THE DEVELOPMENT OF THAILAND'S MANUFACTURING SECTOR AND ITS PROSPECTS IN THE WORLD MARKET TODAY

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ABSTRACT

The T'ai people began spreading south from China over three-thousand years ago.[1] They gradually began to settle in the area of southeast Asia. Those that settled in the area of Thailand (*known as Siam until 1939*) are a fascinating group to study. When they settled they assimilated the basic principles of Buddhism and other such influences as classical dance and architecture from earlier settlers (*Indian origin*) whom they subdued. By the thirteenth century they essentially gained control of the regions of Laos, Cambodia and northern Malaysia and maintained control of these regions through the feudal system. The country further rose in identity and power under the rule of the Chakri Dynasty (*which still reigns*) after permanently driving the Burmese invaders out in the 1770's. King Rama I, the first monarch of the Chakri Dynasty, moved the Thai capital from Thonburi to across the river to Bangkok; located in the alluvial basin of the Chao Phraya River in 1782. By the turn of this century, though, after colonial encroachment Siam shrank to roughly the size of France with a land mass of approximately 500,000 square kilometres (*equivalent to the Thai measurement of 320 million rai where one rai is about 0.4 acres*). And today she has maintained those boundaries.

Thailand is presently characterized as a middle-income country

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1 T'ai, not to be confused with Thai, is the name of the race of people that settled in the regions of southern China, Burma, Laos and Thailand. It is only coincidental that the name of the people of Thailand are called Thai.

with a nominal per capita income of 39,000 baht; equivalent to around US $1,500 (Refer to **Figure 1**). Like much of Southeast Asia, and for that matter other developing countries as well, Thailand is largely an agrarian economy, with approximately sixty per cent of the population currently engaged in farming. The issue of being plagued by over-population growth is not as much of an issue as other developing countries face with Thailand's present population growth at an acceptable rate of 1.7 per cent and sustaining a population density of one-hundred and eleven per square kilometre. The population of Thailand, which is presently estimated at fifty-seven million, has such minorities as Chinese, Malaysians, Laotians, Khmer, Mon and indigenous ethnic groups (*making up twenty per cent of the population*). Despite these minority groups, Thailand has a very homogeneous population.

The country is geographically divided into four distinct natural regions. The *Central Plain* region, where nearly half of Thailand's population live, is broad and flat with an ideal climate to grow rice. The *Northern* region is partly forested with the Tenasserim mountain range extending along the full length of the Burmese border. The *Southern* region is bounded on both sides by seawater; from the west, the Andaman Sea and to the east, the Gulf of Thailand. The area is densely covered by rainforests with the Chanthaburi hills residing in the region. The *Northeast* region is dominated by the semi-arid Khorat Plateau. The region generally has poor soils along with low rainfall, making it agriculturally inferior to the fertile Central Plain.

Beyond Thailand, the nation borders with four other countries: Burma from the west, Malaysia from its isthmus in the south, Kampuchea (*formerly called Cambodia until 1979*) from the southeast, and Laos from the north and northeast. Of these neighbouring states, Thailand has witnessed communist revolutions from the latter two as well as Vietnam which borders Laos and Kampuchea from the east. Even more intriguing, although Thailand lost her territories through colonial encroachment she, herself, remarkably managed to remain independent. And along with China and Japan, Thailand was the only country not to be colonized in Asia.

Similar to many developing countries, the armed forces have traditionally exercised a pervasive role in Thai politics in the name of national security. A candidate (*always a member of the Armed Forces*) expressing wish to become prime minister must first be acceptable to the army. Since the transition from an absolute to a constitutional monarchy in 1932, the military has been able to control a significant proportion of the important portfolio positions. The transition has also endured seventeen attempted or successful military moves against the government with the latest one occurring on February 23, 1991. The armed forces generally ousts a prime minister who is seen to have lost the confidence of the nation. Hence, the government of Prime Minister Chatichai was overthrown by the army in early 1991 in a bloodless coup and replaced with a civilian democracy.

Whatever the nature of the political government, since 1961 those in power have been using national economic and social development plans to establish the framework and guidelines for national development. These plans include the allocation and management of economic, natural, human and financial resources and governmental administration in order to improve the economy and the people's livelihood. National development under the previous five national development plans, covering a period of twenty-five years, has improved these two indicators. *Gross national product* (GNP), for example, has increased eighteen times from 1961 to 1985 while the annual growth rate of GNP per capita has been 4.2 per cent during the same period.[2]

The guidelines for the manufacturing sector, though, have altered in path since 1961. Initially, nationalism was intensified, embarking on the *import-substitution industrialization* (ISI) approach, creating high tariff walls to promote "infant industries". Gradually, after the early 1970's, a number of remedial measures have been taken in order to promote exports and an *export-oriented industrialization* (EOI) approach, mainly in the processing category, emerged in Thailand. It is the remarkable results from this strategy that have made Thailand such a fascinating country to study.

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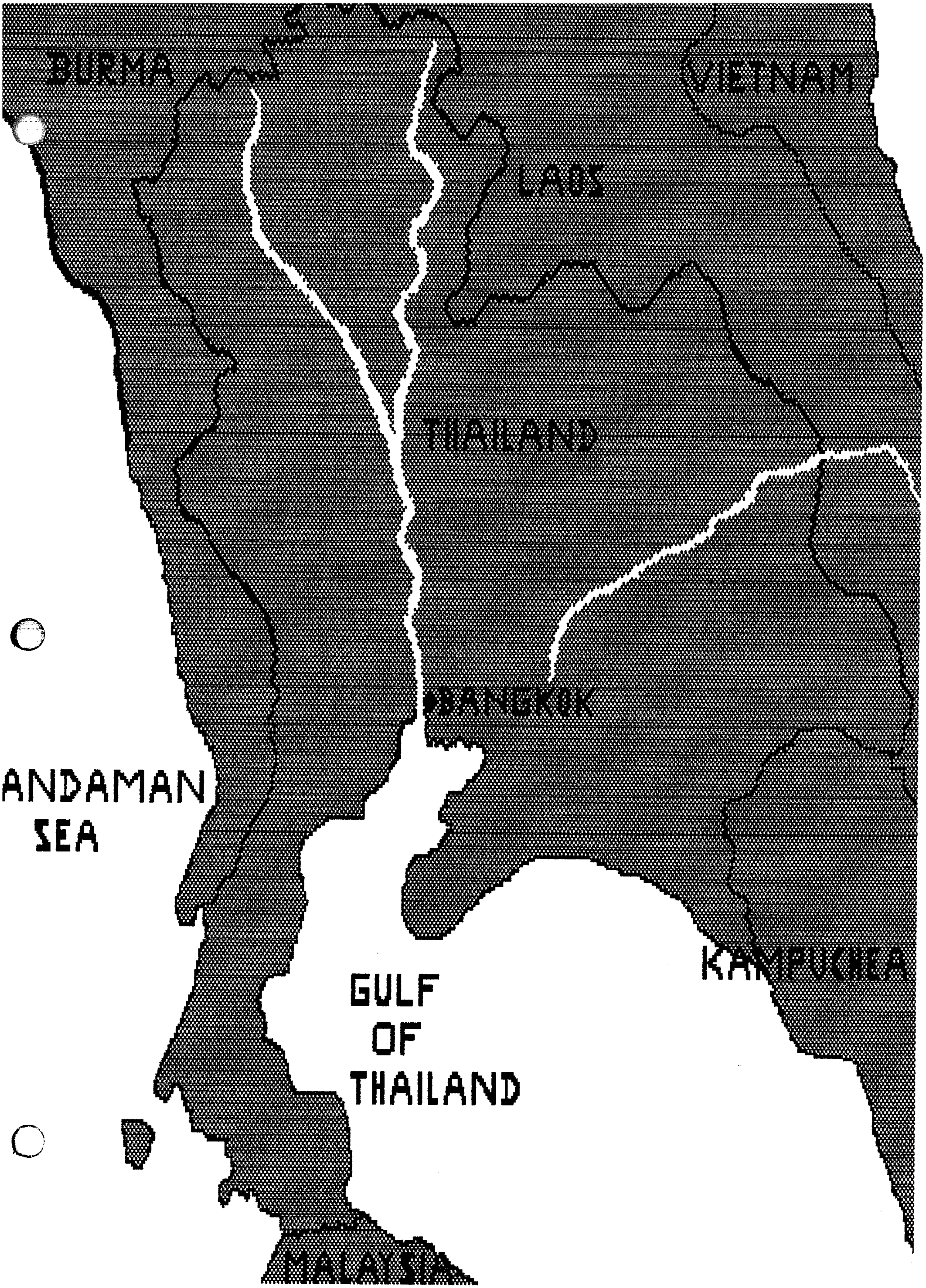
2 National Economic & Social Development Board (NESDB), The Sixth National Economic and Social Development Plan (1987-1991), p.3.


BURMA
VIETNAM
LAOS
THAILAND
BANGKOK
ANDAMAN
SEA
GULF
OF
THAILAND
KAMPUCHEA
MALAYSIA

ACRONYMS

ASEAN	-Association of Southeast Asian Nations
BMR	-Bangkok Metropolitan Region
BOI	-Board of Investment
EC	-Economic Community
EOI	-Export-Oriented Industrialization
FDI	-Foreign Direct Investment
FTA	-Free Trade Agreement
Gang of Four:	Hong Kong, Singapore, South Korea and Taiwan
GATT	-General Agreement on Tariffs and Trade
GDP	-Gross Domestic Product
GNP	-Gross National Product
GSP	-Generalized System of Preferences
ISI	-Import-Substitution Industrialization
MFA	-Multi-Fibre Arrangement
MNCs	-Multinational Corporations
NESDB	-National Economic and Social Development Board
NESDP	-National Economic and Social Development Plan
NIC	-Newly Industrializing Country
OECD	-Organization for Economic Co-operation and Development
PPB	-Privy Purse Bureau
PTA	-Preferential Trading Arrangements
TDRI	-Thailand Development Research Institute
UNCTAD	-United Nations Conference on Trade and Development

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CHAPTER ONE

INTRODUCTION

Up until the post World War II era, Third World development has essentially been tied to the external market. Such a process concentrated upon primary commodity sales to the developed capitalist countries while, in return, the industrialized countries exported manufactured goods. Thailand was no exception to this generalization. From 1850 to 1950 rice represented close to fifty per cent of her total exports and when including tin, teak and rubber as well, these primary commodities consistently represented eighty-five per cent of her exports. Meanwhile, by 1950 manufactured goods constituted over one-third of the total value of all her imports.

With a growing dissatisfaction over a lack of an industrial base as well as in the violent swings in demand that primary commodity exports exerted (*that perpetuated foreign exchange earnings*) developing countries altered their strategy gradually to initiate self-expanding capitalist development. Nevertheless, at different periods of time, developing countries across the globe began to admit that such a growth strategy had been a failure. With the market responding to supply and demand and with the mass of the population poor and unable to provide a market for goods, the decision to produce domestic manufactured goods could not mean the production of mass consumption goods. Only the upper and middle classes were capable of supporting a domestic market. Subsequently, industrialization had to focus on luxuries and consumer durables and be concentrated in existing urban areas (*further aggravating regional imbalances*). Furthermore, the local bourgeoisie in many developing countries neither had the capital nor the technology to begin their own domestic industrialization. The result was foreign debt and participation by foreign *multinational corporations* (MNCs).

By the late 1960's, a new approach to development was advanced. Given the precarious debt position facing most developing countries, it was not surprising that the key ingredient of this new strategy was increased exports. This new approach was, in a peculiar sense, to intertwine the two previous strategies. It was to be based upon the production and export of manufactured goods. By this strategy, it was hoped that the country would industrialize, earn foreign exchange and stimulate the process of domestic capitalist development.

Thailand has generally followed such a process of development since she intertwined herself with the rest of the world. The first part of this essay, chapters two through to four, shall support this.

The second part of this essay concerns the prospects Thailand's manufacturing sector holds in the future. The country's economic structure has been significantly transformed in the last three decades. For instance, there has been a rapid augmentation in the manufacturing sector activities. By 1986, Thailand exported more manufactured goods than agricultural products. And with an annual real GDP growth rate of more than ten per cent since 1988 and modest inflation, Thailand has *appeared* on the threshold of becoming a *newly industrializing country* (NIC); a term first used by the OECD in 1979 to describe the most successful developing countries.[3] Membership on the list has remained in dispute, but in Asia the universally accepted members are South Korea, Taiwan, Hong Kong and Singapore; otherwise known as the "*Gang of Four*". Elsewhere, Mexico, Brazil, Portugal, Greece, Yugoslavia and Spain are universally accepted as NICs. Although these ten countries are universally accepted as NICs, the actual definition today of a NIC is not as apparent. Nevertheless, what is apparent is that for a country to merely produce manufactured goods for export is not the only variable; otherwise most developing countries today can be characterized as a NIC. Today, for instance, the manufacturing sector in Thailand accounts for close to twenty-six per cent of GDP; yet she is not classified as a NIC.[4]

Thus many other variables in addition to rapid penetration of world markets of manufactures should be included. The type of manufactured goods produced in itself should be seriously taken into account. Is the country merely a location for the spinning off of older manufacturing export activities? If so, these industries would be of the low value-added type with low wages sustaining

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3 The World Bank, under the preparation of Balassa, defined a developing country that has risen to the rank of a NIC as a country that had a per capita income in excess of US $1,100 in 1978 and where the share of the manufacturing sector in the GDP was twenty per cent or higher in 1978. World Bank, The Newly-Industrializing Developing Countries After the Oil Crisis, (Oct. 1980), p.2.

4 The Nation Yearbook 1990/91, Coping with Change (1991), p.21.

their comparative advantage. Subsequently, once wages raises production costs to the level of making the commodity uncompetitive on the world market the industry will fold unless such measures as innovative technology occurs to displace some labour. And since re-location of labour-intensive industries to developing countries has been an important process for industrialization in the developing countries the ability to upgrade their industries seem to be an important process towards developing as a NIC. Empirically, the *"Gang of Four"* have done such that. However, in order to be capable to accomplish such a task, the level of education must be such that she can pursue such a goal. Thus, one should view the percentage of the population that have graduated at not only at the secondary level, but also at the tertiary level; especially in the field of science.

A rising share of industrial employment is another variable that should be included as part of the process of progressing towards a NIC. Today, for example, around sixty per cent of Thailand's population is still engaged in farming; a characteristic hardly exemplifying an industrializing country.

There must also be a marked increase in real GDP per capita relative to the industrialized countries. To view that the real GDP growth for a country is spectacular is not sufficient. Real GDP per capita must also be examined. In the case of Thailand, although nominal GDP per capita has been rising as viewed by **Figure 1** and although inflation is still considered acceptable, the inflation rate has been steadily rising recently leaving the real GDP per capita essentially unchanged.

After considering all of these variables, the prospects for Thailand to progress as a NIC is less promising. In fact, Thailand may face a deteriorating future. In manufacturing, Thailand's comparative advantage at this stage of its economic history lies in its low wages and thus in labour-intensive manufacturing. Nevertheless, major obstacles are in the wake of these low value-added industries and for the economy as a whole. Side effects of concentrated urban industrialization, a deterioration of natural resources, sluggish OECD growth, increased protectionism, price instability of primary products, being import dependent on raw materials and intermediate goods, increased competition from abroad and, finally, the current explosiveness of technological innovation worldwide are all negatively playing their toll on the future of the Thai economy.

