016. It also forecasted that 61 per cent of workers in the industry will be highly skilled by 2021 (BOI 2017).

There is also an increasing division of skills between the old- and new-generation products in the automotive industry. Cody (2015) referred to a 2009 study by Loire et al. (2009) that found that electric components and software are the driving forces behind developments in the automobile industry, making software skills the most important skill for future automobile workers. Such developments do not necessarily mean a substantial increase of workers in production. Demand for white-collar workers in the form of engineers and programmers has increased while the overall share of production workers has fallen. Recently, for example, Daimler and Audi announced more than 20,000 job losses in the first real signs of the huge job demise to come as the industry transitions from combustible engines to electric vehicles (Miller and Campbell 2019).

Conditions of work and life

Top-tier managers interviewed for this study were candid about the substandard conditions for subcontracted workers, high attrition rate of workers and low trust levels. The way in which carmakers normally reduce costs (such as by shifting to contract and agency labour and short-term employment of migrant workers) fuels the decent work deficits and mistrust. Agency workers are usually paid a daily wage, with partial entitlement to benefits. Contractors receive basic training on safety, product quality and processes but have no career path or avenue to future employment.

■ Wages, benefits and conditions of work

Reliable data on wages within the auto parts sectors were not available for this study. Most interviewees suggested that operational workers in large auto assembly companies and in top-tier suppliers tend to receive a higher salary level than the domestic standard. Thai-owned auto parts suppliers are mostly smaller and more labour-intensive, measured by output per worker. However, this picture is complicated by the fact that carmakers and suppliers use overtime arrangements and agency workers, so predictability and stability of pay may be an issue for workers.

■ Safety and health

Based on our interviews with the top-tier suppliers, occupational safety and health is one of the areas where progress has been made over the years. The manufacturing process of auto parts is inherently hazardous and prone to accidents and hence subject to more reporting regulations. And occupational safety and health management is much more systematized and thus relatively easy for buyers to monitor. Occupational safety and health protection is often the highest priority of buyers concerning decent work, and they require local suppliers to improve. Large tier 1 suppliers to major

carmakers have already put in place a system to upgrade their occupational safety and health practices. Meanwhile, local SMEs generally still have room to improve.

Industrial relations

■ Freedom of association and the right to organize

As a whole, organized labour in Thailand is small in both scope and scale due partly to negative images of labour unions and the lack of balanced public education on unionism. In 2015, out of 37.8 million people in the total workforce, only an estimated 616,169 workers were members of labour unions. Organized labour thus represented only 1.6 per cent of the total workforce (SERC 2015). Among wage workers entitled by the Labour Relations Act to unionize, approximately 14 million workers, or 4 per cent, were organized in 2015.³⁰ This estimate is similar to ILO data from 2016 that put the trade union density rate at 3.5 per cent.³¹ A likely impediment to organizing is the high level of workers in the informal sector (20.4 million workers³²), whose employment is both precarious and hidden from labour inspectors, deterring workers from exercising their right to organize.

In past years, the Government's tightening of political freedom and freedom of expression in particular led to the worsening of workers' situation in terms of freedom of association and assembly in the workplace. In 2019, the International Trade Union Confederation lowered its ranking of Thailand from level 4, which is a systematic violation of labour rights (in 2018) to level 5, which indicates that there is no guarantee of labour rights. When workers generally cannot enjoy the rights to representation and collective bargaining, a violation of workers' rights at the workplace level can easily occur.

30 Labour historian Sakdina Chatkul Na Ayudya (2010) estimated in 2010 that only 330,000 workers (3.7 per cent) in the private sector were unionized. The Ministry of Labour estimated 616,169 workers in 2015. Given the total number of 15 million in the private workforce, the estimate was around 4 per cent.

31 ILOSTAT. Available at: <https://ilostat.ilo.org/topics/union-membership/>.

32 See informal employment survey 2020, <https://bit.ly/2YLhOE2>.

Sector- and workplace-specific data on trade unions are not available. The data on trade union density by provinces could offer a glimpse of unionization and activities of organized labour in the areas in which automotive and auto parts factories are concentrated. In Thailand, the automotive industry is mostly located in the provinces of Samut Prakan, Chonburi and Rayong. As of November 2020, of the 1,418 total trade unions across the country, provinces with the most numbers of trade unions are Bangkok (356), Samut Prakan (388), Chonburi (214) Rayong (130) and Pathumthani (90).³³ This compares favourably to the overall trade union density rate in Thailand (at 3.5 per cent), which is one of the lowest in the world.³⁴

Thailand has not ratified Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) nor the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), and gaps remain in the labour law, such as the lack of a mechanism for collective bargaining at the industrial level. There are also cases of complaints filed to the ILO by trade unions in the assembly plants and tier 1 companies (see the following box). The ILO called on the Government of Thailand to ensure effective protection of workers from acts of anti-union discrimination both in law and in practice and that this protection covers all legitimate trade union activities, including those relative to the establishment of workers' organizations.

■ Workplace collective bargaining

Workers in assembly plants are generally organized, and many major plants have unions or some form of worker representation. Indeed, all the five biggest carmakers in Thailand (Toyota, Honda, Mitsubishi, Isuzu and Auto Alliance) have workplace unions, while supply chains for Toyota and Honda have trade union federations. Worker representation alone, however, does not guarantee independence of workers. For this, genuine negotiating power is required. Studying the Japan-dominated auto industry and its unions in Thailand and Malaysia, Wad highlighted in 2017 the lack of independence of and interference with trade unions. He argued that workplace unions in Thailand's "Japanese transplants and affiliated enterprises seemed from the mid-1990s to engage in more cordial relationships with the management in favour of the competitiveness of the company and the employment conditions of the workers" (Wad 2017: 53). The workers' share of the gains from increased competitiveness appears to be disproportionately low, likely due to higher job precarity, which weakens their organizing and bargaining power.

An IndustriALL complaint of violations of freedom of association submitted to the ILO Committee on Freedom of Association revealed gaps between Thai laws and Convention No. 87 and Convention No. 98 and the lack of protection against acts of anti-union discrimination.

33 Labor Relations Office, Department of Welfare and Labour Protection.

34 ILOSTAT. Available at: <https://ilostat.ilo.org/topics/union-membership/>.

IndustriALL ILO complaint (Case No. 3164 Thailand)

In its communication dated 7 October 2015, IndustriALL alleged: (i) legislative shortcomings (denial or restriction of the right to organize and bargain collectively to public sector workers, private sector teachers, agricultural workers, migrant workers, workers in the informal sector and temporary, agency or other subcontracted workers; insufficient protection against acts of anti-union discrimination; difficulty to bargain collectively; and denial of the right to strike to public sector workers); and (ii) acts of anti-union discrimination, interference, harassment and other anti-union practices in a number of enterprises and the Government's failure to protect the workers.³⁵ This case involved 18 companies in total, including ten companies involved in automotive and auto parts. There was a major original equipment manufacturer brand as well as suppliers producing chassis, tires, steering and suspension systems, airbags, plastics and hardware.

Concerning the allegation that the laws and their interpretation do not sufficiently protect workers from anti-union discrimination, the ILO Committee on Freedom of Association noted with concern the numerous incidents of lockout, suspension and dismissal of trade union leaders and members as described by IndustriALL. It also acknowledged the allegations of inaction of labour authorities and the delays in judicial proceedings, noting that an excessive delay in processing cases of anti-union discrimination and particularly lengthy delay in concluding the proceedings regarding the reinstatement of the trade union leaders dismissed by the enterprise constitute a denial of justice and of trade union rights of the parties concerned.

The Committee, therefore, urged the Government to take concrete measures to speed up the revision process of the Labour Relations Act and the State Enterprise Labour Relations Act to align the applicable legislation with the principles of freedom of association and collective bargaining and to ensure that all issues raised by the Committee in this case as well as another are properly addressed. It also requested the Government to take the necessary measures to ensure that workers are effectively protected against acts of anti-union discrimination, both in law and in practice, and that the protection covers all trade union activities, including those equivalent to the establishment of workers' organizations.

