

THAILAND'S BALANCE OF PAYMENTS AND
ITS EFFECT ON THE EXTERNAL VALUE OF HER MONEY

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INTRODUCTION

This thesis will analyse certain aspects of the external value of Thai money in relation to her Balance of Payments during 1947-1956.

The external value of a country's money depends on conditions existing in domestic economy (e.g. price level, employment, national income etc.) and on exogenous factors which are determined by conditions prevailing in the world market. It is the intention of this thesis to deal primarily with the latter. The internal factors, such as the domestic production of export industries and government policies, will be considered only to the degree that they affect directly the factors in the Balance of Payments.

The factors constituting demand for and supply of foreign exchanges are those which enter into Balance of Payments. It embraces four items: goods and services, donation, capital, and monetary gold movement. The external value of a nation's money can be analysed in terms of these four constituents. But as for Thai Balance of Payments, goods and services are by far the most important source of supply and demand for foreign exchanges. The remaining three items play a very insignificant role in the determination of the external value of Thai money because:

- 1- Donations take the form of goods and services

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rather than currency, thus they add little to the supply of foreign exchanges.

2- The monetary gold movement is the result of surplus or deficit in the current account (goods and services).

3- The private foreign investment in Thailand is negligible, so much so that there is no mention of it in Thai Balance of Payments. As for the public foreign investment, the only investments recorded in the Balance of Payments are in the loans from IBRD to the amount of 40 million dollars from 1951 to 1956, averaging 6.7 million a year. This loan exerts little influence on the external value of Thai money.

For the above reasons, the analysis of the external value of Thai money will be based primarily on the import and export of goods and services.

As Thailand's international payments and receipts are mostly conducted in sterlings and dollars (1), the external

(1) International Monetary Fund, Prescription of Currency in Sixth Annual Report, Exchange Restriction, 1955, p. 284.

The prescriptions of currency is as follows: The proceeds of exports of rice, tin, and rubber must be obtained in sterling or US dollars. The currency of payment for other exports is set forth on the export declaration required before exports can be cleared. Transactions with Japan are made through special account kept in US dollars under the terms of a trade and payments agreement with Japan. There are no special requirements attached to the method of payment to other countries, but in practice such payments are made largely in sterling and related currencies or in US dollars.

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value of Thai money will be expressed in terms of these two currencies.

This thesis will emphasize the balance of trade (goods and services), and the factors affecting the imports and exports of these goods and services. Some general consideration will be given to the foreign investments and international donations.

In the first chapter, the production of Thailand's main export industries - rice, rubber, tin and teak will be discussed. The later part of this chapter will treat these export products in terms of their value and volume.

The second chapter will stress imports as to their value, kinds, and the countries from which they come. In addition, the balance of trade will be examined.

The third chapter will give a brief outline of the foreign investments, the Thai Government policy toward the field of investment, and international donations.

The fourth chapter will consider the role of Government and the Central Bank in international trade, and the effectiveness with which they implement their policies.

In the final chapter, the external value of Thai money will be explicitly analysed.

Literature Survey

The Bank of Thailand and the United Nations Organization are the basic institutional sources of information

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pertinent to Thailand's Balance of Payments. The relevant publications from these sources are the annual reports of the Central Bank of Thailand (3), the Balance of Payments prepared annually by the Economic and Social Council (4), and the economic surveys of the Economic Commission for Asia and the Far East, both are the agencies of United Nations.

The section on the international trade in the Bank's Reports outlines very briefly the foreign trade during the years 1953 and 1954, together with the suggestion for improvement of economic and monetary conditions for the years 1954-1955. The Economic and Social Council reports briefly on the production of major commodities during 1948-1953, together with an analysis of the objectives of economic policies pursued by Thai Government.

Besides these two institutional sources, the US department of Commerce published some articles in Foreign Commerce Weekly on Thailand's import controls during 1954-1955 (5).

(3) Bank of Thailand, Report of the Years 1953 and 1954, Balance Sheet and Profit and Loss Account for the 12th and 13th Financial Years ending December 31, Bangkok, Dhana Publishing Co., 1956, 36 pp.

(4) Economic and Social Council, World Economic Situation, Full Employment, Implementation of Full Employment and Balance of Payments policies, 1952-1956. New York, United Nations Publication, 1956, 109 pp.

(5) US Department of Commerce, Foreign Commerce Weekly, Vol. 53, No. 12, May 16, 1955.

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The International Monetary Fund published statistical data on the exports and imports in 1948, 1950-1967 (6).

General Description of Thailand

Thailand "the land of the free" has been independent throughout the last 20 centuries. The country is about half the size of the Province of Ontario. The country is strategically located in the heart of South-east Asia, surrounded by Burma, Malaya and the Indochinese state of Cambodia. Ninety-five per cent of its land mass is on the Southeast Asia mainland, with the remaining five per cent stretching down the Malayan Peninsula. On the West, it shares border with Burma, on the east with Cambodia and Laos. On the South from the Cambodian border to the Federation of Malaya, Thailand rims the Gulf of Siam.

The climate in Thailand, in general, is tropical. Hot weather lasts from late February through April, the rainy season from May to September. The remaining months are rather cool.

The country is divided into four distinct natural regions:

1- The north is densely forested, the northern mountains extend along the full length of Burmese border to level

(6) International Monetary Fund, International Financial Statistics, Vol. IX, No. 12, December, 1956, p. 243.

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off on the peninsula near Malaya. This northern part is the main source of timber, the most valuable of which is teak, one of Thai important exports.

2- The Central Plain is broad and flat, rice-growing predominates in this area. It is the only region that realizes a surplus of foods over and above local needs. This surplus is used to augment the food supply of the poorer parts of the country.

3- The eastern region lies along the Korat Plateau, and is mostly enclosed by hills. The agriculture is of a submarginal type.

4- The southern part is bounded on both sides by the sea, and at its widest point is twelve miles across. The economy of this region depends on tin and rubber both of which are major exports of Thailand.

Bangkok, the capital of Thailand, ^{is} located in the central part of the country; and it is the nerve centre of the country and focal point of its economic and political life. Nearly all Thai industrial facilities are concentrated in Bangkok and its immediate vicinity. Most of these industries are State owned. Not because Thailand practices socialism, but ¹ due to the lack of private investment. The Thai Government has launched manufacturing operations to produce paper, textiles, cigarettes, cigars and liquor. Government sugar and oil refineries, canneries, tanneries and sawmills have also

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been set up; while breweries, cement, match factories, and the others, have been started by private enterprise.

Population

The population as of 1956 was 20 million, out of this total the Chinese immigrants were approximately 3 million. The size of labour force in the recent year^s is not available. According to the 1947 census, however, the number in the labour force (from 14 years old and over), was approximately 9 million out of a total population of 17 million.

The portion of the labour force employed in the agriculture, forestry, fishery and livestock industries constitutes approximately 85 per cent of the total labour force. The remainder is engaged in the mining, manufacturing, services, and the others.

Thai Economy

The economy of Thailand is basically founded on primary or extractive industries. The agriculture is mostly responsible for the national income and exports. The major products of this industry are rice, bananas, oranges, peanuts, tobacco, and the others. Fishing has become the next most important basic industry after agriculture. Dried fishes are exported each year to neighbouring countries. As for the mining industry, the extensive explorations are being carried out with a view toward developing untapped sources of tin,

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tungsten, lead, zinc, iron, copper, manganese, lignite, antimony, mercury, gypsum, rubies, sapphires, zircons, gold, coal and petroleum. At present tin is the most important source of export earnings.

The major export items are rice, rubber, tin and teak. The proceeds of rice exports constitute more than half of the total value of exports, while the remaining three products exported, account for approximately 30 per cent of the total export receipts.

The transportation and communication in Thailand is developing very satisfactorily in the more recent years. There are approximately 2000 miles of good railroad. The radio system is well established in Bangkok and in the provinces. At present, the Bangkokians are enjoying the T.V. programmes, at the estimate of 8,000 television sets in this area.

The Government is spending substantial amount on education, by constructing new schools and providing scholarships to study abroad. The country's five universities, two of which are medical ones, are located in Bangkok and serve as the educational centre of the nation.

The national income has gradually increased from 16.67 billion bahts (Thai currency) in 1947 to 26.02 billion bahts in 1952, or equivalent to approximately 1 billion dollars in 1947 rising to 1.6 billion dollars in 1952.

Government Structure

Thailand is a constitutional monarchy with a House of Representatives elected by the people. The country enjoys all the principal features of democratic government. The political authority is exercised by the Council of Ministers consisting of the Prime Minister and the Heads of various ministries. The Council is theoretically responsible to the National Assembly, but through its power of issuing emergency decrees, the Council has a strong hand in legislation. Most of the policies for the whole country are formulated at the top level and transmitted to 71 provinces and to various districts, municipalities, and villages.

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This chapter will deal with the production of the major export industries. Each product of these industries will be treated as to its quantity exported, its export value, and the countries to which it is exported.

Rice Production.

Rice is growing mainly in the Central region. The greater part of all the land under cultivation in Thailand is devoted to rice production. The land under rice cultivation increased from 1947 to 1956 as the result of the increased pressure of population. The paddy yield,⁽¹⁾ however, did not rise proportionately to the increase in the cultivated area, but, was subject to diminishing returns. This resulted from the lack of capital, and the poor method of cultivation: the primitive way of using a few simple tools still prevailed. The other factor ^{can} contributing to this downward trend in the average yield per hectare, was the agrarian unrest, which can be traced to the system of land tenure during the past fifty years.

(1) Grain of unprocessed rice.

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At the beginning of the century, land had no significant commercial value and was ^{partially} generally communal in possession. Later, as rice export increased, property speculation began. With the uncertainties of rice-growing, the farmer, with inadequate resources, was often forced to sell out to his more wealthy neighbours. Farms thus tended to become larger in area but fewer in number. Today, the bulk of commercial rice comes from large estates, cultivated by a changing stream of tenant farmers and supervised by a rent collector for the absentee landlord. The short-term tenants are interested only in growing as much rice as possible, regardless of how much this may ruin the soil. Under such a system of tenure, the land has steadily become impoverished and the average yield per hectare has continuously decreased for the last 50 years as reported in UN bulletin. (1)

Not all the land under rice cultivation is harvested. The difference between the total area initially cultivated and the area subsequently harvested is referred to as the damaged area. This damaged area is subject to wide fluctuation. During 1946-55 it ranged from 3.5 per cent to 18 per cent of the total land under rice cultivation.

(1) ECAFE, Economic Survey of Asia and the Far East, New York, 1955, V-108 P.