Thus, to keep her competitive edge Thailand will need to invest in sophisticated technology that will displace some labour - ie in the textile industry, the functions of marking, cutting, grading and inspection could be increasingly displaced.[5] However, can Thailand execute such a high-technology strategy? Thailand has forty engineers per million people as compared to four-hundred that Taiwan has. Only fifteen per cent of Thai university students

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5 Although depressing wages is a possible alternate solution, especially considering that Thailand has a large surplus of labour in the rural area (*around sixty per cent*), such a policy would defeat the whole idea of trying to progress as a NIC.

graduate in scientific and technological disciplines, compared with Korea's near forty per cent. Subsequently, one wonders whether the case of Thailand is simply further down the scale (*in the path of becoming a NIC*) with less physical and human capital formation or whether she is stuck in a high labour-intensive stage having difficulty diversifying upscale to physical and human capital intensive exports. Time will ultimately decide which case Thailand is progressing towards. The government, on the other hand, can interfere with the nation's course through amenable macro management. To strive towards a NIC requires public as well as private support (*as the present NICs have already verified*) and if the government cannot help rectify the above perils the country could quickly find itself trapped and face a deteriorating future.

CHAPTER TWO

IMPACT OF THE BOWRING TREATY

2.1 SIAM'S INTEGRATION INTO THE CLASSICAl DIVISION OF LABOUR:

2.1.1 Reasons for the Bowring Treaty:

Unlike all other countries in Southeast Asia, and indeed practically all of Asia except China and Japan, Thailand has never been a colony of any European power. This has been argued in consequence to the British desire to keep Siam as a buffer state between British and French colonies in Asia. By the early 1900's, the British had colonized Burma and Malaysia, and the French had colonized Laos and Cambodia. Due to this desire, coupled with the British interest in the trade of Bangkok, England used diplomacy to preserve the independence of Thailand.[6]

The fact that Siam was never colonized is not to say, in the least, that the Siamese were able to remain immune to foreign economic pressures. She not only lost her territories but was engulfed into the colonial pattern of trade. During this period, the structure of world trade was based upon a small core of heavily industrialized developed capitalist countries trading manufactured goods with a larger number of raw-material supplying Third-World nations. And England, suiting the former classification, was anxious to engulf Siam into this "classical" *international division of labour*.

Nevertheless, Western influence did not necessarily

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[6] J.C.Ingram, Economic Changes in Thailand, 1850-1970 (1971), p.2.

materialize by the strong penetration of European trading companies, but by the strong desire of Siam's new monarch in 1851 to engage upon trade with the West. King Mongkut (Rama IV) was convinced that his country would both benefit from commercial contact with the West, and moreover, would preserve the kingdom as an independent nation.[7]

As a result, in 1855 the Bowring Treaty was formed with England (*negotiated by Sir John Bowring*) and the restrictions on trade were essentially abated. Not only were the British merchants finally permitted to trade with the Siamese throughout Siam[8], but an import duty of a mere three per cent was set up; the lowest rate throughout Asia at the time.[9] Additionally, inland transit duties on the average of ten per cent were imposed that undermined the growth of the manufacturing sector. As well, the Bowring Treaty set up a precedence which other countries were quick to follow. In just over a decade of the formation of the Treaty, ten other countries had managed to set up a similar commercial treaty with Siam.[10]

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7 T.H.Silcock, Thailand: Social & Economic Studies in Development (1967), p.4.

8 Prior to 1855, British merchants were only allowed to trade with Bangkok and only through the third party, the monarch's officials. J.C. Ingram, op. cit., p.34.

9 S.Akira, Capital Accumulation in Thailand (1855-1985) (1989), p.21.

10 France and the United States set up a similar commercial treaty in 1856; Denmark in 1858; Portugal in 1859; Holland in 1860; Germany in 1862; and Belgium, Sweden, Norway and Italy in 1868. Japan did not set up a commercial treaty until 1898. J.C. Ingram, op. cit., p.35.

As immediate outcomes, the structure of the economy swiftly alternated from one of virtual self-sufficiency to one of highly concentrated trade of primary products and a transition from regionally centred to colonial type of trade took place. Siam subsequently faced the same fate as colonized countries; supplying staples to colonial areas and in turn providing domestic markets for European manufactured goods. That is, Siam became integrated into the world capitalistic system.

2.1.2 Collapse of Local Industries:

Before 1855, Siam had the characteristics of a self-sufficient economy. The working population was almost wholly engaged in agriculture with rice being the principle staple diet then as now, followed by fish which are abundant throughout the great networks of rivers as well as in the Gulf of Siam. The majority of the population also made their own clothes with cotton and constructed their own houses with teak. Although internal trade definitely existed to enable the Siamese person to gain all his needs and wants, trade throughout the country primarily took place on a barter system. And the country as a whole did not trade much with the outside world.[11] The little foreign trade that did persist was mainly with neighbouring Asian countries. Imports consisted of consumption goods (ie- foodstuffs) and exports consisted of a wide range of goods including sugar, hides, cotton, tin, rice and dried

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[11] J.C.Ingram, op. cit., p.10.

fish.[12]

Following the Bowring Treaty the three per cent import duty gave easy access for the more technologically advanced manufactured goods (*specifically, textiles*) of the West to penetrate the Siamese market. This result not only changed the flow of Siamese trade from the neighbouring Asian countries to the West (England principally), but undermined any growth of a Siamese manufacturing sector. The textile industry, primarily situated in the Central Plain region, for example, virtually ceased to exist after the Treaty. By 1948, a mere 24,000 rai were set aside for cotton plantation in the Central Plains.[13] The subsistence farmers in this region increasingly turned their attention to cultivating solely rice as their cash crop. Subsequently, the area previously set aside for cotton throughout the villages increasingly became replaced by area for rice.

The commercial treaties *were* the cause of this phenomenon. With imported manufactured goods subject to only a three per cent import tariff along with inland transit duties, the imports of textiles were considerably cheaper than the painstaking process of the Siamese growing their own cotton, which were riddled with plant diseases and uncooperative weather. More importantly, the relative price of exported rice in terms of imported manufactured goods

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12 S.Akira, op. cit., p.347. Akira refers to D.E. Malloch, Siam: Some general remarks on its productions, and particularly on its imports and Exports and the mode of transacting business with the people (1852), Appendix.

13 J.C.Ingram, op. cit., p.119.

changed in favour of paddy growers (*paddy is rice before threshing*). By 1904, the export price of rice doubled the 1890 level to about 94 baht per metric ton, and further accelerated to average 114 baht per metric ton during the Roaring Twenties.[14] But the cost of imported cotton yarn did not augment. As Feeny points out, the ratio of the rice export price to the import of white shirting, for instance, increased by three times and by over four times in grey shirting from 1865 to 1940.[15] Subsequently, the improved purchasing power derived from higher rice export prices as well as stagnant import prices of textiles resulted in the farmers to increasingly abandon making clothes for themselves.

Although the textile industry was primary a *cottage* industry before 1855, there did exist two textile manufacturing centres in Siam: the cotton industry in the North and the silk industry in the Northeast.[16] And with the demand for textiles steadily rising in the Central Plain region in response to not only fewer farmers growing cotton but a rising population, a market widely became available in this region. Nevertheless, the stiff competition that resulted from Siam tying in with the international market proved dismal for these manufacturing centres. High transportation costs to the Central Plain could not compete with the cheap imports of England. Ingram depicts that "*It is quite likely that it was cheaper to*

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14 D.Feeny, The Political Economy of Productivity (1982), Table A1-1 (pp.127-129).

15 Ibid., p.17.

16 J.C.Ingram, op. cit., pp.116-117.

ship a ton of cloth from England to Bangkok than from Chiengmai to Bangkok."[17] And even when the railway lines reached Chiengmai in the 1920's, high railway rates were too costly for this town, situated a mere three-hundred miles north of Bangkok, and other towns, to compete with the world market. A similar story holds true for the silk industry in the Northeast region of Siam. As a result, the textile manufacturing centres were severely handicapped and failed to flourish under the commercial treaties.

The sugar industry, yet another example, which was Siam's main export item prior to the commercial treaties faced the same grim outlook as the textile industry. In 1850, sugar exports accounted for nearly twenty-five per cent of Siam's total exports.[18] By 1889, the export of sugar altogether ceased. Perhaps as the major reason for the collapse of this domestic industry was the drastic fall in the local price of sugar. Feeny points out that: "*The decline in sugar prices was the result of the tying of Thai prices to the international market where supplies from Java and the Philippines competed effectively with the domestic industry.*"[19] Ingram reveals that the price of sugar in Siam dropped more than sixty per cent from 1873 to 1900.[20] Moreover, sugar cane and refined sugar, unlike rice, were subject to a variety of domestic taxes which, in turn made Siamese sugar more

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17 Ibid., p.114.

18 S.Akira, op. cit., p.347. Akira refers to D.E. Malloch, op. cit., Appendix.

19 D.Feeny, op. cit., p.43.

20 J.C.Ingram, op. cit., p.125.

expensive on the world market. As a result, the Siamese sugar industry could not compete on the world market, and suffering from the same fate as the textile industry, there was a shift of land use from sugar cane production to rice production. "*By 1907, the planted area of sugar cane came to a mere 43,124 rai, far smaller than the 9,200,000 rai of paddy fields in cultivation at the time.*"[21] At the same time, Chinese workers in the sugar mills were abandoning the mills to the higher paying labour jobs in the rice mills.

2.1.3 Thailand's Emergence in Supplying Raw Materials to the Industrialized World:

Gradually after the Bowring Treaty, Siam began to concentrate on supplying raw materials to the industrialized world. Four primary commodities, rice, teak, tin and rubber, consistently represented eighty-five per cent of total exports from 1850 to 1950; with rice representing roughly fifty per cent.[22] Subsequently, lacking capital and heavy industrialization, Siam's place in the framework of world trade was that of a typical colony; supplying raw materials to industrialized countries. Nevertheless, unlike a typical colony, the major primary product that Siam exported (rice) was also her major staple for the population.

2.2 SOCIAL DIVISION OF LABOUR:

The outcome of the Bowring Treaty not only resulted in Siam

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[21] S.Akira, op. cit., p.35.

[22] D.Feeny, op. cit., p.43.

being tied in to the "classical" division of labour, but resulted in an emergence of a "social" division of labour. That is, the specialized form of trade that Siam began to engage upon became predominately owned and operated by European and Chinese capitalists while the Siamese remained on the paddy fields. Subsequently, a domestic middle class failed to develop.

There was the *Privy Purse Bureau* (PPB), which was established during the reign of king Rama II (1809-1824), but the PPB was placed under the direct control of the king himself. With a fixed percentage of the state's revenue (*varying from year to year but averaging ten per cent*) allocated to the PPB, the money was then partly used for providing loans to the rice mills as well as for infrastructural purposes such as electrical plants and railways and non-profit undertakings such as educational funds. Perhaps as the single most important contribution the PPB made was setting up in corporation with Danish capital in 1913 the Siam Cement Co., Ltd., which was the first Thai-owned manufacturing plant. This company became successful and quickly expanded its production capacity in response to increasing demand for cement during construction of a nationwide highway network, dams, and irrigation facilities as well as having the availability of materials locally. High transport costs on imported cement also played a key role. Nevertheless, with the strong penetration of foreign firms a rising domestic capitalist class failed to materialize. By opening her doors to the world the Siamese could not compete with the technologically advanced firms of the West. And the three per cent import duty and the ten per cent transit tax further enhanced this problem.

In the early stages of the rice industry, for example, "*European trading houses*" developed rice mills and had substantially controlled the exportation business. Rice mills in Bangkok augmented in number from a mere three mills in 1864 to twenty-five in 1892; the majority of which were owned by these European trading houses, and they controlled around sixty-eight per cent of the total rice export trade by 1888.[23] By the closure of the nineteenth century, though, the Chinese merchants began controlling the rice industry. With the capital that many of them accrued from the junk trade in opium and spirits, they were financially capable to shift their business activities towards rice milling and exporting. There are two prominent reasons for this phenomena. *First*, the Europeans traded "*cargo rice*" in order to export it over a long distance to European markets, while the Chinese mainly exported "*white rice*" for the markets in colonized Asia. Since white rice was a higher value-added product than cargo rice, Chinese rice millers/exporters were able to make a quick accumulation of profits. *Secondly*, the Chinese rice millers were capable to compete with the Europeans at the technological level. The modernized rice milling machines were not as expensive as the equipment employed in such other industries as tin which employed expensive dredging machines. Hence, by 1898 European trading houses only operated four of the forty-two rice mills; accounting for a mere ten per cent of

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[23] S.Akira, op. cit., pp.47-48.

production capacity.[24]

In the early stages of tin mining, the industry was essentially controlled and employed by Chinese. Their primitive washing system, though, was overshadowed by 1908 by the development of the dredging system; which integrated the three major production processes: digging, transporting ore from the pit to the surface and selecting ore from other admixtures. The cost of the machine, though, was too expensive (*30,000 pounds in 1919*) for the Chinese to acquire. Large-scale smelting plants were thus developed by the Europeans who quickly increased their share of the total tin ore production; increasing from a mere four per cent during the period 1905-1909 to fifty-five per cent by 1925-1929.[25]

European trading houses also largely controlled the teak industry. Teak concessions were not only granted to them, but the large-scale saw mills and the exporting business largely lay in their hands as well. In fact, two European trading companies alone, The Borneo Co., Ltd. and The Bombay Burmah trading Corp., had obtained twenty-three of the thirty teak concessions by 1900.[26]

The Siamese, on the other hand, increasingly engaged in the production of rice. Towards the turn of the twentieth century, rice cultivation became the main occupation for 80-90 per cent of the

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[24] Ibid., p.50.

[25] Ibid., p.66.

[26] Ibid., pp.58-59.

Siamese population.[27] The Siamese were seemingly satisfied remaining in the cultivation of rice. While the export price of rice doubled the 1890 level in 1904, the nominal daily wage rate for unskilled labour in Bangkok grew comparatively less; increasing by 25 per cent to 1.00 baht.[28] The Siamese, hence, found it increasingly more attractive to engage upon the production of rice rather than to embark in wage labour.

2.3 SYNOPSIS:

In summary, Siam became integrated into the "classical" division of labour. The pattern of trade changed from neighbouring Asian countries to the industrialized capitalist countries. Manufacturing industries from the West were able to profit from Siam's position (*displacing any possibility for domestic industries to thrive*), while Siam merely engaged in supplying primary goods to the West. More strikingly, even the concentrated export pattern of trade was essentially controlled and directed by foreign merchants. In the rice industry, the Siamese acted as mere paddy growers, selling their rice to the Chinese rice mills. The rice mills, themselves, were predominately employed by Thai-Chinese. In the other major export-oriented industries, the picture was even more bleak where the Siamese were virtually excluded altogether from employment opportunities. And the European capitalists were able to

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27 J.C.Ingram, op. cit., p.37.

28 D.Feeny, op. cit., p.17.

control these industries through their capital funds that originated from their parent companies abroad. Subsequently, an increasing social division of labour emerged within Siam and a domestic capitalist class failed to develop.

Although the impact of the Bowring Treaty had negative features for a domestic class to materialize, to prognosticate that the commercial treaty was the reason is not a sufficient condition either, since one cannot verify the prospects if Siam had not integrated itself into the world capitalist system. Nevertheless, what is apparent is that Siam did skilfully avoid becoming a colony of an European power and was able to maintain its own cultural and economic identities.

CHAPTER THREE

RISE IN NATIONALISM

3.1 STATE-LED INDUSTRIALIZATION:

The Chinese were increasingly becoming dominant in the Thai economic scene. Generally arriving to the country as coolie workers, these Chinese immigrants quickly established themselves as labourers in the major export-oriented industries as well as successful entrepreneurs in such industries as tobacco, liquor, rice and the tanneries.[29] In addition, these Chinese were immigrating in great numbers. In 1850, they accounted for approximately 5.8 per cent of the total Thai population, but by 1932, they accounted for 12.2 per cent.[30] This was because the king, in an attempt to increase the production and exportation of the country's major exports, had no immigration restrictions (*as the Thais remained on the paddy fields*). In a sense, such a policy reflects how the king never really considered the economic situation of the people.