In the latest communication (October 2020),³⁶ the Committee wrote that it trusted that the review of the labour legislation that has been ongoing for a prolonged period of time would be concluded without delay and that the amended laws would be in full conformity with the principles of freedom of association and collective bargaining. The Committee requested the Government to keep it informed of the developments regarding the revision process and to provide a copy of the revised Labour Relations Act and State Enterprise Labour Relations Act once adopted.

2.5 Emerging socially responsible business practices

The study found several positive trends on aspects of responsible business and concrete practices aligned with the principles under the MNE Declaration.

Case study #1 Scania: Implementing codes of conduct

MNE Declaration: paragraph 10 (carry out due diligence)

Sourcing practices of one original equipment manufacturer offer insights into how top-tier carmakers could effectively use a code of conduct

35 See <https://www.ilo.org/dyn/normlex/en/f?p=1000:20060::FIND:NO::>.

36 See Normlex, https://www.ilo.org/dyn/normlex/en/f?p=1000:50002:0::NO:50002:P50002_COMPLAINT_TEXT_ID:4059462.

to promote decent work in their supply chains. To begin with, the automaker's strategies are quite replicable and based on an effective use of rigorous supplier requirements and long-term management. In the process of identifying potential suppliers, the automaker uses specially designed questionnaires to evaluate supplier sustainability awareness in all aspects. Once the suppliers are selected, the company continues to evaluate the suppliers' performance in view of their long-term improvement. The company's unique approach lies in its universal and comprehensive auditing process. First, the company applies principles of international labour standards across its global operations, for instance, by requiring suppliers to enforce eight hours maximum daily working hours. Second, rather than evaluating only main suppliers, as in normal cases, third-party auditors evaluate all of the carmaker's active suppliers. Such a comprehensive and universal approach to auditing allows the carmaker to promote its suppliers' compliance with international standards and contribute to immediately improving decent work deficits within its supply chains.

Case study #2 Toyota: Enforcing the occupational safety and health agenda along the supply chains

MNE Declaration: para. 44 (maintain the highest standards of safety and health)

Toyota Thailand is one of the companies well known for good practices in occupational safety and health issues. The company enforces high occupational safety and health standards, both within all its plants and, via its code of conduct, with its tier 1 and tier 2 suppliers. According to a Toyota Thailand labour union, Toyota plants have a rigorous safety department that regularly monitors and enforces both on- and off-the-job safety protocols. This indicates great emphasis is given to safety and that it is well integrated into the daily activities of employees, even outside the shop floor. For example, while walking or driving on the company premises, employees – whether they are managers or workers – are required to follow the safety protocols without exception, and the protocols become part and parcel of the working life. The company also conducts regular safety awareness trainings and sets high standards for employee tests.

The workplace safety committee is composed of representatives from the union and management at the supervisor and executive levels. This flows from the mutual trust and responsibility between management and trade unions, which Toyota places at the heart of its corporate success. High occupational safety and health standards as well as regular dialogue between management and workers contribute towards higher productivity, creating a virtuous circle and agility to adapt quickly to change. For example, during the COVID-19 pandemic, Toyota built on its occupational health and safety agenda to quickly provide workers the necessary personal protective equipment and institute necessary protocols within the tier 1 and tier 2 suppliers.

Case study #3 Auto Alliance Thailand: Promoting industrial peace through industrial relations

MNE Declaration: para. 48 (freedom of association), para. 55 (representative organization), para. 63 (regular consultation)

The Auto Alliance Thailand was established as a joint venture between the Ford Motor Company and Mazda Motor Corporation to produce compact pick-up trucks for domestic and international export markets. The Auto Alliance Thailand's relationship with trade unions had previously been contentious, but management realized the significance of trust for the company's long-term performance and came up with an initiative aimed at promoting industrial peace through trust-building and the promotion of worker voice. Management initiated small programmes, such as a worker income-generation programme from production waste recycling, in which union leaders and worker representatives participated in the planning and implementation processes as a way of building understanding and trust. In response to union concerns about subcontracted workers, the management worked with the trade union to replace contract work with full-time employment.

After trial and error, the managers established a constructive model of achieving management-worker mutual benefits and building trust: a five-year Labour Relations Master Plan. Replicating the Government's public-private master plan for development, the Labour Relations Master plan

includes the trade union as an integral part of the drafting and implementation process, with the goal of sustainable industrial peace in the plants. The underlying idea is to channel workers' energy towards improving their well-being. One interesting output of the plan is the Employee Choices for Alternative Career programme, which allows workers to explore their alternative plans and organize their occupational development training in view of imminent automation and potential downsizing of the plants.

The company is located in the automotive hub of the Eastern Seaboard, where such practices are relatively common and likely serve as a source of inspiration for management, demonstrating the value of public education and experience-sharing campaigns to promote good industrial relations.

Case Study #4 BMW – Global code of conduct and promotion of freedom of associations and working conditions

MNE Declaration: para. 10 (carry out due diligence); para. 44 (maintain the highest standards of safety and health); para. 48 (freedom of association), para. 65 (use leverage to encourage business partners and remediation for abuses)

As a member of the BMW Group, BMW Thailand abides by the BMW Group Code on Human Rights and Working Conditions (the Code) applicable to all of the company's sites worldwide as well as to employees, core suppliers and sales organizations.

According to the union leader, local management was somewhat opposed to the trade union in the early stage of its establishment. However, the Code "recognizes the rights of its employee to form representative bodies and participate in collective bargaining regarding the working conditions". Therefore, it reaffirms workers' freedom of association and protects the workers who exercise that freedom. The union leader interviewed believes that the Code has been instrumental in cultivating a climate of trust between the management and the trade union in Thailand and has led to the trade union being recognized as an equal partner.

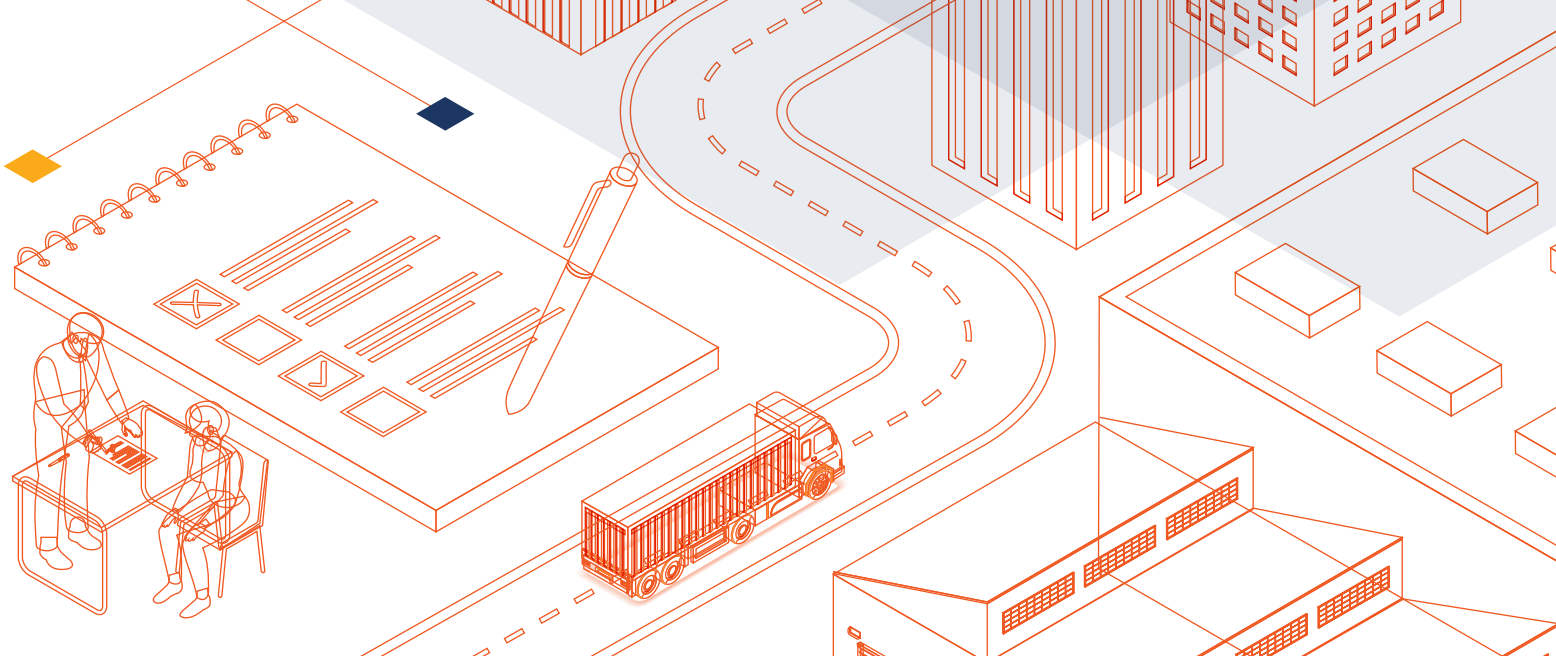
Inspired by their German counterparts, the trade union successfully negotiated local salary-restructuring, which substantially raised wages. The union's active participation in workforce planning also has lessened the impacts of external shocks, such as COVID-19, where the company was able to quickly implement protective measures, such as social distancing enforcement, personal protective equipment and medical consultation. The company and trade union prioritized introducing alternative work schedules to adapt to the crisis through reduced work time and work-sharing rather than restructuring, which would have resulted in pay cuts and lay-offs. In addition, the union often protects workers in the supplier factories from unfair dismissal as a result of pregnancy.