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Such damaged area results from droughts or floods which are aggravated by a poor irrigation system. The rice-growing requires much water, - an average rainfall of at least 70 inches per year. The annual rainfall in the Central Plain where rice is cultivated, failed to reach this minimum by 10 inches. The extra water must be obtained by irrigation and consequently, the whole Central Plain is grooved, cut and furrowed in an intricate criss-cross of canals, hand-dug since time immemorial. These primitive canals are gravity-fed (requiring no pumping), so that depth and duration of flooding are uncontrollable.

The programmes for the improvement of rice-growing.

For the above reasons, Thai Government has made an effort to improve the productivity of rice yield by the following means:

1. To improve the yield per hectare, the Thai Government, with the assistance from FAO and the United States, is undertaking a rice seed improvement programme which involves experimentation and research on seed selection and cross-breeding, and is introducing the use of artificial fertilizers.

2. To prevent the existing and potential agrarian unrest, the redistribution programme is presently being implemented under the land-reform by the Government. This

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TABLE I - RICE CULTIVATION AND YIELD IN THAILAND,
1946-55
(million of units)

Season	Cultivated area Rai(1)	Damaged area Rai	Harvested area Rai	Paddy yield Ton	Milled rice Ton
1946-47	28.8	2.9	21.9	4.4	2.9
1947-48	30.1	3.2	26.9	5.5	3.6
1948-49	32.5	1.7	30.8	6.8	4.4
1949-50	32.9	1.9	31.0	6.6	4.3
1950-51	34.6	1.5	33.1	6.7	4.4
1951-52	37.2	1.3	35.9	7.3	4.3
1952-53	33.5	1.4	32.1	6.6	4.3
1953-54	38.5	1.5	37.0	8.2	5.4
1954-55(2)	34.0	6.0	28.0	5.8	3.8

Bank of Thailand, Report of the Balance Sheet and Profit and Loss for Financial Year 1953, Bangkok, Dhana Publishing Co., 1955, p. 28.

(1) Thai measuring unit of land, equivalent to approximately one acre.

(2) Estimate.

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programme provides for the State land and loan to individual farmer in order to bring such land under cultivation.

3. To improve farming methods, the existing agricultural colleges are being expanded and new ones instituted.

4. To ensure a fairer distribution of flood water and to maintain it at a uniform depth for a longer period, the Government is constructing modern canals and hydraulic pumping, with the assistance of International Bank for Reconstruction and Development.

The IBRD made a loan very recently to the amount of 18 million dollars to the Thai Government for this irrigation project, expected to be completed in 1959, which will provide irrigation for 940,000 hectares of land in the Central Plain.

The tank irrigation project in north-eastern Thailand, started in 1951, has progressed satisfactorily. By the middle of 1955, 79 such tanks had already been completed and 20 others were under construction. The combined total storage capacity of these 99 projects is over 159 million litres, and will benefit 37,000 hectares of irrigable land.

With foreign loans and the assistance from the United Nations Organizations, by providing basic farming facilities, and educating farmers in the use of modern

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equipment, the Thai Government should be able to look forward to a substantial increase in the supply of rice during the next decade. The major problem facing the Thai farmers is how much rice can the world market absorb and who is going to buy these expected surpluses.

Rice Export.

Since World War II, Thailand has always been a rice seller's market. She has experienced no difficulty in selling her rice until 1952. Each importing country was given a limited quota of rice exports on a government-to-government basis. This world shortage of rice had caused a tremendous increase of Thai export by some 340,000 metric tons from 1,215,000 in 1949 to 1,555,000 metric tons in 1951. Since 1952, the situation of rice sale has changed, the buyer's resistance has increased, supported by a world-wide increase in rice production and a slight shift in consumption from rice to other grains. The countries such as Italy, Portugal, and South American countries exported more rice during 1952-54. Burma, a rice-growing country, increased her rice export by almost 50 per cent in 1954 as compared with 1953 level. India, Philippines and Ceylon, which previously could not grow sufficient food for home consumption, had gradually increased their food production, and virtually stopped importing Thai rice.

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In addition, Indonesia with a population of 80 million again became nearly self-sufficient. These were some of the impacts on the decline of rice export from Thailand during 1952-54.

With the decreased demand for rice in 1952, the Government of Thailand for the first time since the war had to seek out customers for her rice. But in spite of this effort, the rice export which normally accounted for 33 per cent of the domestic rice production during 1949-52, dropped to 30 per cent in 1953; or in term of the volume exported, it decreased to 1,340,558 metric tons or a decline of 84,444 metric tons from 1952 level. In 1954 a fall in rice export became even more serious, as the percentage of rice exported to the total volume of rice production dropped to 19 per cent. During this year, Indonesia reduced the purchase of Thai rice by some 142,000 metric tons compared with 1953 purchase. Singapore and Hongkong imported 213,991 and 115,413 metric tons respectively and 1954, or reduced their imports by some 31,000 and 12,000 metric tons of Thai rice from 1953 level.

The sale of rice in 1955 and the first 6 months of 1956 was gradually improved due to the change in the Central Bank policy which transferred the foreign exchange of rice proceeds ^{from} at the official rate to the free market.

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Rice export is distributed mainly among the Asian countries as shown in Table 3. Japan purchased 305,529 and 475,800 metric tons or 21.4 and 35.5 per cent of Thailand's total rice export in 1952 and 1953 respectively, and she maintained the same level of her rice import from Thailand throughout 1954-56, though some countries reduced Thai rice imports during this period.

At present, Japan, Hongkong, Singapore and Malaya are the important markets for Thai rice. The sterling area, of which these last three countries are members, accounts for almost half of the total rice export of Thailand, and they are the major sources of sterling supply.

Value of Rice Export.

The value of rice export increased substantially from 1948 to 1953 by some 90 million dollars. The high volume of export during 1949-51 was the main cause of an increase in the receipts of exported rice from 126.4 million in 1948 to 198.2 million dollars in 1951. This increase was realized despite the relatively low price, which price was due to the fact that "Thailand was compelled to sell rice under the Tripartite Agreement with United Kingdom and the United States at prices very much below the world market price".⁽¹⁾ Since 1952 on the price of Thai rice

(1) Bank of Thailand, Ten Years of the Bank's Operations, Prachan Publisher, 1952, p. 7.

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TABLE II - THAILAND'S VOLUME OF RICE EXPORT, 1949-56

Year	1000 metric tons	Ratio of rice exported to its production
1949	1,216	27
1950	1,483	35
1951	1,556	34
1952	1,425	33
1953	1,340	30
1954	1,001	19
1955	1,248	32
1956 ⁽¹⁾	616	-

Bank of Thailand, Current Statistics, Bangkok,
(No publisher), issued of September 1956, p. 23.

(1) January - June.

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TABLE III - DISTRIBUTION OF RICE EXPORT
BY COUNTRIES 1954-55
(metric tons)

Countries	1954 Jan.- Dec.	1955 Jan.- Oct.
Belgium	457	-
Ceylon	-	12,242
Denmark	2,542	5,617
Hongkong	115,403	146,202
India	3,402	1,525
Indonesia	77,994	27,250
Japan	331,286	350,801
Korea	-	-
Loa	2,000	-
Malaya	14,958	122,489
Netherlands	39,456	36,717
North Borneo	5,112	9,999
Penang	30,131	21,118
Philippines	17,184	56,475
Port Swettenham	40,475	-
Sarawak	30,717	21,118
Singapore	213,991	213,454
Switzerland	196	5
United Kingdom	16,710	6,279
Others	61,737	55,640
Total	1,003,756	1,065,817

Bank of Thailand, Current Statistics, Bangkok
(no Publisher), May 1955. p. 22.

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was adjusted to the world market level. Thus the export value of rice at 216 and 213 million dollars in 1952-53 respectively, was the highest since the war, despite the relatively low volume rice export of this period in comparison with the years 1950-51 (the price and volume index of rice is shown for the comparison purpose in Table 4).

In 1954 the fall of rice receipts was due partly to the decrease in price, and partly to the decline in quantity exported, resulting from price competition and the glut of rice on the world market.

With the abolishing of the Government monopoly on rice export in 1955, the receipts from the rice export increased to the level of 1952-53 as shown in table below.

At present, Thailand does not enjoy a seller market. The maintenance of an adequate level of rice export earnings does not depend only upon the quantity of domestic rice production, but also on the trade outlets in the world market which have been well explored. Since the price competition is very keen, the increase of rice sale, therefore, must also rely on the improvement of the quality of rice.

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TABLE IV - VALUE OF RICE EXPORT, ITS VOLUME
AND PRICE INDICES 1948-56

Year	Million of dollars	1953 = 100	
		Volume	Price
1948	126.4	61	78
1949(1)	195.2	92	--
1950	180.3	111	76
1951	198.2	118	79
1952	216.3	106	95
1953	213.7	100	100
1954	145.7	75	91
1955	210.0	93	106
1956(2)	106.4	92	113

International Monetary Fund, International Financial Statistics, Washington. Volume IX. No. 12, 1956, p. 214.

(1) Economic and Social Council, Full Employment, United Nation Publication, issued of July 1953, p. 14.

(2) From January to June.

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Rubber Production.

The rubber plantations are located on the Peninsula and are owned by a large number of small holders. The area for its cultivation covered some 600,000 acres. There has been no significant change in this acreage during the last 5 years.

The rubber produced is primarily for export. The cause of the fluctuation in the rubber production, thus, can be traced to the volume of export. The volume of rubber production is given in Table 5.

Rubber Export.

The volume of rubber export increased steadily from 63,000 in 1947 to 110,500 metric tons in 1951. In 1952 the export of rubber had dropped by some 10,500 metric tons, and it decreased further to 97,000 metric tons in 1953. This falling demand of rubber exported during these two years was due to the following reasons:

1. The production and use of synthetic rubber still remained at a high level.
2. After the end of the war in Korea, the stock-piling of strategic materials, such as rubber, slowed down in many countries.

From 1954 to 1956, the rubber export again showed a bright picture as there was an increase in foreign demand

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TABLE V - VOLUME OF RUBBER PRODUCTION IN THAILAND 1947-55

Year	1,000 metric tons
1947	64.9
1948	81.6
1949	101.3
1950	114.0
1951	111.5
1952	100.0
1953	97.5
1954	118.0
1955	133.0
1956 ⁽¹⁾	70.0

Economic and Social Council, Full Employment,
New York, UN Publication October 1954, p. 29.

(1) Estimate from January to June.

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particularly from the United States, its volume has increased by some 35,500 metric tons since 1953 as shown in Table 7.

Value of Rubber Export.

The value of rubber export had increased from 1948 to 1951, but declined in the following three years. In 1955 and the first 6 months of 1956 its value again rose to ^{the} a high level of 1951.