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29 Lamsan (*who later renamed his surname to the Thai name of Taechaphaibun*), for instance, arrived in Thailand in 1907 and opened a small liquor shop. Before the Second World War, the family operated two liquor firms, a pawnshop, and a saw mill. Taechaphaibun is perhaps an extraordinary example considering his family became a financial conglomerate in the 1960's, but the example does illustrate how these families were able to thrive under Thailand's economic conditions. S.Akira, op. cit., p.256.

30 D.Feeny, op. cit., p.21. Feeny refers to William G.Skinner, Chinese Society in Thailand: An Analytical History (1957), pp.79 & 183.

In 1932, a bloodless coup took place which resulted in the transformation from an absolute to a constitutional monarchy. Those that directed the coup were soldiers and civil servants (*establishing the People's Party*) who were not content with the development of the economy and thus wanted to take charge of the process of change and development. At the time of the coup d'etat, the Great Depression was taking its toll on Thailand. The worldwide economic crisis directly worsened the Thai economy due to its concentrated export pattern, and in particular the rural people who faced a drastic decline in the export price of rice; decreasing from 121.9 baht per metric ton in 1929 to 57.7 in 1931.[31]

Although as a direct consequence of the revolution the PPB was dissolved, as a primary objective, the People's Party sought to eliminate the strong presence of foreigners, and in particular the Chinese. The government's attention was at first directed towards Chinese immigration rather than their business activities. Hence, fees to immigrate began to increase, augmenting from a mere four baht just prior to the revolution to thirty baht in 1932 and accelerating further to two-hundred baht by 1937.[32] These enhanced regulations were constructive since it were essentially only the Chinese coolies who desired to immigrate. At the port of Bangkok, for example, the amount of immigrants were abated from an annual

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31 Ibid., pp.128-129 [Table A1-1].

32 S.Akira, op. cit., p.108.

rate of just over 94,000 in 1930 to only around 16,000 by 1933.[33]

When Phibun Songkhram became prime minister (1938-1944) restrictions on "aliens" were immediately extended to the business activities of the Chinese. Phibun sought a system based on national self-sufficiency in order to prepare for the upcoming war. As a means for achieving such a goal, the government decided to actively intervene in the overall economic activity in place of the Thai people. Subsequently, the government launched a policy to control such natural resources as tin and teak against foreign economic forces. For example, when the teak concessions matured in the late 1930's, the European trading houses were not granted new ones. With rice being the main export item as well as the chief source of income for the Thai population, the new government set up the Thai Rice Co., Ltd. in the first year in their power to monopolize the industry. This state enterprise first set out to gain control in the rice exporting business before finally extending its control into the rice milling and rice shipping businesses (*all previously controlled by Chinese*). By 1939, it controlled around seventy-five per cent of the rice trade in Thailand, and by 1940 it controlled seventeen of the forty-four rice mills.[34] Other areas were also developed in areas previously controlled by the Chinese. In 1939, the Salt Act and the Tobacco Act gave monopolistic rights to the government to handle these industries and thus the Chinese were

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33 Ibid., p.108.

34 S.Akira, op. cit, p.125.

eliminated from these fields. In the case of the tobacco industry, the government took over the three Chinese factories and the British-American Co., (Thailand) Ltd. by 1941 to gain a monopoly in the domestic production of cigarettes because it acknowledged the importance of the industry as an excellent revenue source. In 1941, the Thai Rubber Co., Ltd. was established to dominate natural rubber; depriving Chinese from rubber plantationing. By 1943, the government acquired seventeen of the thirty-two tanneries (*all previously owned by Chinese*) and formed five new state enterprises for the purpose of supplying leather for the military. In the service sector, Chinese were deprived as taxi drivers.

Thus there was a goal towards ridding Chinese domination after the 1932 coup d'etat. At first policies were directed against Chinese immigration before extending to their business activities through state-led industrialization. However, such a strategy did not alter the colonial type of trade. Thailand continued to export primary commodities and used the foreign exchange accrued from them to buy the necessary imported manufactured goods. More importantly, the "*Thai economy for the Thai people*" slogan that Phibun proclaimed when coming in power in 1938 did not materialize. Instead, there was merely a transformation of economic power from foreign hands to the emerging bureaucratic capitalist Thai class who were mostly People's Party members. One study reveals that: "*The major directors of 20 selected state-sponsored companies in this period (1938-1944) numbered 27* *out of the 99 members of the People's Party in the 1932 revolution.*"[35] Even more strikingly, the Chinese business elites were not seriously affected against the anti-Chinese sentiment. In fact, they set up political alliances with the People's Party. For instance, in the rice industry, the five most powerful Chinese families, known as the "*Big Five*", leased several of their rice mills to the Thai Rice Co., Ltd. and in return received political security as well as such privileges as sitting on the company's board of directors.[36] Thus, generally the government entrusted the actual management of enterprises to Chinese partners.

On the outbreak of World War II, Thailand was essentially compelled to set up a military alliance with Japan. Subsequently, in 1940, Thailand became integrated into the Japanese empire. With Thailand being a Japanese protectorate, the little international trade that did continue during the war was mainly with Japan; a trade that was essentially governed by Japanese trading firms. In addition, the hatred between the Chinese and Japanese resulted in many Thai-Chinese being either imprisoned for working in the underground free-Thai movement or compelled to close down their

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35 Ibid., p.131.

36 The "*Big Five*" families are the Wanglee's, Bulasuk's, Bulakun's, Lamsuri's, and the Lamsan's; all still continue to maintain their influence even in the present Thai economy. In fact, the Lamsan family is one of today's four financial conglomerates. S. Akira, op. cit., p.251.

businesses.[37] Hence, several Chinese capitalists shifted their business base to politically safe havens. Suffering from even a worst fate than the Thai-Chinese merchants, the European trading houses in Thailand were destroyed.

In the immediate postwar period, Thai nationalistic feelings continued to surge against the Thai-Chinese. This was partially due the fear of communist insurgency; a fear often identified with China since the 1949 communist revolution in mainland China.[38] In fact, rural development projects were implemented to improve conditions in the northeast region, where the standard of living was the lowest in the country. When Phibun returned to power as prime minister (1948-1957), he maintained his political slogan: "*Thai economy for the Thai people*"; a phrase that in reality meant "*state-led industrialization*". Measures that were taken against the Chinese included a drastic raising of the poll tax on immigrants to four-hundred baht that affected the Chinese since they were mostly economically depressed people. Furthermore, the total number of permanent immigrants was limited to two-hundred of each nationality in 1949; a stint which mainly affected the Chinese, since most Europeans were granted temporary permits.[39]

However, once again the Thai-Chinese business elites were not

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[37] However, not all Thai-Chinese businessmen suffered from the war since many did switch the destination of their exports to Japan and prospered.

[38] Actually, by 1959 all imports from China (mainland) were prohibited. T.H. Silcock, op. cit., p.165.

[39] T.H.Silcock, op. cit., p.11.

the prime targets of Phibun's policies. In contrast with the declining "*Big Five*" Chinese rice business groups, there emerged the "*New Big Four*" Chinese groups in the postwar period which centred upon the financial sector in banking and insurance.[40] The critical element in the promotion of business expansion carried out by the "*New Big Four*" were their alliance with the military-political establishment. The "*New Big Four*" included on their board of directors Thai military leaders as well as top government officials. And the military group newly set up their own private firms as well as state-sponsored companies and gave several of the executive director positions to the Thai-Chinese as well as allowing them to become major shareholders. Hence, just as in the late 1930's, the government entrusted the actual management of the enterprises to Chinese partners.

Besides trying to consolidate Thai control over the rice trade, which was regarded as the key to the development of the economy, the Phibun government also enhanced their steps to industrialize the country. In 1954, the Act on Promotion of Industries was passed. The Act was an attempt to attract foreign capitalists by tax concessions and privileges. Empirically, between 1954 and 1958 there were ninety-three applications, but the amount *actually* granted according to Silcock were far fewer.[41] Nevertheless,

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[40] The "New Big Four" groups are: The Asia Trust (Bangkok Bank) group, the Thai-Hua group, the Ayudhya group, and the Mahaguna group.

[41] Ibid., p.268.

no action of practical significance resulted from it due to the acute shortage of capital, infrastructure and entrepreneurs. In addition, the Act was criticized for appearing to want to restrict and control rather than to encourage industry.

> *But in its administration firms seeking promotion were required to submit detailed information to officials whom they had no reason to trust. Not only could this information lead to corruption in the granting of permits; it could also serve the business interests of bureaucrats. [...] Naturally, therefore, the 1954 Act was rather unsuccessful in promoting private investment in Thailand.*[42]

Meanwhile, the government continued to industrialize the country through the development of state enterprises. During the second Phibun government another fifty state and public enterprises were created.[43] In fact, by 1957, a good deal of Thailand's limited industrial capacity had come to be controlled by state enterprises. There were state enterprises producing on a factory scale in paper, sugar, gunny bags, forestry products and plywood, stationary, pharmaceutical products, light engineering, cement, oil refinery and brewing.[44]

Phibun's policies to break the foreign domination of Thailand failed. All that had been accomplished by the government was stringent immigration laws. The state enterprises that were developed during this period were essentially managed by the elite Chinese business groups. Moreover, the development of the state enterprises did not encompass expanding the country's industrial

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42 Ibid., p.264.

43 S.Akira, op. cit., p.281.

44 J.C. Ingram, op. cit., p.229.

base. It merely consisted of taking over already existing industries. As a result, Thailand remained heavily integrated within the "classical" international division of labour. Thailand's economy remained dependent on agriculture and other primary products. The labour engaged in these primary industries constituted approximately eighty-five per cent of the total labour force. For the above reason, Thailand's participation in the international trade consisted for the most part in the exchange of her primary products for foreign manufactured goods, machinery and other commodities which could not be produced at home, or the domestic supply of which was inadequate.

3.2 THE IMPORT-SUBSTITUTION INDUSTRIALIZATION STRATEGY:

3.2.1 Theoretical Reason for the ISI Approach:

Thailand's economic picture of the 1950's was one that was shared with most developing countries. At the close of World war II domination of the Third-World generally had not been broken. Domestic planning and development were squeezed and limited by two inter-connected pressures. *First*, with little industrial base, countries were forced to spend large sums of foreign exchange to import almost all manufactured goods. In Thailand, for example, manufactured goods constituted over one-third of the total value of imports. *Secondly*, necessary foreign exchange could be earned only through primary commodity exports to the industrialized countries, but these exports were continually subject to violent swings in demand and reduced purchasing power. Subsequently, the lack of foreign exchange sufficient to purchase the necessary manufactured goods resulted in foreign debt with continued foreign domination the result. In Thailand, for instance, the fall in the price of rubber was the main cause for the trade deficit in 1952 and the decline in rice exports due to the end of the Korean War (1951-'53) was a main cause of the trade deficit in 1954.

Fearful of growing internal pressures for change, and desiring to insure and expand their power, the national bourgeoisie in a number of developing countries sought to break out of this position of dependence. In general, their goal was to initiate self-expanding capitalist development, and their strategy was to pursue *import-substitution industrialization* (ISI). This choice of ISI as a development strategy flowed out of the constraints described above. Since primary commodity trade had proven unreliable, it was to have reduced emphasis. Since dependence appeared to rest on a continual lack of foreign exchange and the need to import all manufactured goods, ISI would pursue the replacement of these imports by boosting domestic production.

Support for import replacement also partly came from the experience of the industrialized countries.

> *Historical studies of some countries show not only that the share of industrial output rises with development, but also that the growth of industries based on import substitution accounts for a large proportion of the total rise in industry.*[36]

This modernization theory operated on the premise that economic

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[36] G. Meier, Leading Issues in Economic Development (1984), p.388.

growth will spontaneously generate a reproduction of the historical experience of the Industrial West where the influx of capital necessary for growth was to be provided by the already developed Western economies.

In choosing which goods to produce, the market, as always, responded to the existing class structure. In the Third-World, the mass of the population remained poor, tied to the land for survival and unable to provide a market for goods. Thus, the decision to produce domestic manufactured goods could not mean the production of mass consumption goods. Only the upper and middle classes were capable of supporting a domestic market and thus industrialization had to focus on luxuries and consumer durables and be concentrated in existing urban areas (*further aggravating regional imbalances*). The fact that tariffs would reduce finished imports from advanced capitalist countries, however, did not mean that the local bourgeoisie had the capital or the technology to begin their own domestic industrialization. In order to encourage local manufacturing (*through the importation of cheap capital and intermediate goods*), governments essentially set up low tariff barriers for these goods and the foreign exchange rates were kept artificially overvalued. The net effect of overvaluing the exchange rate was to encourage capital-intensive production even further with price of imports lower.

3.2.2 The Case of Thailand:

For Thailand, the above modernization theory to promote industrial growth *essentially* commenced in the late 1950's when Field Marshall Sarit became prime minister (*after ousting Phibun by a military coup in 1958*). His policies, similar in goal as Phibun's, put stress on economic development and industrialization. However, the manner in which he pursued his policies were strikingly different.

First of all, a shift in emphasis took place towards promoting private industry. Although there was still a fair amount of continuity in promoting public enterprises, state enterprises was reoriented to place less strain on the economy. The essential role of state enterprises was to be the building of the economy's infrastructure by providing electricity, water supply, and transportation facilities to permit industrialization. This move was not just economical but also political in its affects. With such a move, the stronghold of Phibun's party in the business sector was seriously weakened.

Secondly, for the first time in Thai history, the government laid down *explicitly* its policies and strategies through a national economic development plan. In 1959, the *National Economic Development Board* (later renamed as *National Economic and Social Development Board* [NESDB] in 1972) was set up as an organization exclusively responsible for making and carrying out the plan. Within two years, the First National Economic and Social Development Plan (1961-1966) was implemented. This Plan and the succeeding NESDP (1967-1971) stressed promoting private industrial development, particularly in industries using *domestic* raw materials which produced products for *import substitution*.

Thirdly, the government adopted investment incentive policies in order to attract capital. In contrast to Phibun's policies, Sarit made no distinction between attracting domestic and foreign capital. In 1959, the *Board of Investment* (BOI) was established where those investors intending to obtain *promoted privileges* under this Investment Board must first apply and after negotiations the applicants may be declared *promoted* persons or companies. Various privileges were created such as: exemptions or reductions from import duties and business (purchase) taxes on intermediate inputs as well as machinery and equipment for use in factory construction; exemptions from corporate income taxes during first five years of operation; and freedom to remit profits out of the country.[36] Additionally, low tariff barriers for the importation of capital and intermediate goods, and a foreign exchange rate that was kept artificially overvalued vis-a-vis the US dollar were created in order to encourage local manufacturing further.

Empirically, just before Thailand had pursued with the above active foreign investment policy, the volume of net direct private investment inflow was much less than 100 million baht per year. Since the establishment of the BOI, it has increased dramatically: From 1961-1964, the volume of net direct investment was 250 million baht per year and from 1965-1969 it was 925 million baht, and has

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[36] T.H.Silcock, op. cit., p.144.

rapidly been augmenting to the present day.[37] As well, the number of firms granted "promoted privileges" under the BOI during the decade of the 1960's numbered 607, showing its effectiveness over the 1954 Act under Phibun's party.[38]

Finally, along with investment promotion, the government also attempted to drastically restructure the existing tariff system of selected products to not only raise revenue but to protect private domestic manufacturers. The range of import tariff rates on consumption goods in 1965 were: toys at 80 per cent; motor cars at 60 per cent; tobacco at 40 per cent; television sets at 35 per cent; various textiles at 30 per cent; footwear at 30 per cent; and seventy-two additional items subject to import control.[39] Such a policy was not uncommon amongst those that pursued with the ISI strategy. The policy is commonly known as the *infant industry argument* and is generally accepted as a valid policy for establishing an industry that would eventually be able to produce at lower costs and compete favourably with foreign producers.

Subsequently, the era of ISI gradually emerged in Thailand. However, Thailand, along with other developing countries pursuing this strategy proceeded to do little more than substitute for imports in their industrialization. Thus, developing countries, in general, continued to rely on primary commodity exports for foreign

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37 S.Praesartset, The Impact of Transnational Corporations on Economic Structure in Thailand (Nov.1981), pp. 2-3.