In general, the trade union can document and report issues directly to the company's headquarters, which will request the suppliers to address the issues within a short period (such as seven days), which greatly helps to strengthen the position of the union within the company.

Conclusion

In Thailand, the responsible business framework is still largely seen as philanthropy. Several leading auto companies, especially multinational companies, have adopted principles under the responsible business framework into their core operations and attempt to influence their suppliers to have the same standards. Certain areas, such as occupational health and safety, labour relations and the environment, are more heavily prioritized. Partly driven by incentives from the Board of Investment, automotive enterprises have, for example, partnered with government and local institutions to develop skills development initiatives for workers and suppliers.

Many gaps remain, particularly lower down the chain. These include the large proportion of workers without employment stability, social protections, a work-life balance, lack of diversity, adequate training and professional development in the sector.



3. Constraints analysis

3.1 Market system mapping

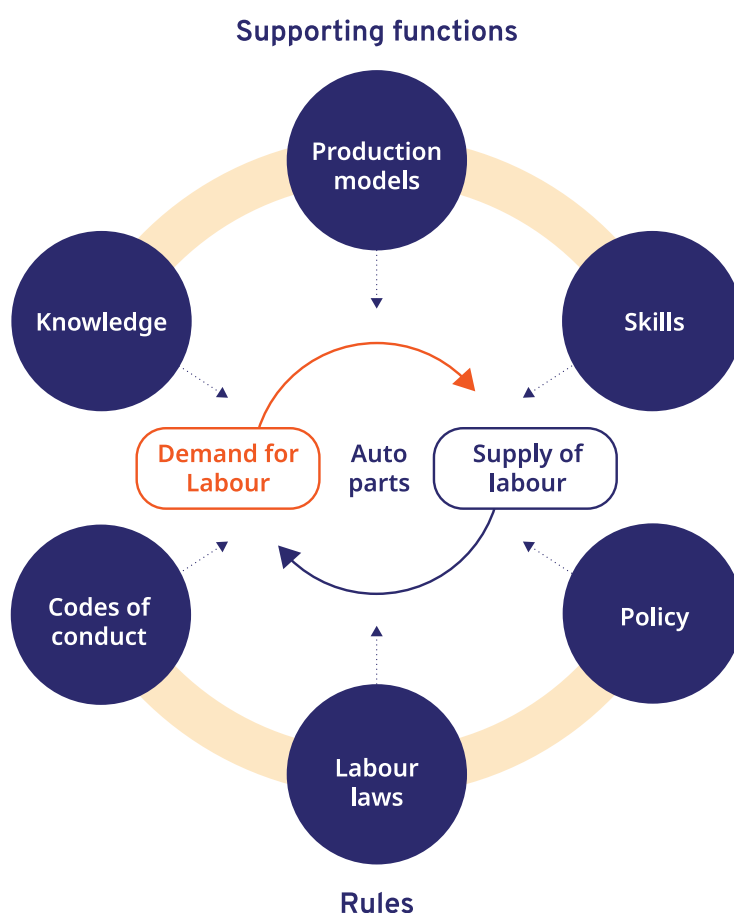
This section highlights the constraints and possible leverage points for change at the intersection of both economic and social upgrading in Thailand's auto parts sector. This includes constraints that contribute to the decent work deficits discussed in the previous chapter and barriers that hinder more responsible business practices.

A market systems lens helps to analyse the systems of regulation, information and delivery that shape incentives for businesses to further exercise responsible practices. It goes beyond simply identifying problems in the chain to ask: Why do they persist? A systems approach seeks to grow markets that operate efficiently for everyone. It emphasizes understanding the business incentives to move towards more responsible practices. It thus focuses on more indirect systemic constraints that can create the enabling conditions and push-and-pull factors for encouraging employers to integrate improved business practices into their operations.

There is no guarantee that if companies improve their commercial performance, improved social outcomes – including better wages and working conditions – will follow. On the other hand, just securing better wages and working conditions, which often require enterprises to invest in people, processes and equipment without – or at the expense of – business growth is unlikely to be aligned with incentives and therefore would not be sustainable. A market systems approach looks for win-win ways for more inclusive and equitable growth.

Figure 5 shows the factors influencing the supply and demand for labour in the auto parts sector in relation to the functions and rules that shape responsible business practices from a decent work perspective.

Figure 5. Factors influencing labour supply and demand in the auto parts sector



This section does not contain an exhaustive list of every underperforming function and rule in the automotive industry. A market systems approach is pragmatic: It does not seek to understand and solve everything but to target analysis around areas for potential action. The criteria for action include: *relevance* to target groups, *feasibility* for change and *opportunity* for inclusive growth to “funnel and filter” constraints.³⁷ This means that some critical underlying constraints related to labour rights in particular may not be covered if they cannot be reasonably addressed within the remit of the Responsible Supply Chains in Asia Programme. This could, for example, cover issues relating to upholding rights (basic compliance), enforcement of local labour laws and the ratification of core labour standards – all of which may be critical for the ILO to address outside of this study.

3.2 Analysis by function and rule

3.2.1 Skills

As indicated in section 2.4, high-skilled and experienced workers are needed in the industry. According to the Asian Development Bank (2017), “the main constraint on the expansion and upgrading of the Thai automotive industry continues to be the bottleneck of skilled labour supply,” which applies to both carmakers and parts suppliers. Successful upgrading of the industry also depends on the linkage and relevance of professional trainings, which, in turn, require adequate investment and structural reforms of vocational education as a whole.

37 See www.ilo.org/thelab.

Company representatives highlighted during the study's interviews that they mostly have to train workers in-house. New graduates from vocational schools or advanced engineering universities are not trained to perform the tasks needed because the auto parts businesses use advanced machines not available in the schools.

The Thailand Automotive Industry Master Plan (2012–2016), referenced in the Thailand Economic and Development Strategy, seeks to “administer integrated sustainable automotive human resource development projects emphasizing on training, curriculum and lecturer development and promoting in-house training centre” (IBP 2021). However, government-run training programmes have limited capacity and produce only a small number of trainees per year (in 2019, the goal was 420 workers). And the training programmes offered by the Department of Skills Development are designed and developed by major tier 1 parts makers. Under Thailand's current skills development law, companies with 100 employees or more are required to train at least 50 per cent of employees in that year. By providing training, companies can be eligible for tax benefits. This makes it difficult for SMEs with much smaller workforces and thus do not meet the 100-worker threshold, although they are the group that needs this benefit the most.

Best-in-class industrial skills initiatives rely on close collaboration between public and private actors and not only multinational enterprises but enterprises of all sizes. A private sector-led human resources development programme run by the Ministry of Industry called the Thailand Automotive Human Resource Development Project (2006–16) was dominated by Japanese carmakers in terms of training design and leading the training. The project was designed to strengthen automotive human resources in the skilled-labour level. It consisted of four pillars:

1. Introduction of the Toyota production system;
2. Introduction of skill certification system (12 subjects);
3. Skill development for mould and die engineer and skilled labour; and
4. Skill development and workmanship training for production technology.