The value of rubber export varied according to the change in price and the quantity exported as shown in Table 6. The Korean boom was responsible for the high price and large volume of rubber export during 1950-51 to the value of 16.4 million and 97.7 million dollars respectively. The decline in price of rubber and the falling world demand was due to the decrease in western needs of strategic materials. The increase of the rubber receipts during 1955-56 was attributed partly to high price and partly the quantity exported as the United States resumed to buy Thai rubber at the higher level than she imported from Thailand during the Korean war. The quantity shipped to the United States from the available data in Table 7 between 1950 and the first 6 months of 1956, varied from 90 to 95 per cent of Thailand's rubber export. The remaining percentage accounts for exports to Britain.

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TABLE VY - VALUE OF RUBBER EXPORT, ITS VOLUME
AND PRICE INDEXES 1948-56

Year	Million of dollars	1953 = 100	
		Volume	Price
1948	33.5	98	91
1949	23.7	--	--
1950	66.4	116	152
1951	97.7	114	228
1952	50.2	102	131
1953	37.5	100	100
1954	43.9	115	101
1955	84.0	137	163
1956(1)	37.6	136	145

Ibid. IMF. p. 11.

(1) From January to June.

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TABLE VII - DISTRIBUTION OF THAILAND'S RUBBER
EXPORT BY AREAS, 1950-56
(1000 metric tons)

Year	Dollar area	Sterling area	Other area	Total
1950	110.5	2.2	-	112.7
1951	110.3	-	-	110.3
1952	99.0	-	-	99.0
1953	96.8	-	-	96.8
1954	111.3	.3	-	111.6
1955	128.6	1.7	2.2	132.5
1956(1)	60.7	3.6	1.8	66.1

Bank of Thailand, Current Statistics, Bangkok,
issued of November 1955, p. 23, September 1956, p. 20.

(1) January - June.

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Tin Production.

Tin mining is concentrated in the south of Thailand. The Thai Government in conjunction with foreign companies, mainly Commonwealth interests, jointly own the tin mining companies. A joint British-Thai concern with a capital of 7 million (Malayan dollars) was registered in Malaya since 1955. The Thai Government has purchased 45 per cent of the shares, and has offered 12 per cent of the total shares issued for resale to the Thai public. In 1956 a joint Thai-Japanese company started mining tin ore in Nasarn and Surathani (southern Thailand). Most of the ore is shipped to Malaya for smelting.

During the second World War much of the mining equipment was damaged or allowed to deteriorate and, as a result, production has been on a lower scale than before the war.

Over 95 per cent of tin produced in Thailand is for export. Any instability of tin production can therefore be attributed again to fluctuation in foreign demand. The scale of tin production and tin exported is given in the same table.

Tin Export.

The volume of tin export fluctuated to a greater degree than the exports of rice and rubber. It is very

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sensitive to fluctuation in world demand. In 1948 tin export amounted to 8,500 metric tons, and increased to 14,000 metric tons in 1950. It fell back again to 12,000 metric tons in 1951. From the years 1952 to 1956, the quantity exported is shown in Table 8.

Variations in the value of tin export from 14 million to 24 million dollars during 1948-56, can partly be attributed to substantial shifts in the absolute volume of tin exported and partly to a favorable shift in the world price of tin. The high export proceeds in 1948, 1951 and 1952 were the result of high price as shown in Table 9, while the receipts of the remaining years during 1948-56 varied in response to the absolute quantity exported.

Tin export is directed mostly to the sterling and dollars areas, of which United States and the Federation of Malaya are the main markets. Each of these areas bought an almost equal quantity of tin during the years 1952-53, as shown in Table 8. The allocation of tin export to these two areas changed drastically after 1953 with the tin being exported mostly to ^{the} sterling area, particularly to the Federation of Malaya which bought 77.6 per cent of Thai total tin export in 1954, while the market from the dollar area became relatively small.

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TABLE VIII - VOLUME OF TIN EXPORT, BY MONETARY AREAS
1952-56
(metric tons)

Year	Sterling area	Dollar area	Total
1952	6,434	6,508	12,942
January - June	3,180	2,605	5,785
July - December	3,254	3,903	7,157
1953	7,274	6,891	14,165
January - June	3,418	3,462	6,880
July - December	3,856	3,429	7,285
1954	10,280	2,921	13,201
January - June	5,551	578	6,129
July - December	4,729	2,343	7,072
1955	10,892	4,656	15,548
January - June	4,920	2,399	7,319
July - December	5,972	2,257	8,229
1956	6,520	1,403	7,923
January - June	6,520	1,403	7,923

Bank of Thailand, Current Statistics, Bangkok,
November 1955 p. 21, September 1956, p. 24.

Teak Production.

The production of teak is located in the north of the country. Because of its termite-resisting property, teak is the most valuable timber in the Orient. This industry is operated mainly by foreign companies, they work concessions granted them for a certain period by the Thai Government.

The teak production has steadily increased since the end of the second World War. In 1946 its production amounted to 88,266 cubic metres as compared with 97,251 in 1947. The data for 1948-49 is not available, but in 1950 the volume of its production, had almost doubled that of 1947. In 1951 it decreased slightly to 190,000 cubic metres and in 1952 it substantially increased to 261,306 cubic metres. The production in more recent years has slightly increased.

The Government policy is to establish a series of plantations of desirable species of trees to meet the ever increasing need for timber and other forest products. In 1953 there was a total area of 14,300 acres of plantation three-quarters of which was devoted to teak, with the sum of 49,000 dollars being set aside to implement this project. In addition the Forestry Department, during 1952-56, carried out a programme of forest reservation covering an area

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TABLE IX - VALUE OF TIN EXPORT, ITS VOLUME
AND PRICE INDICE 1948-56

Year	Million of dollars	1953 = 100	
		Volume	Price
1948	14.7	66	110
1949	14.7	-	-
1950	20.8	102	100
1951	24.2	88	135
1952	22.7	91	122
1953	20.3	100	100
1954	17.9	93	95
1955	20.6	111	92
1956(1)	11.0	113	96

Ibid. IMF. p. 11.

(1) From January to June.

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of 116,000 square kilometres.

Teak Export.

The export of teak has slightly increased from 1949 to 1953. The value of its export was 5.4 million dollars in 1949, and increased by 1.2 and 2.5 million dollars in 1950 and 1951 respectively. In 1952 the exported value dropped to 5.2 million dollars. During the two subsequent years the amount received from teak export rose to 6.6 and 10.1 million dollars respectively.

Total Value of Exports.

Rice, rubber, tin and teak constitute between 75 to 90 per cent of the total value of exports of Thailand. The remaining percentage pertains to the exports of other products, such as, beverages and tobacco, animal and vegetable, oils and fats, some cements and soaps.

The rice export brings, an average, annual proceeds between 50 to 65 per cent of the total value of exports. From 1948 to 1953 the percentage of the value of rice export averaged 60 per cent of total export, with the highest return of 65 per cent during 1952-53. In 1954 the receipts from rice export dropped considerably and constituted only 50 per cent of the total exports. It increased again in 1955 by 8 per cent over the previous year.

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The average receipts of rubber export during 1948-56 are approximately 17 per cent of the total value of Thailand's exports. The highest percentage obtained from the rubber export was during the years 1950-51 which accounted for 21 and 23 per cent, respectively, of the total value of exports. It declined in the two subsequent years to 12 and 15 per cent respectively. In 1955, its export value again rose to the highest percentage as that of the years 1950-51.

The tin export constitutes a smaller percentage than rice and rubber exports. The annual receipt from this source is approximately one-third that of the rubber or 6 per cent of the value of total exports.

Teak export constituted the smallest share of the major exports. It represents about one-third of the tin proceeds, which is equivalent to 2 per cent of the total value of all exports.

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TABLE X - VALUE OF COMMODITIES EXPORTED AND
TOTAL VALUE OF EXPORTS, 1948-56

Year	Rice	Rubber	Tin	Teak	Total	Others	Total
1948	126.4	33.5	14.7	6 ⁽¹⁾	180.6	42.1	222.7
1949	195.2	23.7	14.7	5.4	239.0	41.1	280.1
1950	180.3	66.4	21.8	6.8	275.3	28.4	303.7
1951	198.2	97.7	24.2	7.9	328.0	39.1	367.1
1952	216.3	50.2	22.7	5.2	294.4	35.0	329.4
1953	213.7	37.5	20.3	6.6	278.1	44.5	322.6
1954	145.7	43.9	17.9	10.1	217.6	65.8	283.4
1955	180.0 ⁽²⁾	84.0	20.6	6 ⁽¹⁾	290.6	44.5	335.1
1956	90 ⁽²⁾	37.6	11.0	3 ⁽¹⁾	141.6	19.3	160.9

International Monetary Fund, International Financial Statistics, Washington, 1956, Vol. LX, No. 12 p. 202.

(1) The estimated figure from 1949-54 average.

(2) Conversion at the rate of 15 bahts for a dollar.

(3) from *Harmon's*, June

CHAPTER II

IMPORTS AND BALANCE OF TRADE

Thailand's economy is dependent on agriculture and other primary products. The labor engaged in these primary industries constituted approximately 85 per cent of the total labor force. For the above reason, Thailand's participation in the international trade consists for the most part in the exchange of her primary products for foreign manufactured goods, machinery, and the other commodities which can not be produced at home, or the domestic supply of which is inadequate.

The first part of this chapter will be directed to the analysis concerning the types of goods and services imported, the later part will deal with the value of such goods and services, the countries from which the imports come, and the balance of trade.

Kinds of Commodities Imports.

There is no information as to the relative importance of different constituents of total imports for the years 1947 to 1953. The limited data available for the years 1954-55 and the first 6 months of 1956 reveals a stability in the proportion maintained by each of the separate commodities relative to total imports.

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TABLE XI - KINDS OF COMMODITIES IMPORTED BY
THAILAND, 1954-56(1)
(million of dollars)

Groups of Commodities	1954		1955		1956(2)	
	Per- cent	Value	Per- cent	Value	Per- cent	Value
Animal and Vegetable, oil and fats	.5	1.3	.5	1.4	1	1.2
Beverages and Tobacco	2	5.5	2.5	7.2	2	3.2
Crude Materials	1	3.8	1	3.3	1	1.6
Chemicals	8	23.9	8	25.2	9	14.5
Foods	9	28.1	8	26.0	7.5	12.1
Machinery	20	63.1	19	61.5	18	33.1
Manufactured goods	36	117.3	37	121.2	38	70.3
Mineral Fuels, Lubricants	8.5	25.8	9	31.2	10	18.9
Miscellaneous manufactured goods	10	31.9	13	39.6	8	13.2
Miscellaneous transactions and commodities	3	10	2	5.5	5.5	9.0
Total		311.7		321.1		181.1

Bank of Thailand, Current Statistics, September 1955,
p. 21.