38 S.Akira, op. cit., p.181.

39 T.H.Silcock, op. cit., p.164.

exchange. The Thai economy was no exception. However, instead of relying on a few primary products, Thailand began diversifying its agricultural base to include such commercial crops as maize, cassava, tapioca, kenaf as well as expanding the area designated for rubber. The expansion of agricultural exports helped the industrial development of Thailand in two essential ways. *First*, it raised the cash inflow of farmers and, hence, provided enlarged domestic markets in rural areas for such cheap import-substitute products as textiles and steel products (especially that of tin roofing for housing construction). *Secondly*, by augmenting agricultural exports, it financially helped the ISI industries to import the necessary intermediate goods as well as capital products through export taxes; subsequently increasing the government's coffers.

As a consequence of the policies issued under the Sarit government, the annual real growth rate of the economy showed a marked improvement from Phibun's second government; augmenting from an annual 4.7 per cent during the period 1951-1958 to an annual 8.6 per cent during the period 1959-1969.[40] In particular, the manufacturing sector underwent rapid growth and structural change. Under the First NESDP, the manufacturing sector experienced an annual growth rate of 11.1 per cent; overshooting the target level of 9.3 per cent.[41] The rapid growth can be reflected by the change

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[40] J.C.Ingram, op. cit., p.222.

[41] W.Baldwin & W.Maxwell, The Role of Foreign Financial Assistance to Thailand in the 1980's (1975), p.7.

in the composition of GDP. The manufacturing sector's contribution to GDP rose from 12.3 per cent in 1960 to 15.3 per cent in 1969.[42] And by the closure of the 1970's, the GNP value added was 20.8 per cent, while, on the other hand, the output share of the agricultural sector dropped consistently from 40 per cent in 1960 to 25.5 per cent in 1978.[43]

Structurally, the manufacturing sector was transformed. As can be viewed by **Table 1**, the sector was heavily concentrated in food, beverages and tobacco; accounting for just over sixty per cent value added during the period 1965-1969. By the early 1970's, the value added share of these industries had declined markedly in favour of such manufactured goods as consumer and intermediate goods; a result in consequence of the government policies in stressing import-substitution. A major import-substituting industry developed in the 1960's was the chemical and chemical product industry. Basic chemicals produced in this industry are used as intermediate inputs for such other industries as soap, paper and paper products, and textile and textile products. Another such example is the engineering industry. Products ranging from iron and steel to machinery equipment, such as diesel engines and industrial tools, have been produced as intermediate inputs for other industries.

The industrialization of Thailand during the decades of the 1960's and 1970's not only changed the economic structure, but also

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42 S.Rahman & D.Balcome, The Asian Experience (1987), p.96.

43 S.Praesartset, op. cit., p.15.

witnessed the quick penetration of the Thai merchant class in the manufacturing sector as well as in the growing export-oriented agro-industries. Although the leaders of the industrial groups belonged to the ever present Thai-Chinese, being local-born and raised and educated in Thailand, they can, in essence, be now termed as "*domestic capitalists.*" Before the Sarit government implemented the ISI strategy, these industrial groups were primarily engaged in the importation of manufactured goods. The increasing import duties and favourable incentive policies created by the government, however, became inducements for importers to move into exporting manufactured goods. In addition, because these entrepreneurs were previously importers, they had the necessary international connections to quickly *set up shop*. But the integration with foreign capital, and Japanese capital in particular, was the key element to the rise of industrial groups in Thailand.

> *24 industrial groups held 508 firms, including 211 manufacturing firms. Of these 211 firms, 77 belonged to a category of joint ventures with foreign capital, 62 of which are joint ventures with Japanese capital.[...] This element presents a persuasive answer to the controversial question of why the Thai merchant class was able to quickly move into the manufacturing sector, although they had neither experience in this field nor accumulated technology.*[44].

Thus, participation by foreign *multinational corporations* (MNCs) commenced.

3.2.3 Problems of the ISI Strategy:

With the manufacturing sector constrained to an internal

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[44] S.Akira, op. cit., pp.229-230.

market, problems were inevitable to emerge. A policy of ISI becomes increasingly difficult to follow beyond the consumer goods phase because with each successive import-substitution activity through the intermediate and capital goods phases, the capital intensity of import-substitution projects rises, resulting in a larger import content of investment. On the demand side, the projects tend to require increasingly large domestic markets for the achievement of a minimum efficient scale of production.

In the case of Thailand, the country's population was estimated at just over twenty-five million by 1961; revealing a relatively small domestic market. However, from the total population only around twenty per cent resided in urban areas (*where markets for the industries were easily accessible*). More importantly, of the urban dwellers, only a minority of them (*the middle and upper classes*) were capable of purchasing the many luxurious goods that the promoted firms were producing - for example automobiles and electrical appliances. Hence, the limited size of the local market poised an obstacle for industrialization in the form of import substituting.

Another problem, just as imperious as the former one, concerns the structure of the import-substitute industries. After awhile, developing countries still found themselves import dependent. However, unlike the period of the late 1940's and early 1950's, they no longer found themselves as dependent upon consumer goods; instead, they became import dependent on capital goods, and raw materials and intermediate products. And the low tariff barriers for the importation of these goods and the artificially overvalued exchange rate together aggravated the balance of payments situation. The overvalued exchange rate penalized the traditional primary product export sector by artificially raising the price of their exports in terms of foreign currencies, making them less competitive on world markets. This, in turn, aggravated the current account and subsequently the balance of payments situation.

In the case of Thailand, import-substitution successfully brought about a sharp decline in the import of consumer goods (*from 35 per cent in 1960 to 12 per cent in 1978*) as was projected to do, but significantly increased the imports of raw materials and intermediate products (*from 29 per cent in 1960 to 48 per cent in 1978*) and slightly augmented the imports of capital goods (*from 25 per cent in 1960 to 28 per cent in 1978*).[45] And the country's exports, were not able to alleviate the country's balance of payments. The balance of payments deficit subsequently escalated from 1,655 million baht in 1960 to 13,298 million baht in 1978.[46]

Finally, industrialization through import-substitution also became characterized by short backward and forward linkages.[47] The

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[45] S.Praesartset, op. cit., p.16.

[46] Ibid., p.19.

[47] According to Watkins, a backward linkage is "*a measure of the inducement to invest in the home production of inputs, including capital goods, for the expanding export sector.*" A forward linkage is "*a measure of the inducement to invest in industries using the output of the export industry as an input.*" M.Watkins, A Staple Theory of Economic Growth (1963), p.141.

predominant reason for this characterization was the emerging *new international division of labour* (that shall be explained more fully in chapter four). The industrial promotion policies from the ISI strategy raised economic interests of foreign capitalists, especially MNCs, to set up shop.

In the case of Thailand, "*An inquiry into some 40 promoted companies held by the Investment Board early in 1965 showed that 70% of them used only a small quantity of local raw materials and the rest none.*"[48] Although essential raw materials and intermediate products were sometimes not available for industries, such as the engineering and chemical industries, the predominant reason for the short linkage effects was the penetration of MNCs which, when capable, used raw materials from their affiliates in order to maximize their own profits. In fact, ninety-two of one-hundred and forty-four affiliates of the identified MNCs in Thailand were set up during the period between 1957 and 1972.[49] The most influential foreign country changed from the UK to the United States in the latter part of the 1940's. And by the mid-1960's, the Japanese MNCs' role increased considerably. As can be viewed by **Table 2**, during the period 1965-1978, two-thirds of the net direct investment inflow came from the United States and Japan.

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[48] T.H.Silcock, op. cit., p.271.

[49] S.Akira, op. cit., p.193.

3.3 SYNOPSIS:

In summary, the results from attempting to industrialize through import substitution were not satisfactory. This is because developing countries continued to be dominated by the industrialized world. Primary commodity exports continued to be the principal earners of foreign exchange. And although the ISI strategy developed domestic industries in the manufacturing sector, imported capital, raw materials and intermediate products generally left the balance of payments in deficit. Thailand was no exception.

Secondly, with little industrial base and capital, countries set up incentives to welcome foreign investment. Nevertheless, these MNCs retained control over the entire process (research, design, transport, processing and marketing). Thailand was no exception. In fact Akira goes as far as stating that: "*the presence of the MNEs became large enough to entirely or substantially control the Thai economy.*"[50]

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[50] Ibid., p.208.

CHAPTER FOUR

EXPORT-LED INDUSTRIALIZATION

4.1 THEORETICAL REASON for EOI APPROACH:

Throughout the 1960's, the social elite in various developing countries slowly began to admit that industrialization through import-substitution had serious faults. Their goals of self-generating industrialization and economic independence had both been frustrated. And so, in the early 1970's, a new approach to development slowly advanced. Given the precarious debt position facing most developing countries, it was not surprising that the linchpin of this new strategy was increased exports. In a sense this strategy completed a full circle: once again Third-World development was to be tied to the external market. However, with industrialization still a major goal, there was to be a change in the composition of exports.

In the past, export-led development concentrated upon primary commodity sales to the capitalistic countries. Now, it was to begin to focus upon the production and export of manufactures. By this strategy, the elite hoped to industrialize, earn foreign exchange and stimulate the process of domestic capitalist development.

4.2 WHY ASIAN NICs EMERGED WHERE THEY DID:

Developing countries continued to trade mostly in primary commodities. But, as a result of this new development strategy, manufactured exports as a percentage of total Third-World exports increased. Nowhere is this more pronounced than in the *"Gang of*

Four"; the first group of developing countries to practise this strategy in Asia. By 1972, the "*Gang of Four*" produced almost fifty per cent of the manufactured goods imported by the developed countries from the developing nations.[51]

Focusing on Asia, since the 1960's, besides Japan, the "*Gang of Four*" shifted their public policy to an export-oriented growth strategy which not only gave priority to manufactured exports but made them the central focus of economic policy and development strategy. Subsequently, the *export-oriented industrialization* (EOI) strategy commenced. A couple of elements were involved in each case. *First*, in Taiwan in 1958-'60, in Korea in 1964-'66 and in Singapore in 1965 (*when it separated from Malaysia and gained political independence*) there was a policy switch from import-substitution to EOI; whereas Hong Kong has always been outward-oriented. *Secondly*, substantial export subsidies were created in most instances across the board, so as to provide specific incentives for manufactured exports.

In addition to the change of public policy one can view the emergence of *newly industrializing countries* (NICs) as part of a changing world economic structure corresponding to shifts in the *international division of labour* between countries. Two factors essentially explain the concept of the new international division

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51 J. Browett, "*The Newly Industrializing Countries and Radical Theories of Development*" World Development Vol.13, No.7, July 1985, p.799.

of labour: push and pull factors.

A "*push factor*" is a force that repels capital and technology from the advanced, capitalistic countries. The dominant push factor that has increasingly been taking place is rising costs of production. This occurs from increasing wages, stricter controls on pollution, stricter controls on health and safety regulations, and increasing costs of benefits and pensions. While the above factors mean increasing costs to all industries throughout the capitalistic world, they disproportionately affect the labour-intensive industries.

The second factor that helps explain the concept of international division of labour is the "*pull factor*". Pull factors are the forces in which developing countries use to attract foreign capital and technology. And since the NICs were able to create more favourable pull factors over other developing countries, the industrialized nations set up shop in these countries. There are several pull factors. *First*, and a factor pertaining to most developing countries, is the abundant and cheap supply of labour that they possess. Such a factor has exerted a pool on the industrialized countries since they, in turn, are increasingly facing rising wages. *Secondly*, incentives to attract foreign investment have been created. Low taxes, generous credit, and an assurance of minimum government interference have all generally been enforced. These incentives have been more pronounced in the NIC countries. *Finally*, establishing a secure business climate also attracts foreign investment. The NIC countries were especially successful in creating this pull factor during the 1960's.

In summary, NICs emerged not necessarily because these countries pursued an EOI strategy but because of the new international division of labour that was emerging in the world. The push factor forced the advanced capitalist countries to "*set up shop*" elsewhere and the pull factors gave them a suitable place to "set up shop". In Asia the "*Gang of Four*" became NICs because at the time they had the most promising pull factors amongst the developing countries in the region. The governments of the respective NIC countries have played a strong role in shaping their emergence. They have played a strong role in attracting capital, in providing incentives for production in sectors with potential comparative advantage, in channelling funds into industrial sectors, in stimulating exports and in keeping labour costs low.

Further support for export-led industrialization subsequently came from an appeal to the experience of NICs. The historical study of the "*Gang of Four*" shows how such an approach will solve a balance of payments problem and lead the way to industrialization. Thus, it would seem to follow that the economic development path taken by the NICs can be replicated by other developing countries. By pursuing an export-led strategy in labour-intensive industries along with appropriate injections of government planning would seem to be the conditions that the rest of the developing countries should seek. And Thailand, by the early 1970's, did begin to follow such a path as its approach towards development (*although still* *protecting many of her industries*).

4.3 THE CASE of THAILAND:

Towards the end of the Second NESDP evidence suggested that import-substitution policy led to balance of payments deficits and export-sector stagnation as well as penetration of MNCs. Thus, by the Third NESDP (1972-1976), Thailand's strategy towards industrialization gradually shifted towards an export-oriented one. Economically, the government increasingly began to be concerned about industries which can gear for the world market to alleviate the trade deficit as well as being labour-intensive to create employment opportunities both directly within the business and indirectly through backward linkages in the form of increased demand of local raw materials that would increase the cash income of farmers. Those industries satisfying these conditions were now granted "promotional privileges" under the BOI. However, the privileges that were induced in the 1960's towards industries earmarked for import substitution still persisted. Subsequently, such industries as automobiles, textiles, chemical products and engineering were still protected behind the infant industry argument. In fact, these industries are today still protected behind high tariff walls.

Overall, Thailand has been more outward looking as shown by an increasing export and import/GDP ratio from 32 per cent to 42 per cent during 1962-1985.[52] The success of the outward looking approach is reflected by the improved performance of the manufacturing sector as a percentage of Thailand's total exports; increasing from a 2.4 per cent share in 1961 to 35.8 per cent share in 1981.[53] The direct effect of this change is shown most clearly by changes in the share of manufactured exports. Primary commodities exports declined from a share of 96 per cent in total exports in 1960 to 49 per cent in 1985, while that of manufactured exports increased from 1 per cent to 49 per cent during the same period.[54] The share of manufacturing employment also increased, increasing from 3.4 per cent in 1960 to 6.1 per cent of the total labour force by 1978; and although still a small percentage, it nearly doubled during the period.[55]

4.4 FURTHER RESTRUCTURE of the INTERNATIONAL DIVISION of LABOUR and the RESULTS on THAILAND:

Structurally, the agro-industries were the initial candidates of the government's outward looking approach; satisfying the conditions of being labour-intensive, using local raw materials as well as capable of experiencing spectacular export growth rates to

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52 Thai University Research Association, Review of Economic Development in Thailand (Aug.1987), p.8.

53 Kraisak, Management of Thailand's International Economic and Trade Relations (1989), p.7.

54 Thai University Research Association, op. cit., p.8.

55 S.Praesartset, op. cit., p.17.

help alleviate the trade deficit.[56] Canned fruit (*especially that of pineapples*), canned fish and frozen chicken all excelled in performance with the latter two experiencing annual export growth rates of sixty-three per cent and sixty-six per cent during the period from 1975 and 1985, respectively.[57] Subsequently, still today the government continues to promote its agro-industries.