The Thailand Automotive Human Resource Development Project was based on a training-of-trainers model and focused on building the capacity of 1,000 trainers who then were charged with training 250,000 workers. Doner argued that “non-tier” suppliers were largely excluded because they had little say in programme development and, similar to our finding, they had limited capacity and resources to participate, such as not being able to free up limited staff to participate in the training (Donor 2009). Therefore, the beneficiaries were mostly suppliers of these top-tier companies and larger auto parts companies.

Collaboration on skills development has proven to be ineffective for several reasons. Public–private partnerships are mostly based on individual gains rather than collective benefits, discouraging collaboration. Many public–private committees are set up, but they lack commitment and continuity, and eventually they fail to achieve their goals. One academic paper also noted: “Partnership occurs only among specific groups and with the limitation of automotive technology by each organization, the disclosure of information for skills development and labour efficiency is difficult to leverage; unclear and inconsistent roadmap on workforce development due to lack of a basic understanding; assessment of labour demand lacks integration of database from the concerned parties” (Chanapai and Suttawet 2018).

Other skills initiatives between public and private actors include (Chanapai and Suttawet 2018):

- The Auto Human Resource Development Academy, under collaboration between the Department of Skill Development of the Ministry of Labour and the private sector, was established by the Subcommittee on Strategic Framework Development of Labour Force in Automotive and Auto Parts Industries. It follows a standard curriculum for skills development for trainers in the Department of Skill Development and vocational institutes.
- The ASEAN Human Resources Development Academy, launched by the Thai Auto Parts Manufacturers Association, the Federation of Thai Industry and the Department of Skill Development targets suppliers of four Japanese carmakers.

Another issue that may contribute to the lack of focus on skills development in certain parts of the supply chain is the high turnover rate among Thai operational workers. The Auto Alliance Thailand reported a 1.75 per cent turnover rate in 2019. The average for original equipment manufacturers was 5.5 per cent; companies with subcontracted workers averaged 10–11 per cent; and lower-tier suppliers had an even higher average, at 15 per cent. At first glance, it is natural to observe that companies facing high turnover of employees avoid investing in workers' welfare and skills development. However, root causes of the high attrition also could be due to industrial culture and attitudes on productivity and costs.³⁸

For example, as mentioned earlier, it is common to find large companies, carmakers and top-tier suppliers that have subcontract workers who receive less than the minimum wage and much lower welfare benefits because of the day-labour contracts.³⁹ Such contracts allow companies to pass on to the workers the risk of fluctuating orders. When orders are high, low wages make it more difficult for workers to decline overtime work – what Thai companies usually call “incentives”. And when demand is low, the workers' hours are easily reduced or they are temporarily unemployed. As a result of this approach, workers feel less attachment to a company and are willing to move to another one that offers slightly better wages. Hence, the relatively high turnover in most companies in the sector.

For some auto parts companies to feel incentivized to invest in skills development, it is possible that the business case for doing so must be better articulated for enterprise attitudes to change. At the moment, it is unclear if auto parts companies have a system to document associated costs that could be used to demonstrate the business case.

To summarize, initiatives on skills development for workers in the automotive sector are primarily focused on the needs of original equipment manufacturers and large tier 1 enterprises and consequently do not meet the needs of local

suppliers or smaller enterprises. Furthermore, the available tax incentive to encourage enterprises to train workers requires that enterprises have a certain size workforce, making it difficult for SMEs to benefit. In addition, high turnover rates deter companies in the supply chain from investing in skills development.

Systemic constraints:

- Public–private links in Thailand's automotive sector reinforce the dominance of higher-tier enterprises because they are primarily between the Government, original equipment manufacturers and large tier 1 enterprises, leading to skills initiatives that do not match the needs of local suppliers.
- Weak, long-term human resource development, particularly in the lower tiers of the automotive supply chain, spurred by high turnover rates.

3.2.2 Production models

The financial crisis that began in 2008 resulted in the global demand for vehicles dropping by 70 per cent, causing significant harm to manufacturers with high fixed labour costs. Auto enterprises now build in flexibility to weather shocks and stresses. Consequently, the dominant business model in the auto industry emphasizes cost management through minimizing inventory (lean production) and optimizing logistics (just in time), particularly in the supply chain.

In managing their supply chains, original equipment manufacturers focus on price, speed and product quality in selecting suppliers. Interviews with auto parts suppliers revealed that it is less common to hear about buyer requirements and concrete practices related to the labour dimension of responsible business, aside from occupational safety and health. Labour relations and workplace communication are other important areas because it can assist in avoiding the disruption of production from labour disputes and ensuring workers' willingness to work overtime during peak production periods.

38 Data from executives interviewed in December 2019.

39 Interviews with trade unions and labour federation leaders in December 2019.

In general, SME suppliers struggle to find a way to absorb fluctuation in demand. Given the legal context, the pressure on small suppliers translates into certain practices, such as the *use of contract and agency workers*, who normally have substandard wages and working conditions, to ensure flexibility in time of highly fluctuated production volumes. In other words, current production models incentivise suppliers, especially SMEs, to use subcontract workers to maximize flexibility. Ultimately, this can also contribute to other prevalent decent work issues, such as differential treatment of subcontract workers as well as the low union density.

Structural impediments in the auto parts chain are less significant than in other global supply chains (such as garments and the “fast fashion” business model). Lead times – the time between the initiation of an order and completion of a production process – are also relatively predictable. Parts suppliers generally put together a yearly plan projecting how much product to produce based on an indication from the original equipment manufacturers of how many cars they are likely to assemble. A month in advance the supplier will know how much that forecast will change. In our interviews, suppliers conveyed that projected volumes and order volumes are generally close. However, buyers are only responsible for what they order (a month in advance), not what they forecast, and the supplier assumes the risk of any discrepancies. Suppliers order raw material inputs in advance to cover what they forecast; if these have to be imported, such as from Japan for specialist parts, it is done five to six months in advance. Unlike in garment or fast-moving consumer goods, the product cycle for a car is much longer. One car model is generally in production for four to eight years, with only minor design changes every two years.⁴⁰ The automotive supply chain is more sophisticated and, in theory, lends itself to longer-term relationships between buyers and suppliers.

To summarize, dominating business models currently incentivize suppliers operating in the industry, especially SMEs, to maximize flexibility. The unpredictability of flexible production models contributes to the prevalence of precarious forms of employment. However, the relatively stable structure of the industry should enable more secure

forms of employment than other industries, such as ready-made garments.

Systemic constraint:

- Suppliers assume risks of short-term fluctuation, creating the incentive to maximize flexibility and cost-control, which ultimately contributes to precarious employment under poor conditions and leads to other decent work deficits, such as lower wages and excessive hours of work.

3.2.3 Knowledge and upgrading

In 2011, only 354 of the 1,454 Thai parts suppliers were tier 1 suppliers involved in the design and manufacturing of modules, the rest being tier 2 and tier 3 suppliers that only produce parts and components for the tier 1 suppliers in the supply chain (Athukorala and Kohpaiboon 2011). Multinational enterprise domination of the tier 1 of the auto parts supply chain is not unique to Thailand and can be found in Brazil and the Republic of Korea, among other locations (Klier and Rubenstein 2008). Local content requirement measures have so far stimulated the development of Thai (and foreign-owned) parts suppliers but have not successfully or sufficiently built up the technological capability of local suppliers (Athukorala and Kohpaiboon 2011). Furthermore, technology transfer from Japanese enterprises to local Thai suppliers has been insufficient, with much upgrading of supplier operations confined mainly to foreign, mostly Japanese, enterprises (Busser 2008). As a result, the bulk of Thai-owned auto parts suppliers are tier 2 and tier 3 companies that provide component parts to tier 1 suppliers, most of which are foreign-owned.

Donor highlighted the weakness of government initiatives to upgrade local suppliers: “Thailand fared less well in strengthening local producers and linkages, despite numerous ‘master plans’ to do so in the 1990s. Efforts to upgrade parts producers fell short in part because overall market expansion reduced pressure, and in part because persistent political instability undermined the kinds of capacities needed to implement them” (Donor 2009).