(1) The original value given in terms of baht.

(2) From January to June.

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The manufactured goods constituted approximately one-third of the total value of imports. In 1954-55 their value, as shown in the table, were 117.3 and 121.2 million dollars respectively.

The next major imported item is machinery, its value constituted approximately one-fifth of the imports. In 1954 Thailand bought 63.1 million dollars worth of machinery and in the following year, this figure dropped to 61.5 million dollar.⁵ During the first half of 1956 the level established in the previous years was maintained.

The other components of the imports⁵ are fuels and lubricants, chemicals and foods. The average imported value of these items, each amounted to 25 million dollars per year during 1954-55 and the first 6 months of 1956.

Types of Services.

Services as described below include nonmonetary gold movement, foreign travel, transportation and insurance, investment income, government-expenditure.

According to the International Monetary Fund's explanation of nonmonetary gold movement,⁽¹⁾ ~~The~~ entries for

(1) International Monetary Fund, Balance of Payments Yearbook Vol. V, 1947-53, p. 20.

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nonmonetary gold are equal to the private sector's net gold sales to (credit) or purchases from (debit) foreigners and the domestic monetary authorities. This item differs from monetary gold movement which covers the monetary authorities's net gold sales to (credit) or purchases from (debit) foreigners and the domestic private sector. Transactions between the private sector and the monetary authorities thus involve offsetting entries in these two items, and the two combined, therefore, cover net international gold transactions.

As for the Thai nonmonetary gold movement, the Government prohibited the sale of gold outside of the country and thus there is no gold export from Thailand.

The gold imports of 320,000 ounces in 1947 by the public, valued at estimated price at which the gold was purchased, plus gold sales to the public by the Bank of Thailand valued at 35 dollars per ounce, amounted to 11.2 million dollars. In 1948 the data on gold transactions is not available. The 1949-52 figures estimated that gold imports by the public amounted to 800,000 ounces for each year during this period. The price of gold was at 37 dollars per ounce for 1949 and 1950, 40 dollars per ounce for 1951, which resulted in the value of imported gold at 29.6 and 37.7 million dollars respectively. In 1952 the price of gold per ounce was 37.50 dollars at which price the gold imports

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amounted to 29.4 million dollars. Gold imports decreased by some 3 million dollars in 1953, and declined further in 1945-55. The decline of gold imports in 1955 resulted from the imposition of a temporary ban on the gold importation in order to conserve the foreign exchange for the imports of essential commodities. This embargo was lifted in 1956 when the Government took a measure to curb clandestine imports of gold by authorizing the annual importation of 90,000 ounces. This action accounts for the subsequent decline of gold during the first 6 months of 1956, as shown in Table 12.

The expenditures on foreign travel had increased rapidly from 1951 to 1956. This was due to the increase in foreign travel by tourists, businessmen and students. The amount spent on this item from 1947 to 1950 was .6 million dollars for each year, and increased to 3.3 million dollars in 1951. In the following years the amount rose to approximately 7.5 million dollars, and remained at that level during 1953-56.

The transportation and insurance expenditures showed an increase from 1947 to 1956. This resulted from the rise in foreign trade, and because the transport and insurance companies are foreign owned. The expenditure averaged to approximately .5 million dollars per year during 1947-51.

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For the following years from 1952 to 1956, the expenditure on this item increased to the average of 7 million dollars for each year.

The investment expenditure covers mostly the interest and charges on IBRD loans and debentures. In 1947 the amount paid was 5 million dollars, and in the following years up to 1951, its amount decreased to the average of .5 million dollars for each year. From 1952 to 1956 the expenditure from this item had increased as the result of the increased Government borrowing from abroad.

The government expenditure includes two broad categories, military and nonmilitary. The nonmilitary transactions cover mainly normal and continuing government transactions, e.g. diplomatic and consular expenditures, contributions to international agencies for administrative purposes. Military transactions cover the purchase and sale of military supplies and equipment.

In 1947 the government expenditure was 5.1 million dollars and reached the peak in 1951 when it stood at 9.5 million dollars. This increase was due to the heavy expenditure on defense. The increased assistance on the defense programme from United States, has reduced the amount spent on this item to 3.9 million dollars in 1952, and the average of 5 million dollars per year during 1953-54. In the

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following two years, it rose again to the amount of 11 million dollars for each year.

Value of Goods and Services.

The value of imports both of goods and services showed an increase from 1947 to 1953. The value of commodities imported in 1947 stood at 117.2 million dollars and then rose to 335.5 million dollars in 1953. Also the services expenditure showed a similar increase from 22.2 in 1947 to 60.4 million dollars in 1953. The main reason for the rise in the value of services during 1947-53 was the heavy gold imports. On the other hand, the highest value of goods imported in 1953 can be traced to the Government expenditure policy:

1. A large budget deficit in 1953 created greater spending power and consequently an increase in the consumption of imports in the private sector.
2. A large number of Government development projects for which equipments and materials had to be imported.
3. An increase in military, navy and air force materials and services were required from abroad.

With the decline in volume of exports, the Government imposed the import control during 1953-54, which offsetted a decrease in commodities imported by 24 million dollars in 1954, and 20.2 million dollars decrease in the service expenditures.

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TABLE XII - SERVICES EXPENDITURES OF THAI BALANCE OF PAYMENTS
ACCOUNT, 1947-56
(million of dollars)

Year	Nonmonetary gold movement	Foreign travel	Transportation and insurance	Investment income	Govern- ment (1)	Miscel- laneous	Total
1947	11.2	.4	.4	5.0	5.1	.1	22.2
1948	*	.6	.3	0.8	5.8	.2	7.7
1949	29.6	.6	1.0	0.7	5.7	-	37.6
1950	29.6	.6	.4	0.3	8.9	.1	39.9
1951	37.7	3.3	.5	0.3	9.5	.1	51.3
1952	29.4	7.3	9.3	2.3	3.9	5.7	57.9
1953	24.7	8.1	8.0	5.8	5.3	8.5	60.4
1954	16.9	6.2	5.0	2.7	4.5	4.9	40.2
1955	10.7	7.3	5.4	10.2	11.0	7.9	52.5
1956 (2)	3.5	3	2.6	.0	5	2.8	20.9

International Monetary Fund, Balance of Payments Year Book, Washington, 1956.

(1) Not included elsewhere.

(2) January - June.

* Not available.

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In 1955 and the first 6 months of 1956, the imports again increased, the value of goods and services imported in 1955 exceeded the 1954 figure by 33 million dollars.

Direction of Trade:

The Thai imports come for the most part from the Sterling area, United States, and Japan. The leading countries in the Sterling area are United Kingdom, Hongkong, and Singapore. The United Kingdom exported to the amount of 21.5 million dollars in 1948 and had increased her share substantially from 1952 to 1956 to the annual average of 37 million dollars. Hongkong and Singapore, each exported to Thailand approximately the same value as United Kingdom.

During the post-war period trade with United States has gradually increased. In 1948 Thailand imported to the value of 16.9 million dollars from the United States. In 1952 the imports amounted to 60 million dollars and remained at the 50 million level during the successive years.

The trade with Canada is rather small, imports value from Canada was approximately 1.5 million dollars per year during 1948-56.

The other important seller in Asia is Japan, whose exports to Thailand averaged 60 million dollars per year from 1952 to 1955. This substantial value of trade with Japan was due to the fact that Japan and Thailand signed a

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TABLE XIII - VALUE OF GOODS AND SERVICES IMPORTED 1947-56

Year	Goods	Services	Total
1947	117.2	22.2	139.4
1948	143.6	7.7	151.3
1949	193.3	37.6	230.9
1950	209.2	39.9	249.1
1951	272.3	51.3	323.6
1952	299.6	57.9	357.5
1953	335.5	60.4	395.9
1954	311.7	40.2	351.9
1955	321.1	52.5	373.6
1956	181.1	20.9	202.0

Ikir, IMF Balance of Payments p. 7.

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trade agreement in 1948, which facilitated the interchange of goods and services by establishing an Open Account. The Bank of Thailand was in charge of the operations of this account. The arrangements were renewed from year to year and were responsible for the successful resumption of trade between the two countries.

The essential features of the Open Account are:

1. Limit of interchange.

This is the maximum limit for the exchange of goods and services between the two countries. For instance, under the 1952 agreement, the interchange of goods and services was limited to 56 million dollars; the renewal of the new agreement in 1953 has raised the interchange limit to 65 million dollars.

2. Swing limit.

This is the limit to which credit shall be extended to debtor country, in case, there is a margin in the balance of trade between the two countries. This limit was fixed at 2 million in 1952 and had increased to 5 million dollars in 1953.

For the above reasons, the value of the trade with Japan, revolves around the interchange limit.

German Federal Republic and Netherlands are among the main exporter, in North-Western Europe. In 1948 Thailand

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bought from Germany to the amount of 2 million dollars, and imports in the subsequent years have increased to the annual average of 20 million dollars during 1952-55. ~~The~~ Netherlands on the other hand, exported to Thailand to the value of 3.1 million dollars in 1948, and this figure rose to average value of 14 million dollars for each year during 1952-55.

Balance of Trade.

The total value of exports and imports increased steadily between 1948 and 1951. This was due to the existence of a great demand for such export commodities as rice, rubber, teak and tin. Thailand enjoyed a surplus of exports over imports during this period. The surplus derived from the merchandise transactions, the balance of trade has increased from 80.6 million dollars in 1949 to 100.9 million dollars in 1951. But the services consistently showed a deficit during this period, so that the surplus balance as a whole tended to remain at the lower level, and averaged only 60 million dollars per year during 1948-51.

In 1952 the total value of imports has increased over the value of previous year by 30.1 million dollars, and the total value of export had declined by 37.6 million, thus this resulted in the decreased surplus to 33.5 million dollars. Furthermore, with the services deficit of 41.9

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TABLE XIV - THAILAND'S IMPORTS BY MONETARY AND
GEOGRAPHICAL AREAS
1948, 1952-56

Areas	1948	1952	1953	1954	1955	1956
<u>Monetary Areas</u>						
Dollar	16.9	59.9	58.5	44.4	52.3	29.5
Sterling	80.1	142.7	121.6	90.2	106.5	87.3
Non Ster.OEEC	14.3	57.1	62.2	58.8	63.4	38.5
Soviet	1.0					1.0
All Other	31.0	39.6	62.0	75.9	75.6	25.7
Total	143.6	229.6	335.5	311.7	332.3	181.1
<u>Geographical Areas</u>						
North America	16.9	59.9	58.5	44.4	52.3	29.5
Central America	-	.2	.1	-	-	.4
South America	-	-	-	-	-	-
N. West Europe	21.5	87.1	94.6	87.4	93.6	57.9
Southern Europe	.5	5.5	4.4	3.3	3.4	2.0
Eastern Europe	1.1	.5	.4	.2	-	1.1
Middle East	.1	2.0	.7	-	.2	2.0
Far East	103.5	144.4	140.7	131.2	144.8	88.2
Total	143.6	299.6	335.5	311.7	332.3	181.1

UN - IMF - IBRD Joint Publication, Direction of International Trade, Statistical Papers Series T. Vol. VII, No. 10, November 1956, p. 66.