The manufacturing sector, though, did not lay idle. By 1985, the manufacturing sector emerged as the leading sector for growth in the economy, where manufacturing products presently account for over 65 percent of Thailand's total exports; a dramatic improvement from the 35.8 per cent share in 1981.[58] Moreover, as of 1986 the manufacturing sector has recorded above double digit growth figures annually (See **Figure 3**) while the agricultural sector has remained comparatively stagnant, averaging three per cent per year. Factories, one indication of rapid manufactural development, have been built at accelerating rates. In 1986 there were 58,480 factories and by 1989 there were 94,772; an annual augmentation of 12.76 per cent.[59]

The predominant reason for this recent success has been changing world economic conditions. By the mid-1980's the world

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56 An agro-industry is an industry which uses the raw materials from agriculture as the major input and turns them into finished products for "direct consumption".

57 S.Akira, op. cit., p.267.

58 Kraisak, op. cit., p.7.

59 Bangkok Post, 1990 Year-End Economic Review (Dec. 1990), p.83.

economy as moving out of the world recession that induced the demand for Thai manufactured exports. The price of imported crude oil also fell in favour for Thailand, where the TDRI depicted that back in 1981 the Thai economy depended 99.32 per cent on imported petroleum.[60] Most importantly of all perhaps was that several major world currencies including Japan as well as some of Thailand's major competitors such as Taiwan, Hong Kong and South Korea faced strong appreciating (strengthening) exchange rates as well as rapid wage hikes during this period. The realignment of these currencies sharply increased the price of goods marketed in these countries; eroding their competitiveness on the world market and the wage increases augmented the costs of production. As a direct result, industries in these nations were forced to move abroad; in search for lower production cost zones to maintain or regain their cost advantages. Thus, a further restructure of the new international division of labour commenced.

> *These changes occur as result of a generalized historical movement in which industrialized countries [ie-Japan] vacate intermediate sectors in industrial production in which advanced developing countries [ie-NICs] are currently more competitive and advanced developing countries, in turn, vacate more basic industrial sectors in which the next tier of developing countries [ie-Thailand] have a relative advantage.*[61]

Thailand captured the interest of many foreign investors throughout the world. There are many reasons for this phenomenon.

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[60] Thailand Development Research Institute (TDRI), Thailand in the International Economic Community (1989**a**), p.1.

[61] L.Turner & N. McMullen, The Newly Industrializing Countries: Trade and Adjustment (1982), p.11.

First, by the second half of the 1980's the world characterized Thailand as a stable economy. The high annual economic growth rates are in itself a reason. The inflation rate cum the price of imported crude oil manifested this characterization.[62] The debt situation in Thailand is another favourable indicator for depicting the country as economically stable. Unlike several other developing countries she has not suffered from any kind of debt crisis.[63] Thailand has a total current external debt of around US $25 billion and the debt service ratio (percentage of exports), after reaching a peak of 21.9 per cent in 1985, has steadily been reduced to an acceptable level of just below 13 per cent by 1989.[64] (**Figure 4** depicts the foreign debt/GDP ratio).

Secondly, Thailand has been pictured as politically stable, despite the coups attempts which essentially have not altered the country's development path. Even when Thailand's military ousted the government in a relatively bloodless coup on February 23rd, 1991, Anand Panyarachun quickly stated that his new government would maintain Thailand's economic policy and continue with the

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62 The inflation rate has been kept moderate with the figure being 2.5 per cent in 1987. The Nation Yearbook 1990/91, op. cit., p.13. In conjunction with low inflation, the price of imported crude oil averaged a temperate US $16.03 a barrel from January 1988 to September 1989. TDRI, The Outlook for the Thai Economy (1989**b**), p.16.

63 For instance, in August 1982, Mexico stunned the financial world by suspending payment on its external debt of approximately US $80 billion.

64 TDRI (1989**a**), op. cit., p.4.

present market-oriented approach.[65] The fact that political leaders are in agreement upon what type of approach to take towards industrialization is not the only element that has made Thailand politically stable on the international scene. The role of the king and buddhism play just an important role. According to Thailand: Investors Guide, the king, in general, *"provides the unifying and stabilizing force in Thailand."*[66] In fact, one source posits that if the king should have died during the early 1980's, it is quite possible that Thailand today would not have developed the way it has and not be characterized as politically stable.[67] In addition, with the majority of the population (*ninety-five per cent*) practising buddhism, the element of reincarnation and the possibility of a better future life keeps those that are less fortunate content. The only revolt, to date, initiated by the *people* was the student revolt in October 1973 that overthrew the Thanom government in response to the military dictatorship that suppressed such basic human rights as forming unions and freedom of speech.[68]

Thirdly, the change in the exchange rate regime has helped promote exports. In November, 1984, Thailand devalued the baht

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65 The Nation (March 3, 1991), p.1.

66 BOI, Thailand: Investors Guide, p.21.

67 Lawrence Smith, Canadian Ambassador to Thailand (1988-1990), Department of External Affairs, Canada (*interview*).

68 T.Charoenmuang, *"General Prem's Eight-Year Premiership & its implications for the Thai Economy"* Asian Profile, (Dec.1988) vol.16, No. 6, p.502.

substantially. This, in turn, placed the country on a rather competitive bases against all major currencies.[69] Since the major devaluation the Thai Central Bank has been able to keep a realistic exchange rate by fixing the value of the baht against a *basket* of foreign currencies.[70]

Finally, Thailand has a large pool of inexpensive skilled labour as well as being rich in natural resources. This has created an opportunity for foreign entrepreneurs to invest to make use of these two provisions.

Thus, Thailand has recently been able to benefit from the restructuring international division of labour by creating favourable "pull" factors. This can be verified through **Table 3** by the great influx of applications by foreign investors to the BOI for promotional privileges. The years 1986 to 1988, inclusive, were by far the most buoyant with the number of applications and the amount of investment that they accrued increasing annually by over 100 per cent. **Table 2**, meanwhile, reveals the source of *foreign direct investment* (FDI). In recent years FDI has essentially been coming from Japan followed by the United States, Taiwan and Hong Kong.

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69 This is in reflection that the baht was devalued 14.8 per cent against the US dollar and from 1985 to 1988 the depreciation rate has been about ten per cent a year in real terms. TDRI (1989**a**), op. cit., p.2.

70 Before the major devaluation the baht was tied to the US dollar and was overvalued against other major currencies. Subsequently, the terms of trade were more favourable to imports than exports.

The impact of export-led industrialization, after the mid-1980's world restructuring, have been widespread, where government policies have continued to emphasise the promotion of trade and investment cum protection. The manufacturing sector now accounts for close to 26 per cent of GDP compared to about 24 per cent in the early 1980's and has greatly enhanced from the 15.3 per cent share of 1969.[71] Exports in manufactured goods have been increasing by around forty per cent per annum during the period 1987-1989.[72] The employment rate in the manufacturing sector has also slightly augmented; increasing from a 6.1 per cent share in 1978 to slightly over 10 per cent in 1988.[73] The industries with an increasing share of employment in the 1980's are such export-oriented industries as textiles, leather, footwear, and electrical machinery. Manufacturing industries classified by number of sizes of employees have also changed. Employment in firms with fewer than twenty workers constituted 83 per cent of total manufacturing employment in 1979; however, the percentage declined to 76 per cent in 1984 and 74 per cent in 1987.[74]

Within the manufacturing sector, the country has sparkled diligently. Thailand is presently the second largest exporter of gems & jewellery in the world. Electronic products and electrical

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[71] The Nation Yearbook 1990/91, op. cit., p.21.

[72] Bangkok Post (Dec. 1990), op. cit., p.11.

[73] TDRI, Thailand Economic Information Kit (1990), Figure 4.

[74] TDRI, Trade in Manufactured Goods & Mineral Products (1989**c**), p.62.

appliances have surged forward with an average growth rate of nearly 68 per cent in 1989 and an expected 36 per cent growth rate for 1990. And by 1991 electric and appliances surpassed the textile industry to become the leading category in the manufacturing sector. A number of new commodities have also recently emerged in the Thai manufacturing scene with impressive export growth figures. These industries include: footwear, plastic products, camera & parts, toys, ceramic products, etc... (see **Table 4** for the anticipated growth rates of these industries).

Industries protected behind high tariff are slowly making their way in the international scene; revealing that they are maturing from their infant industry phase. In 1988, Thailand's Lancer Champ cars found a market in Canada with Chrysler Canada initially agreeing to import 15,000 of them under the brand names of Dodge Colt and Plymouth Colt. After the first shipment of 420 cars in January 1988 all the cars were sold in just over a month and since then Chrysler Canada has immensely expanded its contract.[75] Integrated circuits, meanwhile, experienced a 22.9 per cent export growth rate in the first six months of 1990 over the preceding year.[76]

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75 Bangkok Post, 1988 Mid-Year Economic Review (June 1988), p.15.

76 Bangkok Post (Dec.1990), op. cit., p.30.

CHAPTER FIVE

SUSTAINABILITY OF RECENT TRENDS

5.1 INTRODUCTION:

Empirically, it would appear from chapter four that Thailand is, indeed, on the threshold of becoming a NIC. It is seemingly doing so by creating favourable "pull factors" for its EOI strategy; thus, largely emulating the recent past experience of the NICs. Nevertheless, treating exports as the engine of growth can pose problems. This chapter shall analyze these issues and then portray how Thailand is handling them.

5.2 ISSUES ON THE SUPPLY SIDE:

5.2.1 Concentrated urban Industrialization:

Since the development of ISI and especially since the export-led industrialization, many industries have been built in concentrated urban areas, and in particular, in the *Bangkok Metropolitan Region* (BMR) due to the strong inflows of *foreign direct investment* (FDI). Three main side effects have materialized due to this notion.

First, the concentration has caused a considerable strain on the country's infrastructure and in particular on Bangkok's main export port (*Thailand's gateway to the international market where it handles some ninety per cent of the nation's exports*). And with the number of factories still on the rise, the port simply cannot handle any more capacity; being plagued by severe bottlenecks.

Besides the decaying infrastructure, the factories have created problems for the environment. Industrial production continues to be concentrated in Bangkok and the surrounding region, causing congestion and excessive pollution in Bangkok. The industrial waste, for example, discharged by the factories, make their way into the country's water network. And with the number of factories steadily augmenting, toxic industrial effluence will increase further. As well, air pollution by factories and a congested transportation network, especially in the BMR, have created a thick smog over the area that could dampen the thriving tourism industry. Additionally, air pollution has the capability of causing respiratory illnesses that can have strong repercussions on the well-being and the quality of life of the society.

Thirdly, the concentration of industries in the BMR has failed to distribute the benefits of growth to the rural areas. For example, the annual per capita income in Bangkok (US $2,300) is nearly three times greater than the national average. And many farmers in the dry northeast region, where one-third of the population reside, are fortunate to earn a meagre US $300 a year.[77] Studying the *gini coefficient,* which is a measurement of inequality, one finds that the coefficient has worsened since 1962 to an estimated level of 0.5 by 1986. **Table 5** summarizes this result and shows how the bottom twenty per cent income class are making up less and less of the population's total income.

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[77] Newsweek (June 27, 1988), p.11.

As a hopeful solution to the above problems the government has set up an alternate industrial zone to the BMR; the "Eastern Seaboard". Located directly southeast of the BMR along the water

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TABLE 5: RISING INCOME INEQUALITY

Income Class (Quintile)	1962	1975/'76	1985/'86
Top 20%	49.8%	49.3%	55.6%
2nd Quintile	21.6%	21.0%	19.9%
3rd Quintile	12.1%	14.0%	12.1%
4th Quintile	8.6%	9.7%	7.9%
Bottom 20%	8.0%	6.1%	4.6%
10th Decile	N/A	2.4%	1.8%
Gini Coefficient	N/A	0.426	0.500

Source: S. Praesartset; Democratic Alternative to Maldevelopment: The Case of Thailand (March, 1990), p.12.

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front this project is estimated to cost over US $5 billion. As outlined in the Sixth NESDP (1987-1991), the area of Map Ta Phut, located on the southern basin of the seaboard, will be designated as a new industrial powerhouse that is anticipated to rival the BMR. This area was strategically picked because it is where the natural gas pipeline from the Gulf of Thailand comes ashore, providing the essential raw material, energy. Northeast of Map Ta Phut, the area of Laem Chabang will be designated as the major deep-sea port to handle the heavy cargo trade from the industrial zone. This area will also encompass industries, but on a "lighter" scale compared to Map Ta Phut. And Map Ta Phut will encompass a harbour, but its inferior geographical features will hold the port to only handle light cargo.[78]

The development of infrastructure services have already commenced in the Eastern seaboard such as the construction of railway lines, electricity networks, etc., to link the industrial zone with the deep-sea port. The BOI, meanwhile, is currently creating incentives for businesses to locate in this new zone, as apposed to the BMR, to help decentralize economic growth from the latter region. The first of these incentives to materialize, an "export-processing zone" privilege, for instance, has already come in effect that extends not only to the Eastern Seaboard but to other regions in the country; to help assure a more equitable growth structure. Current figures have yet to be published on the outcome of this privilege, but 1987 statistics are available. According to the TDRI, "*the share in total factories of establishments in the Central Region declined slowly from 74 per cent in 1978 to 69 per cent in 1987.*"[79]

In addition, the government is considering creating an industrial estate in the southern region. Being endowed with natural resources (ie-tin, rubber and fish) and geographically well situated with the Andaman Sea to the west and the Gulf of Thailand to the east, the region enjoys two coastlines that could prove fruitful in relation to the path of international trade. However,

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[78] NESDB, op. cit., pp.319-324.

[79] TDRI (1989c), op. cit., p.62.

presently the issues of creating two deep-sea ports and an industrial zone are still under review.[80]

5.2.2 Depletion of Natural Resources:

Thailand's economic development has also taken its toll on the country's natural resources. This is particularly the case since the promotion of the EOI. According to the TDRI, 24 per cent of all foreign promoted projects are invested in Thailand to utilize domestic natural resources for export.[81] "*Sectors of the economy directly based on natural resources -that is, agriculture, mining and quarrying - account for approximately 25 per cent of gross national product and 49 per cent of total exports in 1985.*"[82] As a consequence, natural resources have been steadily depleted, aggravating the environmental problems. Tin is virtually exhausted. In the gems & jewellery industry there have been no major ruby discoveries for over a decade. Rubies along with sapphires form the bulk of this industry's exports (80 per cent). In the Gulf of Thailand, extensive fishing has seriously depleted the fish stock.

Rapid deforestation has also resulted from the EOI approach. Deforestation has been taking its toll on the economy before the EOI approach, but the process of depletion accelerated under this new approach. Since the Third NESDP the government has been

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[80] NESDB, op. cit., pp.328-329.

[81] TDRI, Direct Foreign Investment and Capital Flows (1989**d**), p.15.

[82] NESDB, op. cit., p.111.

promoting agro-industries and as they expand and diversify new and more crops are produced; placing an additional strain on the forest area through its backward linkages in the agricultural sector. Primary products, for cash crop production, have also been expanding and diverging from its traditional base which have yielded the same result on the area of forested land. More strikingly, the cultivation of such cash crops for export as cassava, maize and rice have caused great damages to land resources, as they are crops which do not protect the top soil. A study in the Northeast region, for instance, revealed that out of 106.3 million rai of total land area, about 43 million rai were in conditions of soil erosion, and that the top soils could be easily washed away, causing serious drops in natural soil fertilities.[83]

As can be depicted in **Figure 5**, the country's forest area has shrank from 171 million rai or 53 per cent of total terrain in 1961 to only 89.9 million rai or 28 per cent in 1988. The steady depletion of the forest reserve not only creates forward linkage obstacles, but can have negative effects on climate and weather conditions; causing unseasonal drought and heavy rainfall to the detriment of the country's agriculture sector. The Bangkok Post reveals that "*The catastrophic flood and mud slide that took place in the South towards end-1989 was [...] a result of forest destruction.*"[84]

In the past, Thailand used the abundant natural resources to

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[83] S.Praesartset, op. cit., p.18.

[84] Bangkok Post (Dec.1990), op. cit., p.83.

increase productivity and alleviate poverty. Today, however, in view of the above obstacles, there is consequently less prospect of economic development being based on natural resources. In the future, economic development will need to concentrate on improving and increasing efficiency in the use of the remaining natural resources for the greatest benefit.