40 Interview with an automotive executive in December 2019.

The Board of Investment Unit for Industrial Linkage Development (BUILD) programme is a government initiative to help local suppliers improve productivity and connect with foreign auto assemblers. Lauridsen (2009) argued that, despite the Government's discourse, the Thai Government had not put enough emphasis on creating interfirm linkages to support knowledge transfer. BUILD, one of the rare programmes intended to embed multinational enterprise assemblers into the local industrial structure, was allocated much less funding than other grass-roots economy initiatives (Lauridsen 2009). In interviews with original equipment manufacturer representatives, it was made clear that the scope of capacity development is still limited to direct suppliers, especially for issues concerning labour and human rights.

Nonetheless, small parts companies participating in the BUILD programme formed the Thai Subcon platform to pool larger parts orders from the assemblers and distribute the orders among themselves. In 2020, Thai Subcon became ASEAN's largest international industrial subcontracting trade show. But critics have pointed out that business matching, although important, does not necessarily lead to technology transfer.

The Board of Investment continues to have an important role in ensuring that FDI leads to more jobs and that it contributes to upgrading domestic enterprises and creating quality jobs. Guided by the 2015–21 investment promotion strategy, the Board of Investment provides tax incentives based on how much activities strengthen the supply chain and enhance SME capabilities. Additional merit-based tax exemptions can be granted if a project contributes to competitiveness enhancement or decentralization or is located in an area targeted for industrial development. This includes incentives for companies to invest in R&D and human resource development.⁴¹ A representative from an automotive union indicated in our interview that the incentives provided for new enterprises lowered their costs relative to longer-established enterprises, which have more mature labour relations and collective bargaining.

In summary, the Board of Investment's policies and programmes, such as BUILD, to promote knowledge transfer and skills development from multinational enterprises to SMEs have had some successes, notably in facilitating matchmaking. However, rigorous data collection and analysis are needed to assess the strengths and weaknesses of the approach so that they can be refined and reinforced most efficiently.

In addition to government-led programmes, other factors could help to stimulate technology transfer and upgrading of suppliers. Komolavanij, Jeenanunta and Ammarapala (2010) studied technology transfer among two major original equipment manufacturers, Toyota and Honda, and their ten auto parts suppliers. They found that there were strong relationships between the automakers and suppliers, driven mainly by the process involved in the quality auditing required by TS16949, which facilitates technology transfer. But transfers have been limited to the production process, aimed at reducing manufacturing costs and improving the quality of auto parts has largely excluded the transfer of technology that could promote innovation.

Systemic constraint:

- Unsuccessful upgrading of local suppliers due partly to underfunded initiatives.

3.2.4 Polices on responsible business

At the national level, a variety of government agencies engage with the automotive sector – each with a different mandate and a slightly different focus on responsible business issues. For example:

- The Office of Industrial Economics with the Ministry of Industry focuses on Industry 4.0 and “future fitting” the auto industry to electric vehicles. Concerning responsible business, it concentrates mainly on the environment and carbon-neutral production. The Office of Industrial Economics underscores that Thailand has chosen to develop the automotive industry based on the goals of becoming a production hub for multinational enterprises, and the

41 For example, donations to technology and human resource development funds, educational institutes, specialized training centres R&D institutes or government agencies, developing and training local suppliers or providing advanced technology training to their staff.

Government seeks foreign investment. The Ministry of Industry, together with the Ministry of Finance, introduced an Office of Industrial Economics sticker to promote the sustainable use of cars by providing information on CO₂ ratings, fuel economy and safety standard to consumers. The CO₂ ratings is also linked to the tax rates. The Office of Industrial Economics also facilitates the Potential Industry Award, which is one category of the Prime Minister Awards given to enterprises in Thailand. The Potential Industry awardees must achieve six criteria, one of which is productivity with minimum costs and lean production. These industrial promotion policies, however, are disconnected from labour issues in Thailand, thus missing an opportunity to foster a more integrated approach to sustainability in the sector.

- Also within the Ministry of Industry, the Department of Industrial Works' corporate social responsibility certification includes labour rights and human rights. Although in reality it is more about community and the environment and does not focus on the automotive supply chain. Officials do not have expertise on labour issues and defer to the Ministry of Labour.
- The Ministry of Labour initiated the government-led certification programme called Thai Labour Standards and voluntary guidelines for various sectors called Good Labour Practices. The Thai Labour Standards only cover labour issues, again missing the opportunity to promote a more holistic approach to sustainability.
- The Ministry of Commerce works on social enterprise and developed the export certification Thailand Trust Mark. One condition to attain the Thailand Trust Mark is to have Thai Labour standards certification.
- The Securities and Exchange Commission promotes reporting on sustainability that includes the environment, human rights and labour, nudging production towards a more integrated approach that encompasses both labour and environmental considerations.

While it is natural for government agencies to work with different topics and programmes related to their respective mandate, they tend to work in silo mode with limited coordination, leading to fragmented policies and measures related to

the broad topic of responsible business. These competing initiatives can be overwhelming for business. Inter-ministerial dialogue, which also includes employers' and workers' representatives and multinational enterprises, could greatly aid better coordination and build synergies to support a strong responsible business culture within the sector.

Coordinating and engaging with external partners to promote responsible business can also strengthen coherence on responsible business practices. As highlighted in a forthcoming ILO publication focusing on the auto sector in Japan, there should be a home–host dialogue between governments of home countries, such as Japan or the European Union, and host countries, such as Thailand, also involving MNEs and suppliers in the sector (ILO forthcoming).

Systemic constraints:

- Capacity, communication and coordination issues of government agencies hinder the effective implementation of responsible business practices in the industry.
- Dialogue among the Government, enterprises and social partners is lacking at the national and international levels.

3.2.5 Certification and voluntary codes of conduct

Some sustainability certification programmes exist in Thailand that could encourage enterprises to adopt more responsible labour practices. For example, the Ministry of Industry has initiated government-led programmes, such as the Department of Industrial Works certification. However, not many businesses are becoming certified because the Ministry has limited budget to support the Department of Industrial Works, and there is a consensus that SMEs cannot afford the certification process, both in cost and lost production time. Similarly, the Thai Labour Standards programme developed by the Ministry of Labour has reached relatively few enterprises.

As mentioned earlier, the top-five carmakers in terms of market share have sustainability policies and/or a code of conduct, but their actual performance on responsible business could be improved to make them more systematic and

consistent. Many carmakers have recorded progress in environmental sustainability and speak of “good labour relations”, but they still operate with a large proportion of agency workers (around 30–50 per cent), and many deny workers the right to organize or join a union. There are also some positive cases: A number of brands and tier 1 suppliers accept unions in the workplace and have a small proportion of agency or temporary workers. In general, though, there appears to be a pressing need to educate employers on the Decent Work Agenda and on how to include a labour rights approach into their sustainability framework. In our interviews, several Thai suppliers recognized for their good labour relations nonetheless expressed antipathy towards trade unions. For example, the owner of a medium-sized parts supplier has an endless list of improvement that he desires in terms of making the workplace better for employees, but he admits that he does not want to see a trade union in his company. This seems to be a common attitude for Thai companies, most of which have a background of family-owned business in which owners, even well-intended ones, ran them like a family unit.

Even though companies have a code of conduct, their focus is mostly on anti-corruption practices, occupational safety and health and fundamental principles and rights at work, such as the abolition of child labour. They leave out other important labour issues, outlined in the MNE Declaration, including the provision of secure employment and social security and respecting the rights to freedom of association and collective bargaining. One company executive mentioned that it has done well on environmental performance but only slightly better than the minimum standard on social and economic issues because there is no market advantage or regulatory pressure. A sustainability manager admitted during an interview that shareholders care mostly about the single bottom line of profit.