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million, the balance of trade in 1952 turned to have a deficit of 8.4 million dollars.

The main cause of the deficit was the decrease in exports; the decline in its value was notable in the case of rubber whose export value declined from 97.7 million dollars in 1951 to 50.2 million dollars in 1952 as a result of a general fall in ^{the} price of rubber.

In 1953 the value of imports increased to 335.5 million dollars, which was 33 million dollars above the previous year. In that year, exports had declined further by 7.9 million dollars. This had the effect of creating a good deficit of 10.3 million, or 56.7 million dollars of trade deficit.

In 1954, the decline in rice exports and high demand for imports as a result of internal inflation and the appreciation of the baht by lowering the Central Bank's selling rate, were the main causes of the trade deficit which accounted for 61.8 million dollars.

In 1955, the improvement in the world market demand for rice, rubber and tin, together with the removal of restrictive measures on exports and the transfer of all exchange transactions to the free market was responsible for the rise in exports in 1955 from the previous year level by some 50 million dollars. The surplus from the goods

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transactions in the balance of trade amounted to 13.8 million dollars. But with the service deficit of 29.4 million. Thailand then turned to an unfavorable balance of trade to the amount of 15.6 million dollars.

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TABLE XV - THAILAND'S BALANCE OF TRADE 1947-56

Year	Exports (1) Imports		Balances	Services	Balance of Trade
	Merchandise				
1947	91.0	117.2	-26.2	-19.2	-45.4
1948	222.7	143.6	79.1	- 3.1	76.0
1949	273.9	193.3	80.6	31.4	49.2
1950	305.8	209.2	96.6	-36.1	60.5
1951	373.2	272.3	100.9	-42.7	58.2
1952	333.1	299.6	33.5	-41.9	-8.4
1953	325.2	335.5	-10.3	-46.4	-56.7
1955	334.9	321.1	13.8	-29.4	-15.6
1954	283.4	311.7	-28.3	-33.5	-61.8
1956 (2)	161.4	181.1	-19.7	-11.5	-31.2

(1) International Monetary Fund, International Financial Statistics, Washington 1956, Vol. IX No. 12, p. 213.

(2) From January to June.

CHAPTER III

FOREIGN INVESTMENTS AND GOVERNMENT POLICIES

The purpose of this chapter is to give a general survey of foreign investments and international donations in Thailand, but because of the lack of statistical data, the presentation of the problem must be restricted to the more general aspects. The domestic investment will be discussed as a prerequisite to the understanding of the Government's foreign investment policies.

Domestic Investment.

The Thai private investments in commercial and industrial projects are on a small scale. This is due to the fact that Thailand is an agriculture economy and people prefer to invest in real estate, rather than in industrial enterprises. Most existing firms are single proprietorship or partnership; very few corporations have so far been established. The main barrier to the development of the corporation is the lack of a security market. There are few investment trusts or similar financial institutions, which act as intermediary between small savers and the capital market. This lack of a well developed security market tends to keep the volume of security issues low.

For the above reasons, the State is compelled to invest in a large number of industrial enterprises. The Thai

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Government owns the public utilities, railways, the national airline, the communication system and the savings banks. In addition, it operates factories that produce cement, paper, textile, gunny bags, leather goods, liquor, sugar, canned fish products, and a variety of other items. Moreover, the Government, with its tobacco monopoly, contracts for both the imports of bulk tobacco for local processing and finished tobacco products.

Despite the widely established Government activity in industry and trade, the volume of investment both private and public is still inadequate for the development of the country. The needs for foreign investments are, therefore, most desirable to the economic development of Thailand.

Government Policy on Foreign Investment.

Although theoretically the Thai Constitution, as amended in 1952, applies only to Thai nationals, in actual fact, the foreigners enjoy the same rights and privileges as Thai citizens in most fields of industry. The Thai Government's position on foreign investment has been stated as follows:

"His Majesty's Government has a deficit policy towards the promotion of domestic industry as well as the encouragement to industrialists of both Thai and foreign nationality to freely engage in industrial activities.

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The Thai Government welcome foreigners who wish to make investments in Thailand, and will give them such rights and protection as are enjoyed by those foreigners who have already invested in Thailand or by the Thai people themselves. However, certain minor occupations have been reserved by law for the Thai people

In certain businesses or industries opportunity is afforded to the foreigners to become sole investors, for instance in the mining industries in the non-reserve or open areas. They are required only to conform to the formalities and regulations necessary for the granting of concessions and supervision of such enterprises.

In certain businesses and industries the Government may participate as partners or shareholder if they think fit, and the details as to the percentage of the shares for each contracting party and the composition of staff will be mutually agreed upon. It is also the policy of the Government to encourage joint participation between foreign investors and private Thai individuals".(1)

In partial implementation of this policy, the Government has adopted some other measures to attract foreign investment by reexamining, where necessary, domestic policies, legislation and administration practices with a

(1) Bureau of Foreign Commerce, Establishing a Business in Thailand, Economic Reports, U.S. Department of Commerce, January 1956.

view of improving the investment climate: to avoid unduly burdensome taxation, to avoid discrimination against foreign investments, to facilitate the investors' importing of capital goods, e.g. machinery and component materials needed for new investment, and to provide for the remission of earnings and repatriation of capital.

One measure adopted by the Government is the Industrial Promotion Act, which was enacted in October 1954, to promote private foreign investment. The industrial activity includes agricultural industry, transport industry, tourist industry, and any other activity prescribed by Royal Decree. This act does not lay down basic provisions for foreign investment but provides for the establishment of a committee to advise the Council of Ministers. This committee for the Promotion of Industries is composed of the Minister of Industries as President, the Minister or Assistant Minister of Finance, the Minister or Assistant Minister of Economic Affairs, the Assistant Minister of Industries, the Under Secretary of State for Industries, the Under Secretary of State for the Interior, and the Secretary General of the National Economic Council.

Among the various duties of the committee are the function of advising the Council of Ministers on the following matters.(1)

(1) U.S. Department of Commerce, Industrial Promotion Act of Thailand in Economic Report, 1955, p. 2.

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"1. Exemption or reduction of import duties on machinery used in initiating or expanding an industry on a large scale.

2. Exemption or reduction for a limited period of taxes provided in the Revenue Code.

3. Exemption or reduction for a limited period of import duties on materials which must be purchased abroad.

4. The granting of foreign exchange at the official rate for the purchase of necessary machinery from abroad at the commencement of industrial activities or the expansion of work on a large scale.

5. Exportation of products including the exemption or reduction for a limited period of export duties according to the size of the industry.

6. Giving protection to an industry by barring the importation of similar products or suspension of the licensing of like industries to prevent competition which may be harmful to the national economy.

7. Remittance of funds in foreign currency when such funds represent foreign capital or interest from foreign investments.

8. The permission of skilled workers or industrial experts to enter the country in excess of the immigration quota when the immigration quota for that country is filled."

This Industrial Promotion Act, then, is simply the aid which the Government may give to the industries in the form of reduction or exemption from import duties on capital equipment, exemption or reduction in income tax, protection from foreign competition by barring the importation of similar products, facilities for the remittance of capital and profit abroad, and immigration facilities for technical personnel.

In addition to the creation of a committee for the Promotion of Industries, the Government also sent a mission in 1954 to a number of European countries, the United States, and Japan with a view of attracting foreign capital for the development of Thai resources.

In 1954 the Government of Thailand had signed an Investment Guaranty Agreement (1) with the United States through the Foreign Operations Administration, under which new American investments in Thailand are guaranteed against losses for expropriation or inconvertibility of profits and capital.

(1) Thailand Joins FOA Investment Guaranty Programme in the Department of State Bulletin Vol. XXXI No. 796 September 1954, p. 464.

Foreign Investments.

Despite the legislation adopted by the Thai Government to attract private foreign capital, the inflow of private foreign investment remains rather small. The information regarding foreign investment is scarce, but it can be stated in general that the investment is allocated in the mining industry, banking, and insurance.

The volume of the public foreign investment, on the other hand, is larger. The difference between the private and public foreign investment with regard to their investment policies lies in the fact that the public or the international organizations such as IBRD are guided by a policy which endeavours to make a success of the project which it finances, rather than by the prospect of profit.

Loans from IBRD.

The Bank had made three loans during 1951-56 to the amount of 7.8 million dollars for the development of port facilities, 3.4 million out of this total was made available in October 1956 to purchase three dredges and auxiliary equipment, to be operated in the channel leading to the Port of Bangkok and in the harbor.

The other two loans made by the Bank during 1952-56 amounted to 33 million dollars, 15 million for reconstruction and further development and 18 million for the irrigation

of the Central Plain.

Other international institutions provided loans on a small scale, as for example, one million dollar loan of the Export-Import Bank made in 1951.

Generally speaking, the purpose of the international organizations in providing loans is to finance the basic needs for such economic developments as transportation, and for some basic industries.

International Donations.

The donations to Thailand are mostly from International Cooperation Administration, and Mutual Security Agency, both of which are American institutions. The ICA's grant-in-aids were estimated at 50 million dollars during 1951-56. These aids were not only in dollars but also in merchandise; for instance in 1955 it provided 12.2 million dollars worth of commodities and services to Thailand's armed forces. The projects approved for financing under the ICA's programme are intended to improve public administration, especially fiscal management, to expand transportation and communication facilities, and to provide budgetary support for the Thai defense force.

The MSA provided an economic aid to Thailand in 1951 to the amount of 3.1 million dollars, and 4.4 million in 1952. In the four subsequent years, the estimated total amount was at some 30 million dollars.

CHAPTER FOUR

EXPORT AND IMPORT POLICIES

A certain basic knowledge of the Thai monetary system is required for the understanding of the foreign exchange control.

The Thai monetary unit is the baht. Before the establishment of the Thai Central Bank in 1942, the baht was based on the sterling-exchange standard. Notes were issued for and redeemed in sterling on demand in unlimited quantity at the rate of 10.80 bahts for each pound issue and 11.20 bahts for redemption.