5.3 ISSUES ON THE DEMAND SIDE:

On the demand side, the question of being capable to sustain high economic growth rates rests upon the EOI approach. However, given Thailand's open economy, the international economic environment can poise a critical constraint on employment and income generation. There are presently numerous perils capable of disrupting Thailand's prosperity on the international scene. These obstacles are as follows.

5.3.1 Worldwide Economic conditions:

With an increased openness through the EOI approach, the prosperity of Thailand's major trading partners can yield a constraint on the nation's own performance. This is especially the case when realizing that the key markets are made up of only three regions (Japan, the United States and the EC) and account for close to sixty per cent of Thai exports. As a result, Thailand's GDP growth rate did fall from an average of seven per cent during the decades of the 1960's and 1970's to around four per cent following the second oil price shock (1979-1980) that rocked the world.[84] And it is estimated by the World Bank that in 1981 and 1982 Thailand effectively lost ten per cent of its national product due to external shocks.[85] Subsequently, such a reliance on the prosperity of the world market can and has impinge on the prosperity of Thailand to a marked extent.

Since the world recession, industrialized countries have continued to experience slow growth rates (averaging 2.8 per cent from 1984-1988) and the prospects for the future are the same.[86] To help insure against such external shocks as sluggish OECD growth Thailand has diversified her export base by commodity as well as by destination.

By commodity, textiles today is the only industry that represents above ten per cent of total Thai exports.[87] There has been a tremendous expansion in electrical appliances and electronic products (**see Table 4**). Additional industries have also been emerging such as footwear, toys, artificial flowers, clocks and watches and telecom equipment.

By destination, approximately sixty per cent of Thai goods are

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84 P.Phisit, Thailand: Possibilities for Attaining NIC Status in the 1990's and Expected Constraints (March 1988), p.4.

85 G.Abonyi, The Privatization of Development & Implications for canada (1986), p.5. Abonyi refers to the World Bank, Thailand: Growth with Stability, a challenge for the Sixth Plan Period (June 1986).

86 TDRI (1989**e**), Thailand: Prospects & Perils in the Global Economy, p.3.

87 Ibid., p.iii.

exported to OECD countries. This can be viewed by **Table 6**. Such a diversification is respectable when compared with many other developing countries. Nevertheless, despite a relatively well diversified export base, the task of penetrating additional markets has and will not be easy to accomplish.

TABLE 6: GEOGRAPHIC DIVERSIFICATION OF EXPORTS

Thai Exports by Destination in % of Total

Nation/Group	1973	1980	1984	1987
Japan	26.8%	15.1%	13.0%	14.9%
North America	9.8%	13.0%	18.4%	20.1%
United States	N\A	8.8%	N\A	18.5%@
Western Europe	37.6%	28.4%	22.4%	23.8%
Oceania	0.9%	1.2%	1.9%	2.0%
Sub-Total (OECD)	75.1%	57.7%	61.7%	60.8%
Singapore	7.7%	7.7%	8.4%	8.9%
USSR & E. Europe	0.5%	2.8%	1.4%	0.4%
All Others	16.7%	31.8%	28.5%	29.9%
Total	100.0%	100.0%	100.0%	100.0%

@ This figure is for 1988.

Source: TDRI (1989**c**), op. cit., p.4.

Perhaps as the domineering reason for this occurrence is the fact that many other developing countries are competitive rather than complimentary. This is certainly true with China and the countries making up ASEAN and Latin America.

Africa and the Indian Subcontinent, meanwhile, have essentially only been purchasing primary products from Thailand.

And with these economies generally facing financial difficulties and with the purchasing power being low in these regions, the prospect for Thailand's manufacturing industries to penetrate these markets are not bright.

The West Asian members of OPEC, on the other hand, do not face financial difficulties. However, the relatively small population of these countries probably will limit Thailand's export growth to its present percentage.

Overall, though, the percentage of Thai exports to the OECD countries have decelerated from 75.1 per cent in 1973 to 60.8 per cent by 1987 as revealed in **Table 6**, but since 1980 there has been little change; leaving little prospect that it will alter in the future.

With respect to the world, Thailand accounts for only a very small fraction of manufactured exports in the developing countries (2.0 per cent) and even a smaller fraction with respect to the rest of the world (0.1 per cent).[88] This scenario prognosticates that world markets are not close to the absorptive capacity with respect to export growth from Thailand. The early 1980's, for instance, witnessed the worst global recession since the Great Depression, with the industrialized nations GDP growth averaging a mere two per cent a year between 1980 and 1984. On the other hand, the penetration of Thai exports augmented during this period and the GDP growth rate averaged 5.7 per cent throughout the first half of the 1980's; much above the industrialized countries and nothing to

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[88] Ibid., p.iii.

shirk about when compared to other developing countries.[89] This suggests that not only is Thailand's small size relative to the world unlikely to be constrained by a glut of its products in the world market, but just importantly, Thai exports have continued to penetrate the world market even under untoward conditions.

5.3.2 Protectionism:

The perverse nature of worldwide protectionism undoubtedly has been an impediment for any trading country. And Thailand, similar to the rest of the world, has not only been succumbed to it but has also practised it as well to protect her own domestic industries. In 1947 *General Agreement on Tariffs and Trade* (GATT) was formed to help curtail the growth of tariff and non-tariff barriers throughout the world that manifested during the Great Depression. Since then, there have been several negotiations, each one progressively more liberal towards trade with the most recent one being the Uruguay Round (1987-1990).[90]

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89 Ibid., p.3.

90 Following World War II tariff reductions began on an item-by-item basis until the Dillon Round (1960-1961) that introduced across-the-board tariff reductions. The Kennedy Round (1964-1967) lowered tariff rates by 50 per cent across-the-board with the exception of "sensitive items". The Tokyo Round (1973-1979) involved such liberalizations as a 59 per cent reduction on those duties initially at 20 per cent; a 42 per cent reduction on 10 per cent duties; and a 26 per cent reduction on 5 per cent duties with once again exceptions on such "sensitive items" as steel, textiles, clothing and footwear. B.Balassa & C.Balassa, "*Industrial Protection in the Developed Countries*", The World Economy (June 1984), pp.179-184.

Despite GATT attempts to liberalize world trade, bottlenecks have always been imposed. One such case is the *Multi-Fibre Arrangement* (MFA) that originated in the mid-1960's from the United States.[91] In one peculiar way the MFA has benefited Thailand. The MFA has affected Japan and the *Gang of Four* by restricting the growth of their exports. Subsequently, these countries took shelter by shifting their textile industry abroad to such countries as Thailand which were not affected by this trade barrier. Although Japan and the "*Gang of Four*" were already investing in Thailand to regain or maintain cost advantages, the trade barrier has increased the rate of transformation of their production base at a much faster rate than might otherwise have been the case.[92]

Nevertheless, once Thailand begins to significantly penetrate the US and the EC markets the odds of her being intertwined into a similar MFA would be high. And with Thailand finding itself its greatest comparative advantage in textiles and other labour-intensive products this action would be detrimental on Thailand's economy; especially when noting that over sixty per cent of Thailand's textile products is traded with the US and the EC.

In addition, once when Thailand extensively penetrates these

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91 The MFA was in response to rapid penetration of textiles and cotton from Japan and the *Gang of Four*. "*Between 1964 and 1972 US imports of cotton clothing increased by 25 per cent but mmf [man-made fibres] clothing imports experienced a sixteenfold increase*. The *European Community* (EC) also set up a MFA with the same countries in fear that if they did not the US bilateral agreements would result in trade diversion of exports towards European markets.

92 TDRI (1989**e**), op. cit., p.20.

and other markets she will most likely lose her Generalized System of Preference (GSP) privileges.[93] This is because once when developed countries become convinced that Thailand is too successful to justify preferential treatment any longer, she will lose this privilege. This has already been the case with the "*Gang of Four*". And with 60 per cent of Thailand's trade with the developed world, this action could be detrimental to the Thai economy.

Another cause of concern for Thailand and, for that matter, other developing countries, has been the creation of trading blocs between industrialized nations. Europe 1992, for example, with the elimination of all trade barriers amongst the EC member countries could have serious repercussions on Thailand. The potential for trade diversion away from developing countries in favour of such poorer southern European countries as Portugal, Greece and Spain in products such as garments and footwear, which Thailand especially has been successful in due to its comparative advantage, could seriously impinge on the growth of these industries in the future.

The North American *Free Trade Agreement* (FTA) to include Mexico, that most likely will pass through, could also encroach on the prosperity of the export promoted firms in Thailand. Mexico's manufacturing sector, which is competitive to Thailand's own, would

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[93] The GSP, introduced by UNCTAD in 1968, provides developing countries with access to developed country markets at lower or zero tariff rates. In 1988, 21.28 per cent of all Thai exports were traded with GSP privileges, 80 per cent of which were manufactured goods. TDRI (1989**a**), op. cit., p.72.

be able to compete more effectively against Thailand for the US market under the FTA.

So far, Thailand's trade has not essentially been affected by FTAs. Nevertheless, in the future, as more FTAs come into operation they could adversely affect the competitiveness of Thai exports. To compensate for this phenomena Thailand must either pursue markets not part of a FTA or become a member of a FTA. This now brings us to the discussion of *Association of Southeast Asian Nations* (ASEAN).[94] The original purpose of ASEAN was to "*foster regional economic, social, and cultural cooperation and to promote regional peace and stability in Southeast Asia.*"[95]

Although ASEAN has been in existence for nearly two and a half decades, in the field of trade matters the results have not been all that comforting. Intra-ASEAN trade has only slightly augmented from 14.1 per cent to 17.6 per cent of their total trade during the period 1974 to 1985.[96] Perhaps as the domineering reason is the fact that ASEAN industries are competitive rather than complementary. Thus, trade is essentially of the agricultural variety. In addition, there is a marked difference in the trade regime of the ASEAN countries. The larger nations are substantially

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94 Five countries, the Philippines, Indonesia, Malaysia, Singapore, and Thailand formed the bloc as original members in 1967 with Brunei being the only additional member in 1984. (*And Vietnam presently wishing to join*).

95 Palmer & Reckford, Building ASEAN: 20 Years of Southeast Asian Cooperation (1987), p.5.

96 L.Martin, The ASEAN Success Story (1987), p.68.

more protectionist in their trade regimes in regards to many industries, while the smaller countries (*Singapore and Brunei*) have substantially low tariffs. The year before Brunei joined, for example, the average tariff rate of Thailand, Malaysia, Philippines and Indonesia was 29.2 per cent (*With Thailand at 31.1 per cent*), while Singapore had a low rate of only 6.0 per cent.[97] Subsequently, not only do the countries (*with the exception of Singapore*) have competitive industries but the high tariff walls diminish any hopes of improved intra-ASEAN trade.

Nevertheless, attempts have been put forward to liberalize and expand intra-ASEAN trade. In 1977, the *Preferential Trading Arrangement* (PTA) was formed.[98] The results have been the number of tariff concessions exchanged among ASEAN countries increasing from 71 items when the PTA was initialized to around 20,000 items as of 1985.[99] However, large numbers of products that have been included in the PTA appear to have been selected on the basis of political rather than economic considerations. For example, Thailand offers tariff cuts on a large number of wood products which the other ASEAN countries cannot produce, and which Thailand does not import anyway; Indonesia offers a 10 per cent tariff cut on nuclear

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97 Ibid., p.57.

98 The stated aim of the PTA is to "*encourage greater intra-regional trade through the granting of long-term quantity contracts, preferential tariffs, and the liberalization of non-tariff barriers in intra-regional trade.*" G.Tan, Trade Liberalization in ASEAN (1982), p.3.

99 L.Martin, op. cit., p.67.

reactors that not only would capture a limited market but is too capital-intensive to produce for the member countries; the Philippines offers a 10 per cent tariff cut on snow ploughs; and Malaysia includes in its preference list a number of rubber products for which she is the world's major exporter.[100] Such preferential product trade only shows the uncooperative nature for the ASEAN countries to establish complimentary industries. As of presently, the only signs of establishing complimentary markets, in respect with Thailand, is the exporting of electrical and electronic products parts to Singapore that are then re-exported; the exporting of integrated circuits to Malaysia which first shipped the components; and imports of parts for tractors that Thailand produces and then exports worldwide.[101]

In summary, ASEAN does not seem to be the answer for solving the increased amount of protectionism. It is unlikely that ASEAN will ever form as a FTA since the economies from within the association are competitive. Nevertheless, despite protectionism and formation of trading blocs have been becoming more rampant worldwide it should not be forgotten that Thailand has been able to sparkle diligently within this hostile international environment.

5.3.3 Price Instability of Primary Commodities:

Although agricultural and fishing exports have been steadily declining as a share of total exports, they still constitute about

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[100] G.Tan, op. cit., p.45.

[101] Bangkok Post (Dec.1990), op. cit., pp.60-61.

one-third of all exports for Thailand. In fact, rice is still one of the main export items for Thailand today; revealing just how agricultural based the economy in fact still is. With still such a reliance on agricultural goods the prospects for the economy are still hampered with commodity price instability due to their inelastic demand nature. Agricultural prices are not only dependent upon worldwide demand, which can fluctuate with the change in tastes and the introduction of substitutes, but also on climatic conditions where flash floods or extensive dry spells can devastate a crop's output. For instance, in the first three months of 1988, the severe drought combined with low prices reduced output and value of maize by 91 per cent and 87 per cent respectively from the same period in 1987.[102] Since the 1960's new crops have been implemented for export growth to secure a diversifying agricultural base against the human element, but little can be done to combat untoward nature.

On the import side, Thailand still relies on fuel. In 1988, oil imports constituted 7 per cent of total Thai imports; equal in value to 9 per cent of her total value of exports.[103] This is a marked change from five years prior when oil imports constituted 31.5 per cent of all imports; tantamount to 38 per cent of the total value of the country's exports. This has not only been brought about by a declining world oil price but also by the

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[102] Bangkok Post (June 1988), op. cit., p.14.

[103] TDRI (1989e), op. cit., p.v.

attempt to use domestic natural gas *(in which Thailand is in plentiful supply)* to replace crude oil for power generation. Under the Sixth NESDP (1987-1991), the government has set the target to increase domestic natural gas production to 720 million cubic feet per day by 1991 as compared to 354 million cubic feet in 1985. Of this amount, the NESDB has forecasted that consumption of natural gas in generating electricity will augment from 250 million cubic feet per day in 1985 to 500 million cubic feet per day by 1991.[104]

Despite the discoveries of offshore gas deposits, Thailand still relies on imported crude oil; to the extent that the prosperity of the nation is highly correlated with it. The Research Department of Bangkok Bank anticipates that an increase of the price of crude oil from US $20 per barrel to US $35 per barrel today would affect the GDP growth rate of the economy from a 9 per cent to only 5.1 per cent, respectively.[105] Such a scenario undoubtedly depicts how the growth of the Thai economy is still at the mercy of the world.

5.3.4 Import Dependency:

Despite the economy's rapid growth rates, most expansion within the manufacturing sector has been in industries that rely on high volumes of imported raw materials and semi-finished components. For instance, iron and steel imports grew 64.4 per cent

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[104] NESDB, op. cit., pp.269-270.

[105] Bangkok Post (Dec. 1990), op. cit., p.15. It refers to estimates by the Research Department of Bangkok Bank.

(*due to the housing and construction boom*) and gems and silver bars imports increased 61.6 per cent throughout 1987 (*due to the inadequacy of the gems & jewellery industry to meet her own demand*). Capital goods imports, as well, have been accelerating under these favourable times. The inflow of non-electrical machinery and parts rose 96.4 per cent and that of electrical varieties 40.3 per cent throughout 1987.[106] And **Table 7** portrays how closely the growth of industrial output and the growth of imports in this sector are positively correlated.