A representative from a joint venture assembly plant explained that even though the company has a code of conduct, there is tacit agreement between the plant and its suppliers that issues of labour practices in the supply chains are normally overlooked, leaving the resolution to a more “informal approach”. One example given during our interview concerns labour conflicts between suppliers and their trade unions that refuse to participate in overtime production during the

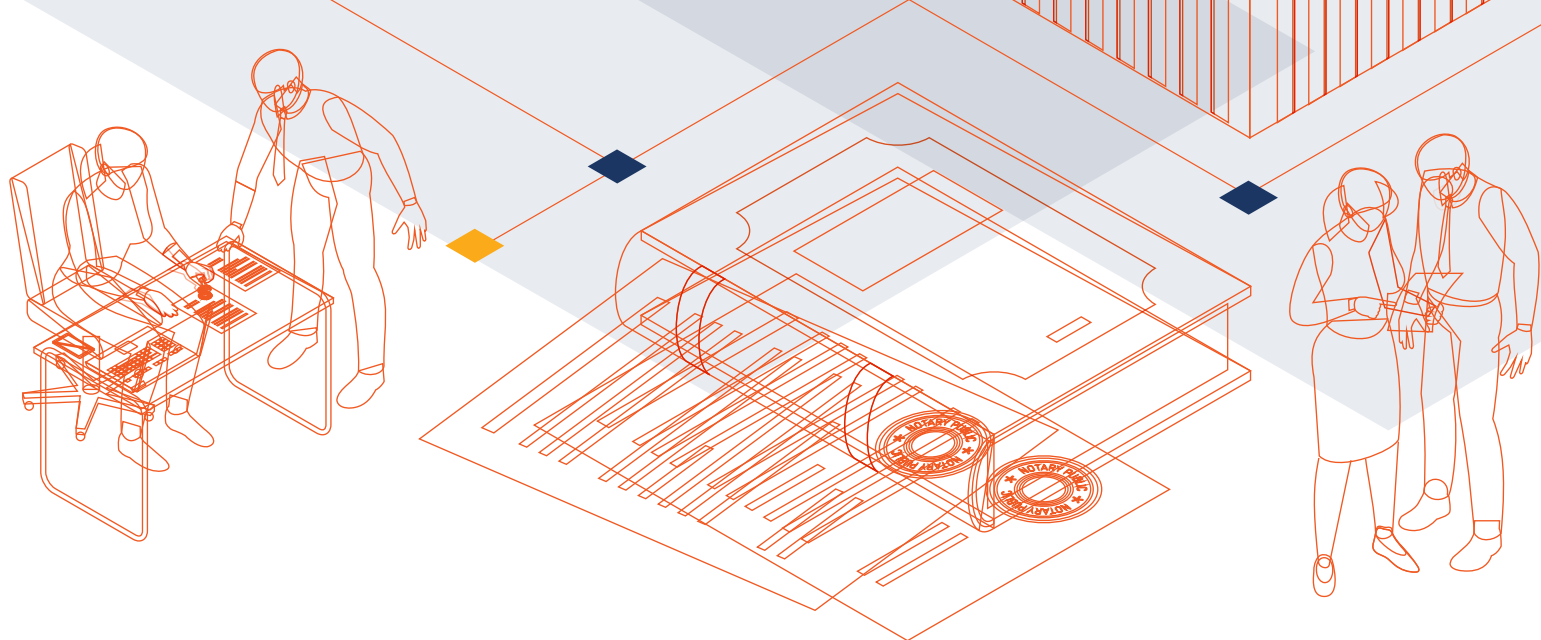
company’s peak period. The carmaker described their reluctance to interfere with conflicts in their suppliers’ operations which could be construed as an attempt to control trade unions in its supply chains. It was not clear from the interview whether the company had attempted to intervene to encourage management to find alternatives to excessive overtime, which would have been consistent with respecting the trade union’s rights.

Systemic constraint:

- The lack of commercial pressures from buyers or original equipment manufacturers erodes incentives of suppliers to implement a code of conduct or other sustainability policies and to develop a more comprehensive view of responsible business.

In sum, this chapter draws attention to the systemic constraints in the auto parts sector that contribute to decent work deficits, shape incentives for businesses to further engage with responsible practices and provide opportunities for economic upgrading. First, public–private initiatives to address skills mismatches in the industry focus primarily on the needs of companies in tier 1, leaving out SMEs that are most in need of support to upgrade the skills of their workers. The industry’s strong focus on cost control contributes to weak long-term human resource development because it makes enterprises unwilling to invest in their workforce. Second, the prevalent production model that forces suppliers to assume the risk of fluctuation in demand creates incentives for businesses to maximize flexibility and cost control through the use of subcontracted workers and insecure forms of employment. Third, the unsuccessful upgrading of local suppliers results from the limited focus on capacity development for direct suppliers and the fragmented and underfunded initiatives of the Government. Fourth, the lack of capacity and policy coordination among government agencies hinders the effective implementation of government-led programmes. Last, the lack of commercial pressures erodes incentives for suppliers to turn a code of conduct or other sustainability policies from paper into practice.

Chapter four proposes opportunities and recommendations to address these constraints to make the growth of industry more inclusive and create more decent jobs for people.



4. Opportunities and recommendations

This study homed in on five systemic constraints that currently limit the social and economic upgrading of Thailand's auto parts sector. It also pinpointed several possible root causes of existing decent work deficits and the factors that incentivize businesses to operate more or less responsibly. This chapter discusses opportunities for the industry to improve on responsible business practices, with recommendations for stakeholders to target those constraints. It is important to understand that this initial market systems analysis to uncover constraints is only the beginning of the process, and not the end. There is a need for stakeholders to continuously question the assumptions made and evaluate them to see whether these are constraints causing decent work deficits or if stakeholders can take the analysis even further. After framing and understanding constraints, stakeholders need to continue to explore and test different solutions to find one that works and ultimately can be scaled over time. The recommendations in this section should therefore be considered a starting point for stakeholders in Thailand's auto part sector to explore.

4.1 Opportunities

There may be an opportunity to re-think and re-set current industry paradigms related to responsible business in the context of anticipated long-term change (electric vehicles) and shorter-term shocks (particularly COVID-19). Indeed, there is an opportunity to frame responsible business as a way to create competitive advantage and thus become a

central feature for a successful sustainable business model rather than an afterthought. In this regard, the Thai automotive industry should make use of this opportunity to improve working conditions for the industry to grow more sustainably and be more resilient to future shocks.

Making use of this opportunity includes initially shifting the way that actors in the supply chain engage with each other. Globally, much has been written by industry commentators about the relationship between auto parts suppliers and their customers, the original equipment manufacturers. Gaenzle et al. (2016) predicted the automotive parts value chain structure will shift from a traditional pyramid (with original equipment manufacturers at the apex controlling the customer relationships) to a more fluid "hub and spoke" model, in which the finished vehicle remains at the centre, surrounded by interconnected parts of a wheel: parts manufacturers, original equipment manufacturers, IT suppliers, online players, telecom companies and device manufacturers. Multi-tier collaboration that works in more of a networked or circular way (as opposed to a linear supply chain) may become a new normal and will require different production models for the industry to remain competitive. Although this could benefit local enterprises that would be in a better position to, for example, upgrade their operations, less focus on cost control and more on collaboration could also stir suppliers away from relying heavily on subcontracted workers and improve decent work conditions in the industry.

4.2 Recommendations

The following recommendations speak to the constraints identified through the market systems analysis.

Recommendation 1: Build and profile the business case on the link between responsible practices and business success.

Due to the lack of commercial pressures from buyers and the strong focus on cost control, there are limited incentives for suppliers to comply with a code of conduct or other sustainability policies.

While some labour-related aspects of responsible business are easy to measure, others are much less so. Occupational safety and health is a tangible issue for which the cause-and-effect relationship between worker well-being and business performance is straightforward; for example, when workers are absent due to sickness or accidents. Many enterprises target zero accidents in the workplace and foster a preventive safety and health culture in the enterprise. The more tangential effects of working conditions such as excessive overtime, precarious working arrangements and a lack of work-life balance on overall work motivation and productivity are more difficult to measure but no less important.

The study uncovered a number of positive trends concerning aspects of responsible business and concrete practices of actors at all levels of the chain. Further work is required to quantify the benefits of these emerging practices and understand how they impact the bottom line of companies to incentivize businesses throughout the value chain to behave more responsibly and to turn a code of conduct or other sustainability policies from paper into practice. Documenting good practices and building the business case for responsible management can help to encourage more companies to integrate responsible business practices in their own operations and encourage their suppliers to do likewise.