The Japanese occupation of the country together with the reduction of international trade with the sterling area, and the increased government expenditure made it impossible to continue this sterling-exchange standard. The Central Bank was, at this time, authorized to issue baht based on 100 per cent reserve of foreign exchanges, mostly sterling, dollar, and gold. But when a shortage of the above-mentioned constituents of the reserve requirement developed, Japanese yen, government securities, and treasury bonds were added to the list of the reserve. In 1946, the link with the yen was abandoned, and yen reserve was written off. In the same year, the Currency Temporary Act was enacted, giving the Minister of Finance the power to fix the proportion of the legal com-

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ponents of the reserves. According to this Act, the legal components consisted of gold, gold securities (1), sterling, sterling securities, dollar, dollar securities, government bonds, treasury bills, and treasury bonds (a non-interest-bearing bond issued by the Minister of Finance to the Issue Department of the Bank of Thailand on the public credit of Thailand).

In 1946, the baht parity was fixed at .09029 grams of fine gold, or 40 bahts to one pound sterling and 9.95 bahts to one US dollar.

The Development and Administration of Exchange Control

The foreign exchange control during 1946-1956 was based on the Exchange Control Act of 1942, as amended by the Emergency Decree of 1943. According to this Act, the Minister is empowered to issue Ministerial Regulations controlling, restricting or prohibiting the execution of all exchanges and other operations in which foreign currency is concerned. The administration of this control was entrusted to the Bank of Thailand, which worked in close cooperation with the Ministry of Commerce, and other governmental departments.

The exchange control in 1946 was imposed because of the weakness of foreign exchange reserve. The yen exchange,

(1) Government gold securities are redeemed in gold.

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which in December 1945 amounted to 1,557.80 million yens, had become worthless and was subsequently written off. The sterling assets, 14.50 million sterling pounds had been blocked, as well as the gold held in Japan at the value of US 44.63 million dollars, and in the United States of 8 million grams fine gold valued at 9 million dollars (these blocked assets were gradually released during the postwar period).

Gold held in Thailand, valued at \$32.85 million, which was the only part of the reserve available, represented 7 per cent of the notes in circulation (1,838.68 million bahts), the subsequent release of the gold held in the United States and of a small part of the blocked sterling assets did not alter the position significantly. The foreign exchange reserve, therefore, had to be derived from the proceeds of major exports. The current import needs had to be met from current export proceeds, the use of which had to be rationed in accordance with a schedule of priorities. An attempt was made to remedy this situation by exchange control and the direct control of imports and exports.

In 1946, all foreign exchange transactions were centralized, an exchange control licence was necessary for both imports and exports. Exporters were required to surrender the proceeds of exports to the Bank of Thailand at the official rate at 40 bahts to one pound sterling and 9.95 bahts

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to one dollar. As for the importers, the official rate was applied after they obtained their import licences.

Neither exchange control nor direct control of imports and exports was successful, and the official rate could not be maintained. The most important cause of the failure of the control was the large scale smuggling of rice out of the country. The smuggling reduced considerably the supply of foreign exchange to the central pool. Part of the foreign exchange earned from illegal export was either left abroad or sold in the black market. On the other hand, demand for foreign exchange to purchase imports was extraordinarily strong as the baht prices of imported goods, calculated at the official exchange rate were much lower than actual domestic prices which were chiefly determined by the degree of scarcity, and yielded a large profit margin for the importers. The result of this was an excess demand for foreign exchange at the over-valued official exchange, a demand which could not be satisfied from the current export earnings. Importers who could not obtain official exchange, bought foreign exchanges in the black market, thus the black market developed quickly to a significant magnitude.

The black market rate in 1946 was generally about twice the official rate for sterling and about two and a half times for a dollar.

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In these circumstances, the administration concluded that the continuance of controls might delay economic recovery. By several measures adopted during 1947, trade and exchange controls were thereby relaxed.

Foreign Exchange Control in 1947

The exports proceeds to be surrendered to the Bank of Thailand were reduced to four items; rice, rubber, tin and teak which were in short supply and the world demand for which was strong. Cement was added to this list toward the end of the year.

The export of rice was a government monopoly and the entire exchange receipts from it accrued to the exchange control authorities.

The rubber proceeds had to be surrendered to the extent of 20 per cent of its export value to the Central Bank at the official rate. The remaining portion was left to the exporters to be used at their disposal.

As for tin and teak exports, 50 per cent of their export proceeds were to be remitted to the exchange control authorities at the official rate.

For the cement export, the full amount of its proceeds had also to be surrendered at the official rate.

By the middle of 1947, the surrender on a percentage of teak export receipts was no longer required.

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As for the exchange control of the imports, the official rate was applied only to the import requirements of the government and of government-controlled enterprise, the importation of petroleum products, the expenses of students abroad, and a few other items specified in the priority lists. For the permissible imports, which fell outside this list, foreign exchange had to be obtained on the free market.

The commercial banks were authorized to buy, sell and transfer foreign exchanges without restriction, except when acting as agents for the surrender of exchange to, or for the purchase of exchange from the Bank of Thailand, they were bound by the official rate. This was tantamount to giving official recognition to free market exchange transactions, and the existence of free exchange rates in addition to the official rate.

Foreign Exchange Control during 1948

The exports proceeds to be surrendered to the Bank of Thailand at the official rate were the same as in 1947, except from receipt of the teak export, which was no longer controlled. Apart from certain customs' formalities, designed to ensure that the specified percentages of exchange receipts from rubber and tin exports were surrendered to the Bank, and restriction on the export of goods in short

supply (2), virtually no other export controls existed.

As for the import control, import licences, which were issued by the Minister of Commerce, were necessary only in respect to certain luxury goods listed in the Import Control Ordinance No. 2 of 1948 (3). Foreign exchange to finance these imports, however, had to be acquired on the free market.

Other import controls were imposed for security reasons, and protected certain government monopolies (4).

The Structural Rates of Exchange during 1948

With a favorable balance of payments in 1948, there was an increase in the foreign exchange reserve of the Central Bank, therefore, it was at this time that the Bank began to sell sterling, at a preferential rate to commercial banks for approved import payments. This preferential rate was slightly lower than the free market rate. Thus the foreign exchange rates for sterling in 1948 were the official rate, free rate and the preferential rate.

(2) Certain foods, chemicals, mineral oils, machinery, woods, and cement could be exported only under licence issued by the Ministry of Commerce.

(3) Types of luxury goods are not available.

(4) Import control included arms and ammunition, opium, dangerous drugs; State monopoly products - tobacco, cigarettes, playing cards, and spirits.

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In addition to these three rates for sterling, there emerged a mixed rate for rubber and tin.

According to the rate structure under these controls and policies, there were four exchange rates on the export side, and three exchange rates on the import side as shown in Table XV. The export rates were the following:

- 1- The official rate for rice
- 2- The mixed rate for rubber
- 3- The mixed rate for tin
- 4- The free market rate for other exports.

As for the exchange rates for imports, they were as follows:

- 1- The official rate for the Government and for favored private imports and remittances.
- 2- The Bank of Thailand's preferential rate for imports which the Bank may approve.
- 3- A free market rate for permissible imports.

As for the dollar rate of exchange, the two exchange rates remained the same as in 1947, the official and the free market rates. Thus there were two rates of exchange for dollar imports, and four export rates the same as for sterling exports.

Foreign Exchange Control in 1949

During 1949, Britain devalued the pound sterling

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TABLE XV
 VARIOUS EXCHANGE RATES FOR STERLING
 DOLLAR EXPORTS AND IMPORTS 1948

Rates	Exports	Imports	Bahts per	
			sterling dollar	
Official	Rice	Government, favored pri- vate imports	40.0	9.95
Free	All exports except rubber rice, tin	Permissible imports	60.0	22.0
Preferential		Most imported goods as spe- cified by the Central Bank	59.40	-
Mixed rates	Tin		50.0	16.0
	Rubber		56.0	19.60

Source: The figures are derived from IMF Statistics,
 1956, p. 204.

from 4.03 to 2.80 dollars. In September 1949, the Thai Government deemed it fit to fix the gold value of the baht at .07109 fine gramme, giving an official rate of exchange of 35 bahts to one pound sterling, and 12.50 bahts to one dollar.

With regard to the exchange control for exports during this year, the proportion of the tin proceeds to be surrendered to the Bank was reduced by 10 per cent, or 40 per cent of the value of tin export at the official rate and 60 per cent at the free market rate.

The Thai Government signed a trade agreement with Japan in 1948, but it did not become effective until the following year. The trade between the two countries was operated under the open account kept in dollars. The rate of baht-dollar exchange for this account was announced every two weeks by the Bank of Thailand, so that the flexibility of this exchange rate would adjust the balance of trade between the two countries within a narrow limit.

There was no change of import and export policies during 1950-1951.

The Effects on the Balance of Payments 1948-1951

The foreign exchange control and the direct control on imports and exports exerted a very great effect on Thai foreign trade. In 1947, Thai Balance of payments showed a

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deficit of 26.2 million dollars. After the relaxation of control and the introduction of multiple exchange rates, the balance of payments improved with a surplus realized during 1948-1951. The surplus reached its peak in 1951 to the amount of 100.9 million dollars.

Under the multiple exchange system, the Bank supplied foreign exchanges at the official rate to the extent of about 25 per cent of the country's total current international payments, and received foreign exchanges at the above rate to the extent of more than 60 per cent of the country's total current international receipts. The Bank's annual current receipts consistently exceeded its annual current payments during this period of 1948-1951. There was always a sizeable excess supply of foreign exchange on the official market, the surplus of which was valued at the official rate and transferred to the Bank's reserve. Since the Bank bought foreign exchange at the official rate and sold it at near the open market rate, it realized a profit in proportion to the difference existing between these two rates. These profits were credited to the Stabilization Account held by the Bank. This Account was estimated at 480 million bahts in 1949, and had been used to finance the Government deficit during 1952-1953.

Since the end of 1951 the general demand for the Thailand's main exports, with the exception of rice, has

fallen off. The prices of tin and rubber, Thailand's chief dollar earners, had declined rapidly and consequently there has been a reduction in the country's foreign exchange earning capacity. Furthermore, the value of imports to Thailand has been rising with increasing momentum. From a large favorable balance of payments in 1951, Thailand encountered a small adverse balance of payments in 1952 and a much larger one in 1953.