The MNCs are largely responsible for the import dependence. In 1989, for instance, nearly 90 per cent of machinery and equipment and over 50 per cent of raw materials were imported by foreign BOI promoted firms.[107] **Table 8**, although outdated (1975 statistics), gives a detailed break-down of the amount of capital imported by the various promoted sectors by the two major investing countries - Japan and the United States. The survey shows that the overall import component of machinery and equipment used for MNCs was as high as 90 per cent. This is mainly owing to the fact, though, that capital goods industries in Thailand is greatly lacking, and hence, indicative of Thailand's technological dependency.

Currently, their is no sign of relief concerning the import dependency of the manufactured sector. Imports of raw materials and intermediate goods will continue to escalate with the expanding

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106 Bangkok Post (June 1988), op. cit., p.15.

107 TDRI (1989**d**), op. cit., p.64.

TABLE 7: GROWTH OF EXPORTS AND IMPORTS

GROWTH OF EXPORTS OF MANUFACTURING SECTOR:

1980	1985	1987	1988
44.75%	50.09%	60.19%	65.35%

GROWTH OF IMPORTS OF MANUFACTURING SECTOR:

1980	1985	1987	1988
65.91%	72.38%	79.22%	N\A

Source: TDRI (1989**a**), op. cit., pp.8-9.

TABLE 8:

INDUSTRY	**PERCENTAGE OF IMPORTED CAPITAL EQUIPMENT**	
	JAPANESE FIRMS	**AMERICAN FIRMS**
FOOD	91.71%	82.21%
TEXTILES	96.38%	-
ELECTRICAL APPLIANCES	94.27%	96.37%
MOTOR VEHICLE & PARTS	94.75%	100.00%
CHEMICAL & CHEMICAL PRODUCTS, RUBBER, PLASTIC PRODUCTS	94.52%	88.45%
ALL INDUSTRIES	94.41%	90.92%

Source: S.Praesartset (Nov. 1981), op. cit., p.37. Praesartset refers to S.Tambunlertchai, Present Situation and Problems of Industrial Development in Thailand (1979) [in Thai].

export market. Growth of imports for the manufacturing sector was anticipated at 36.1 per cent for 1990, with raw materials and intermediate products rising by 20.3 per cent.[108] Perhaps as the only sigh of relief concerns the composition of imports where there has been a reduction in the concentration of fuel imports, from a high of 31.5 per cent of total imports in 1980 down to 7.0 per cent in 1988.

5.3.5 Competition from Abroad:

Thailand is also beginning to feel the effects of increased competition from other developing countries in the region; in particular Malaysia, Indonesia and Vietnam. Just as in Thailand, these countries have the low-cost workforces so necessary to make labour-intensive industries a viable and profitable one. Furthermore, these countries are also attracting investments from Japan and the *"Gang of Four"* and subsequently are in the race for foreign investment with Thailand.

The keenest challenge may come from Indonesia; with triple the population of Thailand and abundant natural resources. This country has a manufacturing sector that is competitive to Thailand's own. It has been noted in The Economist that businesses which want to *set up shop* outside their *own* country and which require lots of unskilled labour are now ignoring Thailand and heading for Indonesia, where the per capita income is half that of Thailand's. And those foreign

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[108] Bangkok Post (Dec. 1990), op. cit., p.29.

firms that need skilled labour and an efficient infrastructure are turning to the south of Thailand's border in Malaysia.[109] Vietnam, with a population of 65 million, is also emerging from isolation and has given signs of wanting to join ASEAN and be a full player in the trading market.

Up to the present time, Thailand has managed to increase her exports at a rate faster than many other developing countries; despite not having the lowest labour costs in the region. Nevertheless, recent rapid increases in wages in response to higher inflation suggest that future growth will decelerate. According to Dr. Amranand, the twelve per cent increase in the minimum wage from 78 baht to 90 baht in April 1990 will eventually result in the rise of the price of goods and services by 1.8 per cent; yielding higher costs of production.[110] Subsequently, the "heating" economy is now accruing its side effects. As a result, if wage costs rise sharply without creating some new supply of production such as gearing more towards capital-intensive industries, or if infrastructure expands too slowly in relation to the expanding economy, Thailand could find itself a relatively less attractive place in which to produce.

5.3.6 Technology:

Thailand's manufacturing industries will need to become more capital intensive in the future; otherwise face an eroding future.

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109 The Economist (June 2, 1990), p.75.

110 The Nation Yearbook 1990/91, op. cit., p.24. The book refers to a speech by Dr. Piyasvasti Amranand, director of the National Energy Policy Office.

This is in the wake of two factors.

First, technological innovation has continued to re-shape the structure of industries. Raw materials, for instance, are being displaced by synthetics. Textiles, the most typecast of labour-intensive manufacturing industries, in which Thai exports have been growing so remarkably, are being taken over by new microelectronics-based technology. In general, labour-intensive manufacturing industries are becoming increasingly more capital intensive. This presents the danger of a serious erosion in the comparative advantage Thailand enjoys due to her low labour costs.

Secondly, Thailand is no longer the cheapest wage country. Within the region, Indonesia, Malaysia and Vietnam all have lower labour costs which is so necessary for making labour-intensive industries a viable and profitable one. Subsequently, Thailand will begin to see FDI for these industries subside as MNCs increasingly begin to move their production bases to cheaper wage areas. Thus, to remain competitive on the world market Thailand will be compelled to adopt a more capital-intensive base to its manufacturing sector. This can either be done through technological innovation on her current industries (*which Hong Kong has done to remain competitive*) or develop higher value-added products (*such as in electronics, avionics, etc. which the other Asian NICs have done following wage hikes*).

The issue at hand now becomes can Thailand execute such a strategy? Presently, the prospects are not promising. The enrolment rates in secondary school are only thirty per cent (*the lowest amongst the ASEAN member countries*); poising a problem in the development of technological capabilities.[111] In addition, those pursuing science are far fewer. Thailand has 40 engineers per million people whereas Taiwan has 400. In fact, in 1990 at the tertiary level the country was only capable of producing around 2,700 engineers whereas the demand for engineers was around 5,000.[112] The increasing acute shortage of skilled labour can be typified by the example of the Japanese MNC, Toyota, which has been compelled to send two-hundred Thais a year to Japan for intensive training.[113]

In addition to a shortage of skilled labour, Thailand spends a small percentage on research and development. According to a World Bank report Thailand presently only spends an annual average of one-fifth of one per cent of its GNP on research and development.[114] Such a prognosis will limit Thailand's capability to become more technologically innovative if she does not improve this situation.

To rely on the MNCs to transfer technology is also not promising. It has bee argued that production processes with less efficient technology has been shifted toward the Third World while

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111 TDRI (1989e), op., cit., p.25.

112 Bangkok Post (1990), op. cit., p.43.

113 The Economist (June 2, 1990), p.75.

114 The Nation Yearbook 1990/91, op. cit., p.29. The book refers to a World Bank report.

the MNCs have been retaining sophisticated production processes in their own country's; signifying the ongoing process of the new "*international division of labour*".[115] Apart from the restrictive nature of such technology, the MNCs often bring to a host country second-hand machines and semi-obsolete labour-intensive technology which is increasingly less profitable in the home country (refer to statistics in **Table 9**).

Besides the obstacles to becoming more capital intensive, such a strategy will meet resentment from the public. Whether the country attempts to become more capital-intensive through technological innovation or through developing higher valued-added industries both result in displacing employment. Perhaps as a solution wage hikes should be suppressed. But is such a strategy politically wise?

Displacement of employment has already happened when the MNCs first moved into Thailand. The MNCs that have moved into Thailand have also lost jobs for many small firms who are unable to compete; especially in the textile industry. In addition there has been a break-up of backward linkages that smaller firms and farmers used to experience in agriculture. The local firms used to procure their raw material locally, but the MNCs have been procuring their raw materials from their parent companies. This results in unemployment on the part of the supplier of local material as well as those in defeated local industries that have been pushed out of competition.

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[115] S.Praesartset, op. cit., p.38.

TABLE 9: DEGREE OF NEWNESS OF MACHINERY

DEGREE OF NEWNESS*	FOREIGN FIRMS	LOCAL FIRMS
HIGH	56.4%	69.0%
MEDIUM	7.7%	21.1%
LOW	35.9%	9.9%
No. of Firms	39	71

* Measured by the proportion of second-hand machinery in the total value of the machinery used.
-High degree means the proportion is between 0% and 20%.
-Medium degree means the proportion is between 21% and 60%.
-Low degree means the proportion is between 61% and 100%.

Source: S.Praesartset (Nov. 1981), op. cit., p.44. Praesartset refers to W.Panchareon, Multinational Corporations and Host Country Technology: A case of Thailand (1980), p.28.

Cotton production in Thailand is an illuminating case. Before the influx of foreign investment in the textile industry, local production grew significantly. Area planted in cotton rose from 371,000 rai in 1962 to 832,000 rai in 1968.[116] This, of course, provided a great increase in employment opportunity for Thai farmers. However, since the penetration of MNCs, and in particular Japanese ones, in the textile industry since the late 1960's, area planted in cotton continuously declined. And by 1975, area planted was only 188,000 rai.[117] The major factor leading to the drastic fall in local cotton production was the introduction of synthetic fibre by the MNC textile firms.

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116 Ibid., p.29.

117 Ibid., p.29.

CHAPTER SIX

CONCLUSION

From the time Thailand permanently opened its doors to the industrialized, capitalist countries under the Bowring Treaty of 1855, the economy has been immensely transformed. Initially Thailand was engaged in a specialized form of trade that resulted in trade expansion with little industrial development. By the 1930's, the government was attempting to develop the nation through state-led industrialization. In the postwar period, under the auspices of the NESDB, the structure of the manufacturing sector further shifted from an inward-looking to an outward-looking approach of development. And the BOI helped to create the necessary incentives to attract foreign investment. By the end of the 1980's, the progress of the Thai economy, and in particular of the expanding manufacturing sector, was universally acclaimed. Thailand has become one of the fastest growing nations in the world with double digit real GDP growth figures from 1988 to 1990, inclusive.

Nevertheless, perhaps the greatest challenge for the Thai economy remains yet ahead - the ability to maintain its momentum of development and to transform the economy to the status of a NIC while preserving the essential value of the Thai culture and identity.

The international environment in which this challenge will need to be met holds both advantages and problems for Thailand. On the advantageous side, Thailand has the benefit of being located in the heart of Southeast Asia; one of the most dynamic economic regions in the world. Japan, Taiwan and Hong Kong are all investing heavily in this region; spinning off their older and more labour-intensive manufacturing export activities. Thailand has captured much of this foreign investment. In addition, Vietnam, Laos and Kampuchea are coming out of isolation, throwing out communist ideology and seeking for themselves the economic prosperity they see in ASEAN. This, in turn, will provide new markets for Thai goods before these countries become competitors.

The international environment, though, will give Thailand problems. *First*, in the years to come, the labour-intensive industries that Thailand has thrived upon in the past will face ever increasing competition from the rest of the world. Other countries such as Malaysia and Indonesia have the low-cost workforces so necessary to make labour-intensive industries a viable and profitable one. *Secondly*, formation of trading blocs will create further obstacles for labour-intensive industries. Europe 1992, for instance, will eventually dampen Thai exports to the EC in such industries as textiles and footwear; with the southern European countries gaining the upper hand under this free trade negotiation. Moreover, despite GATT attempts, protectionism in labour-intensive industries have been escalating. The Multi-Fibre Arrangement is one such case. *Thirdly*, Thailand is also expected to lose GSP privileges in the future; resulting in many of her export goods facing high tariff barriers and thus becoming more costly and subsequently less competitive. *Fourthly*, technological innovation from the capitalist countries is displacing labour-intensive industries. *Finally*, natural resources, which have been used extensively to develop the economy, are now deteriorated.

Duplicating the past performance of the *Gang of Four* is also not enough to insure continual prosperity. Taiwan, Hong Kong, South Korea and Singapore emerged in a period (*late 1950's and early 1960's*) where the adoption of an export promotion development strategy could take place in time of orderly international economic relations created by the Bretton Woods institution and during a period of a worldwide trade expansion.

Thailand has also not altogether followed the *Gang of Four* experience. *First*, she has never undergone a major land reform. Today around sixty per cent of the population is still engaged in agriculture. This characteristic hardly exemplifies an industrializing country. *Secondly*, Thailand protects her industries to a greater extent (*with the exception of South Korea*) than the *Gang of Four*. In 1983, for instance, the average tariff rate in Thailand was 31.1 per cent compared to only 6 per cent for Singapore.[118] And although protectionist tariffs have been gradually reduced over the past decade resistance to further reductions remains strong.

The challenge to maintain her momentum of development and to transform the economy to the status of a NIC while preserving the essential value of the Thai culture and identity could also be jeopardized within the domestic environment. The pillars of the church, crown and army have long been the basis of the nation. If

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[118] L.Martin The ASEAN Success Story (1987), p.57.

one of these pillars should collapse Thailand could fall in disarray and thus become politically unstable. Such a situation could arise during the succession of king Bhumibol. A bitter conflict could materialize between his two elder children, a prince and a princess. Although the prince is the eldest and is thus the legal successor, he is disliked by the Thai population. On the other hand, the princess is loved by all and the population wants her to be the successor to the throne. Such a situation could cause social unrest when the king dies. The church, meanwhile, is modernizing which can cause social unrest within the country. And the third pillar, the army, is not convinced of the need to follow democracy and the world norm. This also has the possibility of causing social unrest. In summary, if one of these pillars should begin to crumble foreign investors would become reluctant to invest; a shock that Thailand can ill afford if she wants to maintain her momentum of development and to transform the economy to the status of a NIC.

To help alleviate the problems of being intertwined in the international environment it is imperative for the manufacturing sector to become increasingly capital-intensive. However, this is not to say that Thailand should begin to specialize in high tech industries for export such as avionics. On the contrary, however Thailand should strive to become *relatively* more capital-intensive to displace enough of her workforce to insure international competitiveness.

Being capable of becoming more capital-intensive, though, is a problem that needs solving. *First*, the enrolment rates in secondary school are poor and are the lowest among ASEAN member countries. In addition, there is a lack of skilled manpower; especially that of engineers. Such a scenario will place a constraint on the development of technological capabilities. *Secondly*, the government has been spending very little on research and development to improve industrial efficiency through innovative technology. The government will thus have to pay more attention to education and research by devoting more of its budget to these areas. Incentives and or laws must be established to keep children in school longer and to devote a greater amount of them in the field of science.

Other issues will also need to be dealt with to ensure a continual momentum of development. *First*, the "heating" economy has been accelerating the inflation rate; placing a check on the economic stability of the nation. Since the double digit growth figures, inflation has augmented from 2.5 per cent in 1987 to 7.0 per cent in 1990 and forecasted to climb in the neighbourhood of 10.0 per cent for 1991.[119] If measures are not taken to curb the growth of the inflation rate (*ie- contractionary monetary policies*), investors will begin to be reluctant to invest in the country. Such a prognosis is one that the country can ill afford if she is to captivate the spinning off of the relatively more capital-intensive industries from the continuing restructuring world economy.

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[119] The Nation yearbook 1990/91, op. cit., p.13.

Secondly, rapid export growth has also placed a strain on the current account with escalating imports. If the current account worsens this will put a strain on the balance of payments and jeopardize the characteristic of the nation being stable. Moreover, it has been forecasted that if the price of oil should increase substantially this will not only affect Thailand's GDP growth rate to a grave extent but will worsen the current account deficit and also place an upward pressure on inflation.

In summary, the question to be asked is whether Thailand is on the path of becoming a NIC or if she is stuck in some labour-intensive trap? That is, can the country advance to become more capital-intensive? It is quite evident that she must advance but whether she can is not as clear. Her enrolment rates in secondary school, as mentioned, are inadequate and she lacks such skilled labour as engineers to pursue such an advancement. In addition, the government spends only one-fifth of one per cent of GNP on research and development. To rely on the MNCs to transfer technology is also not promising as they tend to transfer semi-obsolete labour-intensive technology, while keeping the up to date technology at home.