Auto sector enterprises, constituents and other stakeholders in the industry would need to engage with each other to collect information and make it available to the broader industry. More specifically, the following actors could be engaged in these efforts:

- **The Government of Thailand** could take on an important role in terms of initiating and coordinating processes to document responsible business practices in the sector. Most agencies have already organized programmes to provide awards for businesses that respect human and labour rights and are sustainable, but it is rare to see documentation of the awarded companies' practices. In addition, the Government could join forces and incentivize businesses to take part in such efforts and could also allocate funds to support initiatives. In particular, government agencies, such as the Securities Exchange Commission, the Board of Investment, the Department of Industrial Works and the Ministry of Labour, could collaborate to design and develop adequate incentive schemes to reward enterprises that develop a responsible business framework that mainstreams all dimensions of sustainability, especially on labour rights, labour relations and the environment.
- **Governments of home countries of multinational enterprise** (such as Japan and within the European Union) and their embassies based in Thailand should promote good business practices among their multinational enterprises operating in Thailand and encourage companies headquartered in their countries to participate.
- **Employer organizations and industry associations**, such as the Employers' Confederation of Thailand, the Thai Auto-Parts Manufacturers Association, the Federation of Thai Industries, the automotive group of the Thai-European Business Association and the European Association for Business and Commerce, could jointly work with the Government to initiate and coordinate activities. They could also reach out to businesses across the value chain to widen participation and then promote the business case as information becomes available.
- **Workers' organizations** should be involved in the data collection process to ensure that the voices of workers are represented in the process. This includes trade unions that are ILO constituents and sector unions, like the Confederation of Thai Electrical Appliances, Electronic Automobile and Metalworkers, and the Automobile Labour Congress of Thailand.

- **Enterprises**, in particular original equipment manufacturers in Thailand, could be engaged to support the process of documenting the business case in their own supply chains. They could in addition contribute funds and be engaged to promote the business case to suppliers in their supply chain as well as external actors to strengthen practices in the sector. While this primarily would be an initiative driven by original equipment manufacturers at the national level, the role of a company's headquarters in providing clearance and support to engage in these efforts would also be important.

Recommendation 2: Strengthen tripartite-plus social dialogue to address the labour dimension of responsible business in the sector in Thailand.

The study highlighted weak links, fragmented initiatives and lack of policy coordination, which currently contributes to a somewhat vague and unclear framework for responsible business in Thailand. By strengthening tripartite-plus social dialogue in the industry, decent work deficits could be more effectively addressed. The recommendation is therefore to establish a multi-stakeholder forum to focus on the labour dimension of responsible business in the automotive industry in Thailand.

The forum can promote greater collaboration between various actors. Our research suggests the need for such a forum in which different interests and efforts can be coordinated. It could enable discussion and policy recommendations for creating a conducive environment for responsible business. This is also a forum in which discussion can focus on the opportunity to frame responsible business as a way to create competitive advantage in the context of long-term changes and shorter-term shocks and how to address some of the decent work deficits that have been identified.

The forum should provide space for various stakeholders linked to the automotive industry, including the Ministry of Labour, the Ministry of Industry, the Board of Investment, governments of home countries (such as Japan), representatives of workers and employers, original equipment

manufacturers, tier 1 suppliers as well as SMEs in lower tiers to identify collaborative solutions to address constraints in the sector and strengthen the competitiveness of the industry.

The forum could possibly explore the following topics initially, which emerged in the constraints analysis as particularly urgent to address:

- **Production models:** One interviewee remarked that strong supply chains do not necessarily have low labour costs but low logistics costs. Business models that treat workers as an asset and promote sound industrial relations would be better prepared to withstand future transformations or disruptions. In the context of COVID-19, Morgan Stanley research warned of “cost headwinds” for companies that rely on low-wage workers.⁴² This is a topic that should be explored in connection to the anticipated future disruptors that are impacting production models and dynamics in the automotive industry. While it will require a shift of attitudes and culture among different stakeholders, it would create long-term benefits for workers as well as businesses to provide employment security and make sure the industry is better adjusted to future demands.
- **Skills upgrading:** The automotive industry will increasingly face issues due to labour shortages and skills mismatches. In particular, there are concerns related to the bottlenecks in skills development and how they will impact the future competitiveness of the industry and its ability to meet projected output. Because current skills development initiatives typically involve only the Government, original equipment manufacturers and large tier 1 enterprises in their design, they are often not accessible to or match the needs of local suppliers or smaller enterprises. The forum could highlight this impediment to further develop the Thai auto sector and explore opportunities for various actors to engage in the strengthening of skills development programmes to ensure enterprise advancement up the value chain to value-added products and parts.

42 See <https://impactalpha.com/three-ways-for-universal-owners-to-live-up-to-their-name/>.

Recommendation 3: Concentrate on policy coherence and the role of government in promoting responsible business.

The Government can explore ways to coordinate policies and programmes to promote responsible business. The National Action Plan on Business and Human Rights and its implementing committee can be one of the potential mechanisms to coordinate policies on responsible business from different ministries to be more coherent and comprehensive (not only focus on the environment but also labour). The Ministry of Labour, through the appointment of the National Focal Point of the ILO MNE Declaration in a tripartite manner, should take a leading role in advocating for and coordinating labour issues under the National Action Plan, both at the ministerial level and among departments under the Ministry of Labour. The national focal point can also ensure that the labour dimension is mainstreamed into policies related to responsible business. Under this coordination, government agencies can also collaborate in designing a smart mix of voluntary and compulsory measures that can incentivise businesses to be more responsible (concerning due diligence and risk assessment).

A more coordinated and coherent responsible business framework could strengthen Thailand's position with regards to promoting responsible business and creating opportunities for the Government to increasingly engage with governments of home countries of multinational enterprises (such as Japan and within the European Union).

Recommendation 4: Conduct a comprehensive mapping to understand connected sectors.

The study revealed that there is lack of data and information required to distinguish between responsible business practices at different tiers in the supply chain. This is particularly the case for difficult-to-identify tier 2 and tier 3 suppliers of auto parts that use rubber. The US Department

of Labor's Bureau of International Labor Affairs lists Liberia, Cambodia and the Philippines as countries that use child labour in the production of natural rubber (to produce hosing, belts, window seals and vehicle tires), and Myanmar rubber production is listed as using both child labour and forced labour (USDOL 2020; Verite n.d.). The Investor Advocates for Social Justice highlighted human rights risks in the automotive industry involving the use of cobalt, electronics, charcoal, iron ore, rubber, leather and mica (IASJ 2020). Recent reports point to cobalt mined by children in the Democratic Republic of the Congo that is used in the manufacture of lithium-ion batteries for electric cars (Dummett 2017).

These connected supply chains represent risks of infringing human and labour rights in the auto parts and automotive supply chains. The lack of sufficient action may result in reputation damages and costly lawsuits. These research and knowledge gaps could be addressed by deploying a systematic survey-based approach to help pinpoint decent work constraints as well as the opportunities to address them. Such research would require the active participation and buy-in of the industry and a network of actors.

In addition to possibly conducting a comprehensive mapping to understand sectors connected to the industry through lower-tier suppliers, measures also should be taken to encourage original equipment manufacturers to reach their lower-tier suppliers, which could enhance transparency and improve supply chain functioning. Applying supply chain risk management principles only to top-tier suppliers and expecting those suppliers in turn to organize their own chain leads to "black holes". The reality is that the lower-tier suppliers are critically important to the overall supply chain functioning, and disruptions at these levels can quickly cause disturbances throughout the chain. Globally and across all industries, 40 per cent of supply chain disruptions result from issues below tier 1 suppliers. And yet, 65 per cent of procurement leaders say that they have limited or no visibility beyond tier 1.