Import and Export Control during 1952-1955

The unfavorable development in the world market toward Thai exports had not been foreseen by the authorities. The Government adopted, unfortunately, a policy of appreciation of bahts by fixing the preferential rate at 45 bahts to pound sterling in 1952. This rate was lower than the previous one by 6 bahts per sterling. The effect on the open market rate of this appreciation of the baht's preferential rate was almost instantaneous. Since the Bank of Thailand did not supply dollars on the free market before April 1953, the free market dollar rate adjusted itself to the new sterling rate by arbitrary transactions, which created a heavy demand for, and accelerated the drain on the dollar supply in the free market.

Besides arbitrary transactions, there appeared to have been a certain amount of capital flight, which by

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forcing up the free market rate of sterling, imposed another heavy drain on the Bank's sterling reserves, as the Bank persisted in its attempt to maintain the new rate.

The government's venture of appreciating the free market exchange value of the baht unfortunately coincided with the decline in foreign demand for Thai exports which resulted not only in a fall in exchange earnings but also in a reduction of government revenue. The falling exports of rubber, tin, teak and other commodities reduced the supply of foreign exchange on the open market, and the decline of foreign exchange receipts of rice reduced the availability of foreign exchange which the Bank could use for supplying the commercial banks. To meet this unfavorable situation, the Thai authorities started to tighten exchange and import controls.

In March 1952, exchange transactions on invisible items such as investment income, insurance, etc., were put under control. Later on the Bank of Thailand scrutinized more strictly applications for exchange of permissible imports at the Bank's official rate and lengthened the time required for obtaining foreign exchange from the banks. Meanwhile, the range of imports financed by the Bank at the preferential rate had been reduced.

In November 1953, the Bank would sell foreign exchanges at the preferential rates of 16.75 bahts to one dollar,

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and 45 bahts to one pound sterling to cover imports of 19 types of commodities. The open-market rate was about 21 bahts to a dollar and 57 bahts to a pound. The commodities listed as eligible for preferential sterling and dollar rates were as follows:

- 1- Paper for printing and writing
- 2- Electric generator, parts, and suppliers
- 3- Stationary and printed form
- 4- Calculators, accounting machinery, typewriters, statistic compiling machinery
- 5- Motors, engines, farm implements, industry tools
- 6- Fire extinguishers
- 7- Electrical waterworks, telegraph and telephone equipments and suppliers
- 8- Medical and scientific equipment
- 9- Chemical and pharmaceutical suppliers
- 10- Cotton
- 11- Cotton thread and yarn
- 12- Lamps
- 13- Milk
- 14- Fuel oil and lubricating oil
- 15- Fertilizers
- 16- Cotton piece goods
- 17- Construction materials
- 18- Asphalt

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19- Bicycles, road rubber, fire engines, tractors and other vehicles used for agriculture and conveyances for construction.

The scope of preferential rate was further reduced, in March 1954, when only four groups of selected essentials were covered: milk and milk products, a few kinds of cotton textiles, medicine and petroleum products. By the middle of 1954 only milk and milk products, as well as medicine were remained on the list. At the end of 1954, the preferential rate for all transactions was abolished, thus there were only two rates, the official and free market, for both sterling and dollar.

In order to ease the tight foreign exchange market, the Bank after abolishing the preferential rate, began to sell sterling and dollars to the commercial banks at the open market rate. The sale of sterling and dollars at this rate would be confined to the importation of the above 19 categories of goods essential to the needs of the people and the economic development of the country.

As for the direct import control, the licenses which had been of limited application during the favorable balance of trade in 1948-1951, had been tightened again at the end of 1952. At the beginning of 1953, 17 kinds of non essential imports were prohibited, and all luxury goods were licensed.

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In November 1953, the control of 35 categories of import was issued by a Royal Decree. During 1954, the control on import was further restricted. Non essential goods were cut from the list of importable goods which resulted in the prohibition of 94 items.

Licensing and Exchange Controls during 1955-1956

With the exchange control and import restricting during 1952-1954 and the beginning of 1955, it was found that quantitative import restriction lead to a large decline in government revenue from import duties which was urgently needed for reducing the budgetary deficit. However, complete abandonment of licensing and exchange controls can not be put into effect until Thailand's balance of payments position has further improved. In mid-1955, a review of the licensing system resulted in the abolition of license requirements for most of the items which were listed during 1953-1954 and, as a corollary, in increased import duties.

However, goods which the Thai Government deems to be of limited necessity were subject to licensing, and the importation of goods classified as luxuries and goods produced locally in sufficient quantities were prohibited (5). This was

(5) The import ban applied to 17 categories of goods: Watermelon seeds, arecanut, rattan, leaves for cigarette-rolling, slippers and sandals, coconut oil, veneer sheets of

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done in order to save foreign exchange and to protect Thai domestic industries.

Goods subject to this import licensing were listed as follows:

- 1- Meat
- 2- Fruits
- 3- Garlic
- 4- Fans
- 5- Art objects
- 6- Steel girders
- 7- Paper products
- 8- Stationery
- 9- Miscellaneous handicraft articles
- 10- Flavoring powder
- 11- Paper for writing, printing
- 12- Textile grey goods
- 13- Cement
- 14- Earthenware
- 15- Gold and silver ornaments; silverware
- 16- Tinplate
- 17- Metallic utensils
- 18- Oil and hurricane lamps
- 19- Automobiles
- 20- Oil for paint mixing
- 21- Sugar
- 22- Matches

On the export side, the Government resorted to several measures to provide incentive for exporters. In January 1955, it did away with the practice of exporting on a government-to-government basis as well as the monopoly on rice exports, by reverting to private trading. Since then the Government had merely supervised the quality of rice exported and required

wood, old newspapers for wrapping purposes, paper and wooden fans, toothpicks, fireworks, bamboo hats, mats made of rattan, basketwork, pestles and mortars, mosquito sticks.

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exporters to surrender foreign exchange at the official rate according to the standard prices for various grades of rice, and to pay premiums (equivalent to export duty) in local currency to the Government. The premiums were fixed at 400 bahts per ton for the best grade of rice and 20 bahts per ton for broken rice.

Further liberalization of export policy took place in August 1955, when the government abolished the requirement to surrender foreign exchange from rice and tin exports. But the premium rate payable by rice exporters was raised to 1,050 bahts per ton for the best grade and 300 bahts per ton for the lowest grade of broken rice. This was done in order to drain some of the extra profit enjoyed by the exporters as a result of the change in the effective rate.

This process of export liberalization took another step forward in September 1955. At this time the government abolished the requirement of the foreign exchange proceeds from rubber exports. At the same time, the royalty rates of tin and rubber were also raised. However, despite this increase in premium and royalty payments, the actual current income of rice, tin, rubber exporters was higher than before on account of the abolition of the surrender requirements. This new system allowed the government to adjust the premium and royalties more easily to meet the changes in world price movements.

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By these measures it is hoped that the government revenue will be maintained at a high level and that the trade balance will be kept within bounds, without recourse to a complicated exchange structure. The exchange rate will fluctuate according to demand and supply in the free market.

The Equalization Fund, which was set up in July 1955 from the funds available after the revaluation of currency reserve in March 1955, aimed at stabilizing undue short-term fluctuation in the free market. This was accomplished by the respective sale and purchase from commercial banks.

The relaxation in export regulations should also provide more incentive to exporters, especially if the new premium or export-duty rates are flexible and sensitive enough to change in the world price and domestic costs. The final outcome will, of course, depend on world demand for the main export products of Thailand, especially rice.

During 1955, the result of these measures, gave rise to improvements in the balance of trade. In the first nine months of 1955, rice exports increased, as the liberalization of the rice export control system had given private traders more scope in negotiating their contracts abroad. During this year there was an export surplus of some 13 million dollars, but with the service deficit, the balance of trade

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turned into a deficit of 15.6 million dollars, which was the smallest deficit since 1952.

From January 1956, all exchange transactions both exports and imports are conducted at a single fluctuating rate.

CHAPTER FIVE

THE EXTERNAL VALUE OF THAI MONEY

The external value of Thai money or the baht ^{is referred to} depends primarily on the rate of exchange existing between baht, the pound sterling and the US dollar. The following analysis will deal with the rates of exchange in term of these two currencies.

Baht-Sterling Exchange Rate

Under the multiple currencies system in 1947, there were two sterling-baht exchange rates; the official rate fixed at 40 bahts to one pound, and the open market rate which fluctuated according to the demand for and supply of sterling. The open market rate is the truer measure of the strength of Thai money relative to sterling.

The supply and demand of sterling in the free market

In 1947, the open market was dependent on the following sources for its supply of sterling: 80 per cent of the sterling exports of rubber, 50 per cent of the sterling exports of tin, the whole of the sterling receipts from other exports, excluding rice, and the sterling receipts from invisible items and smuggled exports. The size of the sterling supply in the free market was then determined by the volume of exports, especially rubber and tin.

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The demand for sterling in the open market, on the other hand, depended on the requirements for permissible imports, to which the official rate was not applied, capital transfers, service payments and smuggled imports.

The change from single exchange rate to the multiple currencies system in 1947 meant an increase of sterling supply in the free market. The black market rate which stood at 82 bahts to one pound sterling at the beginning of 1947, dropped to some 60 bahts at the end of the year (1).

With the surplus from the balance of payments during 1948, the foreign exchange accruing to the Bank had increased. In March of the same year, the Bank started to sell sterling to the commercial banks at the preferential rate for approved import payments (Imports to which the fixed official rate at 40 bahts did not apply).

In 1948, the sterling part of the free market, therefore, was composed of two sections:

1- A market for sterling acquired from the Bank of Thailand at the Bank's preferential rate. This supply placed on the free market by the Bank was drawn (after the requirements at the fixed official rate had been met) from the whole of the sterling receipts from the export of rice, 40 per cent

(1) Bank of Thailand, Ten Years of the Bank's Operations, Bangkok, 1952, p. 7.

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of the proceeds from tin export, 20 per cent from rubber, and 50 per cent from teak export.

2- ^{the} open market rate was the same as in 1947.

In March the open market rate was 60.53 bahts to one pound, and the Bank's preferential selling rate was 59.50 bahts. On the average of the exchange rates during 1948, the preferential rate was 59.45 bahts and the open market rate was 60.45 bahts. The open market rate tended to move in the same direction as the preferential rate. This was due to the fact that the Bank of Thailand supplied over one-half of the total sterling in the free market (Bank's estimation). For the above reason, the Bank played a very important role in the determination of the free market rate of exchange, though the two markets were separated from one another.

In 1949, as a result of a favorable balance of trade amounting to some 50 million dollars, the external value of baht was slightly improved from last year. The preferential rate stood at 58.75 bahts at the beginning of the year and dropped to 57 bahts at the end.

On the other hand, the open market rate remained constantly at 60.50 bahts, during 1948 and the first nine months in 1949. During this period, the gap between the two rates grew larger than in previous years. The difference ranged from one to four bahts to one pound sterling. The Bank's

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explanation for this rather wide margin of difference was that the sterling purchases from the Bank could only be used for payments of certain permissible imports. And that other transactions, many of a speculative nature, had to be financed entirely by exchange obtained on the open market, thus pushing up the open market rate.

After the devaluation of sterling in September, the open market rate which had stood at 60.50 bahts at the beginning of September, declined to 58.74 bahts at the end of the month. It remained comparatively steady between 58.30 - 58.94 bahts until the middle of October, and began to fall below 58 bahts in the latter part of the month. At the end of the year, it remained at 57.25 bahts or .25 bahts more than the preferential rate.

During 1950-1951, the baht-sterling exchange rate remained low as a result of the large surplus during these two years. The open market rate at the beginning of 1950 was approximately 58 bahts, fell to 55.44 and 52.40 bahts to one pound at the end of 1950-1951 respectively.

With the accumulation of foreign exchange reserve during the favorable balance of trade since 1948, the Bank of Thailand adopted a policy of appreciation of baht in the free market. In April, the revaluation of baht in terms of pound sterling by fixing the preferential rate at 45 bahts, or six bahts lower than the existing rate.

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The effect on the open market rate of this appreciation of the baht's free rate was almost instantaneous. The commercial bank's selling rate dropped from 51.37 bahts to the pound in February to 46.12 bahts in March and further to 45.73 bahts in May, subsequently lowered to 45.37 bahts at the end of 1952.

The Bank's preferential rate was subsequently maintained at 45 bahts per pound during 1953. Towards the end of this year, the Bank restricted the sale of sterling at the preferential rate to only 19 categories of goods, because of the short supply of sterling that resulted from the unfavorable balance of payments during 1952-1953. The importers who could not obtain the foreign exchange at the preferential rate, had to buy at the open market rate, thus caused an excess demand for foreign exchange. As a result the foreign exchange rate of commercial banks in the free market showed a rising trend throughout the year.

The open market rate stayed at 45.50 bahts during the first two months of the year and gradually increased to 47 bahts during April and September, and it rose to 49 bahts in October, and 54 bahts in the last two months of 1953.

The unfavorable balance of trade continued during 1954, causing the sterling reserve of the Bank to decrease sharply. In the beginning of the year, the range of imports for which exchange could be supplied by the Bank at its pre-

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ferential rate was considerably reduced, and subsequently ceased to exist, thus the supply of sterling was confined to the open market alone.

The open market rate during this period was at a higher level than in 1953, the average rate for pound sterling reached its peak at 59.68 bahts. It dropped to 57 bahts at the end of the year, because the directed control in the form of quantitative restriction of imports, limited the demand for sterling.

In 1955, the external trade position improved with a small deficit in the balance of trade. Despite the small deficit during this period, the rate of exchange previously maintained at 57 bahts at the end of last year, rose to 62 bahts in May 1955. The rise of sterling demand, resulting from the relaxation of the direct import control previously imposed at the end of 1954, was the cause of the increase in sterling rate of exchange during the beginning of 1955. As the position the balance of trade improved towards the end of the year, the rate of exchange decreased from 62 to 59 bahts for one pound sterling.

The abolition of the fixed official rate and the surrender requirements by the Bank of Thailand at the end of 1955, left the determination of the exchange rate to a free forces of supply and demand. Since January 1956, all transactions are conducted at a free market rate. During

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the first six months this rate fluctuated between 57-59 bahts to one pound sterling.

From the above analysis, it is apparent that the favorable balance of payments of Thailand during 1948-1951 had strengthened the external value of the baht. This is corroborated by the fall of sterling-baht exchange rate from 82 bahts in 1947 to 52.40 bahts at the end of 1951. The sterling value of the baht rose in 1952, but this low rate of baht-sterling exchange does not represent the true external value of the baht. The exchange rate was not due to the full interplay of supply and demand but to a policy of appreciation pursued by the Central Bank. This artificially high value of the Thai money could not be maintained because of the unfavorable balance of trade during 1952-1954. It thus drained off the foreign exchanges of the Bank and of the private sectors. The value of the baht was then left to find its own level according to demand and supply. It rose from 46 bahts at the beginning of 1953 to 62 in May 1955. With the improvement in the balance of trade during 1955, it dropped again to 59 bahts at the end of the year, and remained relatively stable at this rate during the first six months of 1956.

The baht-dollar exchange rate

During 1947-1953, there were two exchange rates between the baht and the dollar; the fixed official rate at

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9.95 bahts and the open market rate. The supply of dollars in the free market came from 80 per cent of the dollar exports of rubber, 50 per cent of the dollar exports of tin, the whole of the proceeds of other dollar exports and of smuggled exports sold against dollars. The demand for dollars in the free market came from the requirements for dollar imports and dollar remittances, for which the official rate was not applicable, for smuggled imports (including gold), and for capital transfer.

In 1947, the foreign exchange market gained recognition from the Thai Monetary Authority. The larger proportion of foreign exchange from the export proceeds automatically was available in the free market, thus resulted in the decline in the rate of exchange. The dollar-baht exchange rate dropped from 27 bahts to one dollar at the beginning of 1947 to 19 bahts at the end of the year.

The value of the baht steadily strengthened during the favorable balance of payments between 1948-1951. The range of the average rate of the exchange between the baht and the dollar was from 24 bahts in 1947 to 22.23 bahts in 1950. It dropped to 21.50 at the end of 1951.

When the Bank started to sell the pound sterling at 45 bahts to one pound during 1952, the free market rate of exchange between the baht and dollar had declined from 21.50 bahts at the end of 1951 to 16.69 bahts at the end of 1952,

as the result of baht revaluation in terms of sterling. The decline in this exchange rate could not be maintained very long, because the Bank did not make dollars available in the open market. The dollar rate of exchange then increased during the first six months of 1953 from 16 to 18 bahts. In order to stop any further increase, the Bank started to sell dollars at the free rate 16.75 bahts in May 1953, but to importers of essential goods only. The immediate result from the Bank's action, the free market rate remained temporarily steady at the previous level.

Since the dollar preferential rate applied to only a few categories of goods, the free market rate rose to 20.25 bahts at the end of 1953 and thus averaging to 18.38 bahts during this year.

The adverse balance of payments in 1954 revealed the true external value of the baht; when the Bank was forced to curtail its policy of making dollars available on the open market at the artificial rate, the open market rate rose to 22 bahts. A similar rate would have prevailed in 1953 if there had been no interference by the Government and the Central Bank.

In 1955, the average rate of exchange varied from 20.60 to 22 bahts or somewhat the same level as the exchange rate in 1954, despite the fact that the deficit in 1955 was much smaller than in 1954. The relatively low rate of

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exchange in 1954, in comparison with the large deficit in the balance of payments, was due to direct import controls which limited the demand for the foreign exchange. Most of these import control had been lifted by the end of 1955, causing increased imports and ultimately increased the demand for foreign exchange. The rate of exchange, therefore, remained at the same level as in 1954 regardless to their deficits during the two years.

In the beginning of 1956, the baht external value was relatively stable as in the previous year.

The relative fluctuation in the value of the baht in terms of dollars and of pound sterling displayed a similar pattern. It rises and falls according to the surplus and deficit in the balance of payments, and the policies influenced by the Government and the Central Bank. It was apparent that the preferential and the open market rate were interdependent. It was apparent, too, that if transactions in the sections of the market were confined to Thailand's imports and exports the Bank could within limits, through its control over the larger part of export proceeds, determine the free market rate. By withholding its supply off the market, it could force the rate up, and by lowering its own preferential rate sufficiently, bring the market rate down. Its ability to force the rate up or down, depends on the size of its foreign exchange reserve which in turn

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depends on the surplus of the balance of payments.

Since at the beginning of 1956, the foreign exchanges of the export proceeds were not required by the Central Bank, and the import restrictions were based on import tariff rather than the quantitative measures. Thus the Bank of Thailand and the Government ^{do} are not interfered with the determination of the foreign exchange rates. These single rates of exchange then fluctuate according to a free forces of demand and supply for foreign exchanges, which reflected in the balance of payments. These rates, therefore, give a more accurate external value of the baht than they were before.

CONCLUSION

Thailand's inability to maintain a favorable balance of payments and thus a strong external value of the baht, can be traced to her preponderant dependence on agricultural products, in particular rice, as export earners. The export revenue of rice depends on the size of the crops and the demand existing on the world market. The former depends on the whims of nature, and the latter on the whims of international market. Both these determinants lie, for the most part, outside the scope of any corrective action on the part of Thailand. Floods and droughts can be mitigated to some degree by the improvement and extension of the already existing irrigation system, but Thailand can do little to abate fluctuation of world demand for her agricultural products.

The level of domestic production of rice has, in the past, proved to be inelastic. Despite the fall in world demand for rice during 1953-1954, domestic production remained relatively constant, resulting in a maladjustment in the home economy and hardship for the large number of Thai farmers. A partial solution to this problem could be found in improving and extending the domestic market for rice by the greater processing of rice, e.g. liquor, flour, etc.

The single crop economy is doomed to be the slave of the vicissitude of the world market; there is, therefore,

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a need for the diversification. This diversification, for the present, should take the form of additional primary production, and in particular, the diversification of agricultural products. Any immediate expansion in the manufacturing field will not ensure the growth and stability of the Thai economy because:

1- Basic facilities such as electricity, highway, have to be augmented to permit any degree of industrialization.

2- The gestation period to realize production in the heavy industry, plus the large outlets by the government for capital equipments, would have a three-fold inflation effect; a government deficit, a curtailment of domestic production of consumer goods, and the scarce foreign exchange spent on the importation of capital equipments would deprive the domestic market of foreign consumer goods.

3- Thailand has limited access to markets for manufactured goods because the domestic market at present is incapable of absorbing great quantity of manufactured goods, while the competition in the world market would be severe due to the advantage position of Japan and Hongkong.

Instead of encouraging the production of manufactured goods, the government should take a more active role in establishing plants for further processing of raw materials, rubber and tin. In order to induce the stability of these

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primary industries, the government should buy domestic production in the face of insufficient world demand, even if this necessitates deficit financing.

As the responsibility of the government has increased in response to the economic growth of the country, the government therefore needs a substantial amount of foreign exchanges for the importation for this purpose, and thus the multiple currencies system should not have been abandoned too soon. Although it must be conceived that a free single currency system encourages foreign trade, in the case of Thailand this end could be effectively reached by other alternative measure, such as the bilateral trade agreements.

The existing agreement between Thailand and Japan should be used as a model. By this way, the balance of trade will be kept within bounds at a higher level of trade, and thus eliminating the shortage of foreign exchanges.

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