Table 7. Summary of constraints, recommendations and relevant actors

Recommendations	Related constraints and issues	Actors
Recommendation 1: Build and profile the business case on the link between responsible practices and business success	■ Certification and voluntary codes of conducts: Lack of commercial pressures from buyers. ■ Production model: Suppliers assume risks of short-term fluctuation, creating a business incentive to maximize flexibility and cost control. ■ Skills: Weak long-term human resource development.	■ Employers (original equipment manufacturers) ■ Industry associations (Thai Auto Parts Manufacturers Association, Federation of Thai Industries) ■ Government of home country ■ Government of host country (Ministry of Industry and its Department of Industrial Works, Ministry of Labour and its Department of Skill Development) ■ Workers (Thai Electrical Appliances, Electronic Automobile and Metalworkers, Automobile Labour Congress of Thailand)
Recommendation 2: Strengthen tripartite-plus social dialogue to address the labour dimension of responsible business in the sector in Thailand	■ Skills: Public-private links primarily between government, original equipment manufacturers and large tier 1 enterprises, leading to skills initiatives that do not match the needs of local suppliers. ■ Production model: Suppliers assume risks of short-term fluctuation, which get passed on to workers on precarious contracts. ■ Knowledge and upgrading: Unsuccessful upgrading of local suppliers due to fragmented and underfunded initiatives. ■ Certification and voluntary codes of conducts: Capacity, communication and coordination issues hinder the effective implementation of responsible business.	■ Government (Ministry of Industry and its Department of Industrial Works, Ministry of Labour and its Department of Skill Development, Ministry of Commerce), Board of Investment, Eastern Economic Corridor ■ Employers (employer and business membership organizations, original equipment manufacturers, tier 1 suppliers, SMEs in lower tiers) ■ Trade unions and other workers' representatives ■ Governments of home and host countries (China, Japan and within the European Union)
Recommendation 3: Concentrate on policy coherence and the role of government in promoting responsible business	■ Capacity, communication and coordination issues of government agencies hinder the effective implementation of responsible business in the industry. ■ There is a lack of dialogue among stakeholders, such as governments, enterprises and social partners, both at the national level and international level.	■ Government (Ministry of Industry and its Department of Industrial Works, Ministry of Labour and its Department of Skill Development, Ministry of Commerce) ■ Board of Investment, Eastern Economic Corridor
Recommendation 4: Conduct a comprehensive mapping to understand connected sectors	■ Lack of understanding of decent work conditions and responsible business in lower tiers.	■ Government (Ministry of Industry, Ministry of Labour, Ministry of Justice, Securities Exchange Commission) ■ Employers (employer and business membership organizations, original equipment manufacturers) ■ Workers

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Annex I

Provisions of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

	Principles directed to governments	Principles directed to enterprises
General policies	■ Further the aim of the Declaration by adopting appropriate laws and policies, measures and actions, including in the fields of labour administration and public labour inspection [para. 3] ■ Ensure equal treatment between multinational and national enterprises [para. 5] ■ Ratify all the fundamental Conventions [para. 9] ■ Promote good social practice in accordance with the MNE Declaration among multinational enterprises operating in their territories and their multinational enterprises operating abroad [para. 12] ■ Be prepared to have consultations with other governments whenever the need arises [para. 12]	■ Respect the sovereign rights of the State and obey national laws and respect international standards [para. 8] ■ Contribute to the realization of the fundamental principles and rights at work [para. 9] ■ Carry out due diligence,⁴³ taking account of the central role of freedom of association and collective bargaining, industrial relations and social dialogue [para. 10] ■ Consult with the government, employers' and workers' organizations to ensure that operations are consistent with national development priorities [para. 11]
Employment	■ Declare and pursue, as a major goal, an active policy to promote full, productive and freely chosen employment and decent work [para. 13] ■ Develop and implement an integrated policy framework to facilitate the transition to the formal economy [para. 21] ■ Establish and maintain, as appropriate, social protection floors within a strategy to progressively ensure higher levels of social security [para. 22] ■ Take effective measures to prevent and eliminate forced labour, provide victims with access to an appropriate remedy, develop a national policy and action plan, and provide guidance and support to employers [paras 23–24]	■ Endeavour to increase employment opportunities and standards, taking the employment policies and objectives of governments into account [para. 16] ■ Before starting operations, consult the relevant authorities and the national employers' and workers' organizations to keep employment plans, as far as practicable, in harmony with national social development policies [para. 17] ■ Give priority to the employment, occupational development, promotion and advancement of nationals of the host country [para. 18] ■ Use technologies that generate employment, both directly and indirectly; and take part in the development of appropriate technology and adapt technologies to the needs of and characteristics of the host country [para. 19]

⁴³ For a general description of due diligence, see *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*.

	Principles directed to governments	Principles directed to enterprises
Employment (Cont.)	■ Develop a national policy designed to ensure the effective abolition of child labour, take immediate measures to secure the prohibition and elimination of the worst forms of child labour as a matter of urgency, and progressively raise the minimum age of admission to employment [para. 26] ■ Pursue policies designed to promote equality of opportunity ■ and treatment in employment, with a view to eliminating any discrimination based on race, colour, sex, religion, political opinion, national extraction or social origin [para. 28] ■ Promote equal remuneration for men and women workers for work of equal value [para. 29] ■ Never require or encourage multinational enterprises to discriminate and provide guidance, where appropriate, on the avoidance of discrimination [para. 31] ■ Study the impact of multinational enterprises on employment in different industrial sectors [para. 32] ■ In cooperation with multinational and national enterprises, provide income protection for workers whose employment has been terminated [para. 36]	■ Build linkages with local enterprises by sourcing local inputs, promoting the local processing of raw materials and local manufacturing of parts and equipment [para. 20] ■ Contribute to the transition to the formal economy [para. 21] ■ Complement and help to stimulate further development of public social security systems [para. 22] ■ Take immediate and effective measures to secure the prohibition and elimination of forced labour in operations [para. 25] ■ Respect the minimum age of admission to employment and take immediate and effective measures to secure the prohibition and elimination of the worst forms of child labour [para. 27] ■ Be guided by the principle of non-discrimination, and make qualifications, skill and experience the basis for recruitment, placement, training and advancement of staff [para. 30] ■ Endeavor to provide stable employment for workers and observe freely negotiated obligations concerning employment stability and social security; promote security of employment, providing reasonable notice of intended changes in operations and avoiding arbitrary dismissal [paras 33–35]
Training	■ Develop national policies for vocational training and guidance, closely linked with employment in cooperation with all the parties concerned [para. 37]	■ Provide training for all levels of workers employed to meet the needs of the enterprise as well as development policies of the country [para. 38] ■ Participate in programmes aiming at encouraging skill formation, lifelong training and development as well as providing vocational training, and make the skilled resource personnel available [para. 39] ■ Afford opportunities within the enterprise for local management to broaden their experiences [para. 40]

	Principles directed to governments	Principles directed to enterprises
Conditions of work and life	■ Endeavour to adopt suitable measures to ensure that lower-income groups and less-developed areas benefit as much as possible from the activities of multinational enterprises [para. 42] ■ Ensure that both multinational and national enterprises provide adequate safety and health standards and contribute to a preventive safety and health culture, including taking steps to combat violence at work and attention to building safety; and that compensation is provided to workers who have been victims of an occupational accident or disease [para. 43]	■ Across their operations, provide wages, benefits and conditions of work not less favourable than those offered by comparable employers in the country concerned, taking into account the general level of wages, the cost of living, social security benefits, economic factors and levels of productivity [para. 41] ■ Maintain the highest standards of safety and health at work, make known special hazards and related protective measures associated with new products and processes, provide information on good practice observed in other countries and take a leading role in the examination of causes of industrial safety and hazards. [para. 44] ■ Cooperate with international and national safety and health organizations, national authorities, workers and their organizations, and incorporate matters of safety and health into agreements with representatives of workers [paras 45–46].
Industrial relations	■ Apply the principles of Convention No. 87, Article 5, in view of the importance, in relation to multinational enterprises, of permitting organizations representing such enterprises or the workers in their employment to affiliate with international organizations of employers and workers of their own choosing [para. 51] ■ Do not include in their incentives to attract foreign investment any limitation of workers' freedom of association or the right to organize and bargain collectively [para. 52] ■ Ensure through judicial, administrative, legislative or other appropriate means that workers whose rights have been violated have access to effective remedy [para. 64] ■ Ensure that voluntary conciliation and arbitration machinery are available free of charge to assist in prevention and settlement of industrial disputes [para. 67]	■ Throughout operations, observe standards of industrial relations [para. 47] ■ Respect freedom of association and the right to collective bargaining, and provide the facilities and information required for meaningful negotiations [paras 48, 57 and 61] ■ Support representative employers' organizations [para. 50] ■ Provide for regular consultation on matters of mutual concern [para. 63] ■ Use leverage to encourage business partners to provide effective remediation [para. 65] ■ Examine the grievances of workers, pursuant to an appropriate procedure [para. 66] ■ Seek to establish voluntary conciliation machinery jointly with representatives and organizations of workers [para. 68]

Source: ILO Multi Unit.



EUROPEAN UNION



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