In the past, the government has created amenable macro management to maintain a stable growing economy. In the future, the government will have to walk a balancing act between the cost/benefit analysis of rapid growth. More emphasis in the future will have to be designated towards curbing the "heating" economy as well as maintaining its competitive edge on the international scene. The task will not be easy.

STATISTICAL APPENDIX

TABLE 1: GROWTH & SHARES of EXPORTS: 1965-1988

ITEM	1965-1969		1969-1974		1974-1979		1979-1983	
	GROWTH	SHARE	GROWTH	SHARE	GROWTH	SHARE	GROWTH	SHARE
FOOD	(0.73)	60.60	28.70	47.79	11.89	54.02	9.67	49.52
BEVERAGES & TOBACCO	13.43	1.03	21.84	1.17	20.29	1.21	9.62	1.25
MANUFACTURED GOODS	32.04	11.65	26.15	15.58	21.64	17.52	2.50	19.18

ITEM	1985		1986		1987		1988	
	GROWTH	SHARE	GROWTH	SHARE	GROWTH	SHARE	GROWTH	SHARE
FOOD	0.12	44.78	16.02	43.55	7.31	36.46	39.38	40.27
BEVERAGES & TOBACCO	(2.99)	0.85	(5.17)	0.67	(9.16)	0.48	85.14	0.83
MANUFACTURED GOODS	20.59	18.55	19.07	18.59	30.30	19.59	30.29	19.76

Source: TDRI (1989**a**), op. cit., p.16.

TABLE 2: FOREIGN DIRECT INVESTMENT in THAILAND:

Country	1965	1975	1980	1985	1986	1987	1988	*1989
			Percentage Share					
USA	37.8	46.9	18.9	54.2	18.7	20.1	11.3	14.2
Japan	37.0	24.3	23.3	34.8	44.1	36.1	51.7	50.2
EC			20.0	9.7	7.4	10.4	8.0	9.3
U.K.	5.1	6.3	2.1	2.8	3.6	3.6	3.1	3.6
W.Germany			6.8	3.8	2.3	5.0	2.2	1.5
France			0.3	3.3	1.3	1.5	1.0	3.0
Holland			0.6	(1.0)	(0.8)	0.8	1.0	0.3
Italy			4.0	0.3	1.1	0.1	0.1	0.4
Australia			1.0	(1.8)	2.1	0.3	0.1	0.4
Canada			(1.1)	0.8	0.5	0.1	0.2	0.1
Switzerland			1.9	1.8	4.0	8.7	2.0	3.5
Asian NICs			36.2	(6.9)	21.7	22.6	28.4	20.2
Hong Kong	0.0	3.4	28.7	14.7	13.8	8.8	10.8	10.1
S.Korea			0.3	(0.1)	0.1	0.2	1.1	0.5
Singapore			7.2	(25.5)	5.8	5.9	5.4	(0.9)
Taiwan			0.0	3.9	1.9	7.6	11.2	10.5
ASEAN			4.0	0.9	(0.6)	0.0	0.3	0.0
Brunei			0.0	0.1	0.1	0.0	0.0	0.0
Indonesia			0.1	0.2	0.1	0.1	0.1	N/A
Malaysia			3.9	0.4	0.1	(0.1)	0.2	0.0
Philippines			0.0	0.2	(0.9)	0.0	0.0	(0.1)
Other			2.1	6.5	2.1	1.7	1.9	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Amount (Million Baht)	870	1,745	3,878	4,402	6,908	9,044	28,244	17,133

* The 1989 data is for the first six months of the year.

Source: For the years 1965 and 1975 see S.Akira, op. cit., p.187. For the additional years refer to TDRI (1989**a**), op. cit., p.34.

TABLE 3: INVESTMENT PROMOTION IN THAILAND

	1982	1983	1984	1985	1986	1987	1988	1989
APPLICATIONS								
Number of	188	342	330	325	431	1,058	2,125	1,284
Investment (Baht Million)	20,313	56,079	40,405	59,583	59,688	209,029	530,292	461,052
Registered K (Baht Million)	4,751	10,284	10,059	14,997	15,804	57,198	139,389	131,832
Thai Employees	34,588	72,516	99,658	76,420	100,681	332,568	532,175	409,347
APPLICATIONS APPROVED								
Number of	97	140	266	210	295	626	1,454	1,170
Investment (Baht Million)	9,168	8,989	33,202	54,197	34,610	67,752	200,894	286,054
Registered K (Baht Million)	2,746	3,294	7,997	7,421	9,203	18,878	60,297	68,538
Thai Employees	19,161	26,703	51,654	59,374	60,231	204,113	350,251	331,315
APPROVALS CANCELLED								
Number of	25	31	21	34	73	44	72	283
Investment (Baht Million)	3,425	4,078	2,090	3,450	4,018	3,607	10,279	23,271
Registered K (Baht Million)	876	1,125	726	891	1,462	1,610	2,974	7,073
PROJECTS STARTING OPERATIONS								
Number of	79	107	76	78	145	171	224	277
Investment (Baht Million)	10,244	10,924	7,225	8,201	20,809	18,683	17,930	26,412
Registered K (Baht Million)	2,942	3,391	1,920	2,275	3,932	5,022	8,268	10,282
Thai Employees	13,629	15,333	12,135	14,401	26,178	38,102	46,198	52,402

NOTE: K - capital

Source: TDRI (1990), op. cit., Table 18.

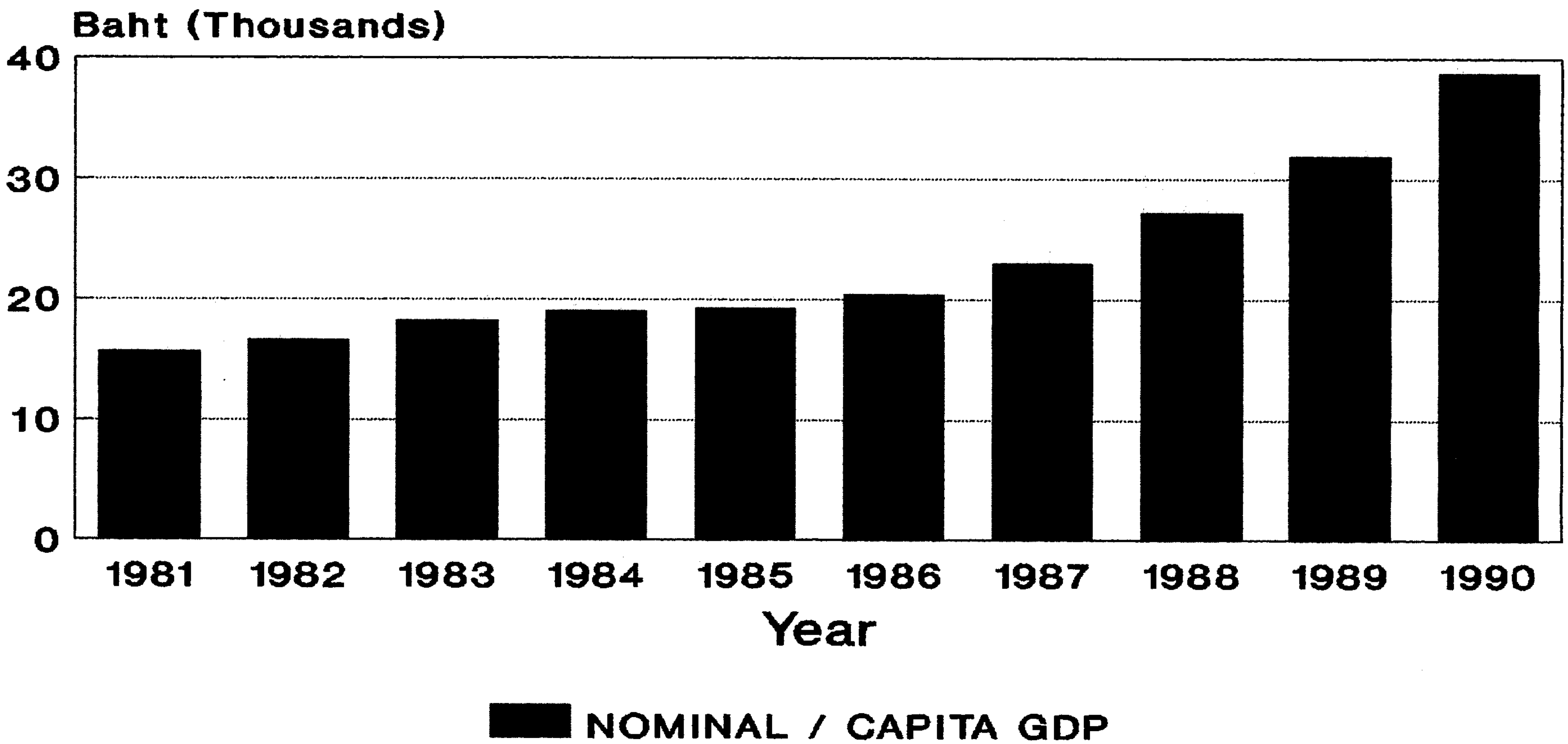
TABLE 4: MANUFACTURING EXPORTS 1989-1991
(in millions of baht)

	1989	growth	1990E	growth	1991F	growth
Industrial Products (70 items)	242.3	38.89	307.6	26.95	352.0	14.44
1. Garment & Textiles	77.81	26.47	88.08	14.12	100.81	13.52
-Garment	59.46	30.06	68.67	15.49	79.35	15.55
-Textiles & thread	14.86	6.72	15.67	5.42	16.23	3.64
2. Jewellery	30.22	20.99	37.10	22.74	41.55	11.99
3. Electric and Appliances	70.30	67.95	95.77	36.22	107.08	12.56
-Computers & parts	26.83	114.18	36.00	34.15	38.00	5.56
-Integrated Circuits	18.43	-2.28	22.00	19.40	23.00	4.55
-Video & Audio	7.27	438.69	9.08	34.83	12.05	27.55
-Ball bearing	3.87	12.19	5.05	41.96	6.08	23.64
-TV, Radio & parts	2.78	545.54	4.80	72.40	6.02	29.17
-Speakers	0.56	111.45	0.67	19.39	0.08	19.40
-Christmas lights	2.76	521.01	5.00	80.93	6.00	20.00
-Microwaves	2.60	87.08	2.08	7.63	3.00	7.14
-Fans	1.76	87.71	3.00	69.75	3.05	16.67
-Motors & Generators	1.63	75.59	2.07	65.64	3.03	22.22
-Refrigerators & parts	0.96	71.03	1.05	56.05	2.00	33.33
-Air conditioners & parts	0.83	17.06	2.00	140.91	2.07	35.00
4. Telecom equipment	2.45	1,049.0	4.08	95.20	6.00	25.00
5. Furniture & parts	6.67	11.62	7.00	4.99	7.04	5.71
6. Wooden products	3.16	24.72	3.02	1.22	3.36	5.00
7. Steel pipes	3.03	-3.93	3.01	-5.04	3.01	0.00
8. Aluminum parts	1.37	157.26	1.07	24.21	2.05	47.06
9. Plastic products	6.62	32.63	7.08	17.82	9.00	15.38
10. Artificial Flowers	2.08	40.66	3.00	4.63	3.04	13.33
11. Shoes	13.52	40.03	23.00	70.06	28.00	21.74
12. Bags	4.08	37.00	6.05	33.98	8.00	23.08
13. Tanned products	3.09	27.53	4.00	29.39	4.08	20.00
14. Ceramic products	3.00	52.89	4.03	39.09	5.07	32.25
15. Auto & parts	4.04	12.23	5.05	24.99	6.04	16.36
16. Bicycles	0.54	207.04	0.65	21.18	0.07	7.69
17. Toys	4.22	73.61	6.03	49.37	8.00	26.98
18. Clocks & Watches	2.48	82.31	3.05	40.77	3.06	2.86
19. Lens	0.07	31.00	0.78	9.92	0.91	16.67
20. Camera & parts	0.66	98.11	0.08	21.38	1.00	25.00

E:Expected; F:Forecast

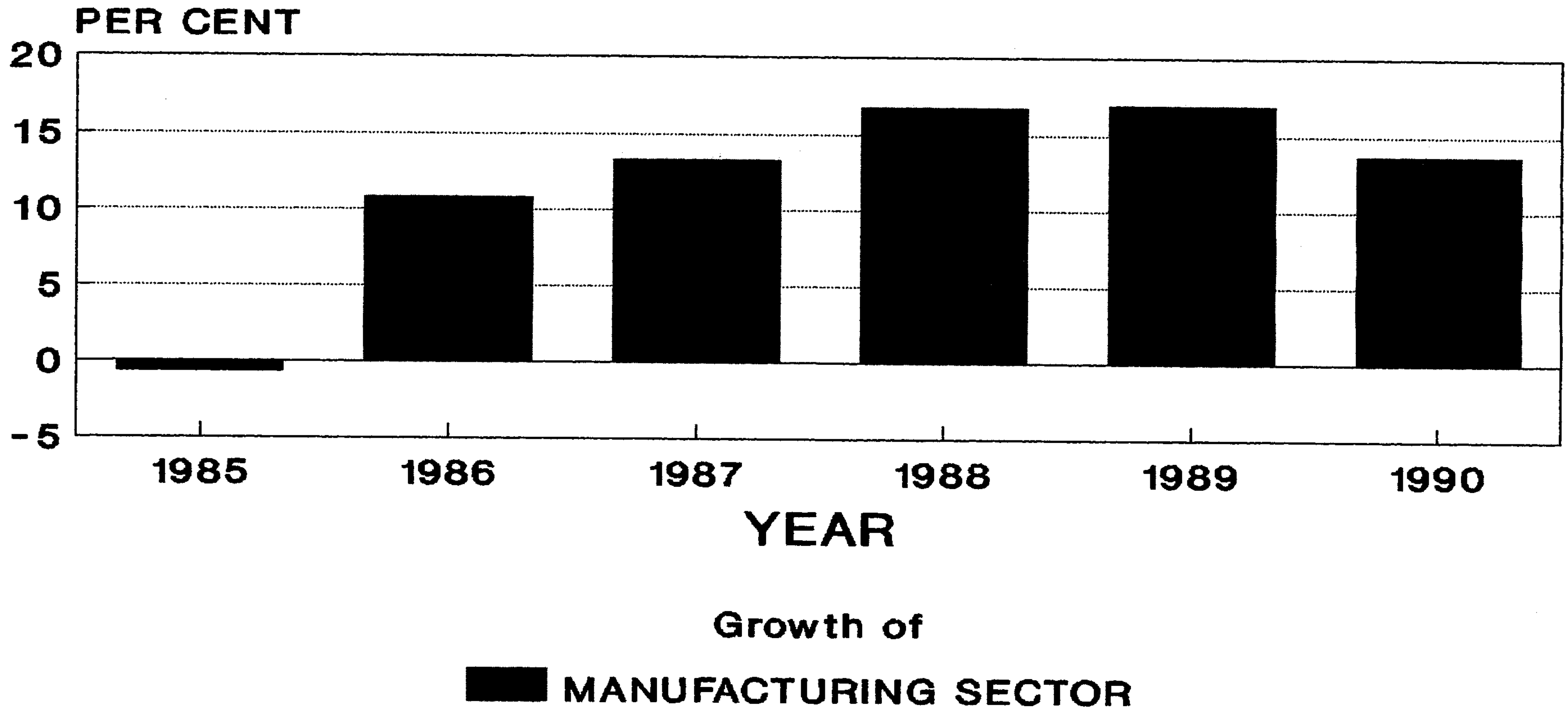
Source: The Nation Yearbook 1990/91, op. cit., p.21 The book refers to the Ministry of Commerce.

NOMINAL PER CAPITA GDP
FIGURE 1



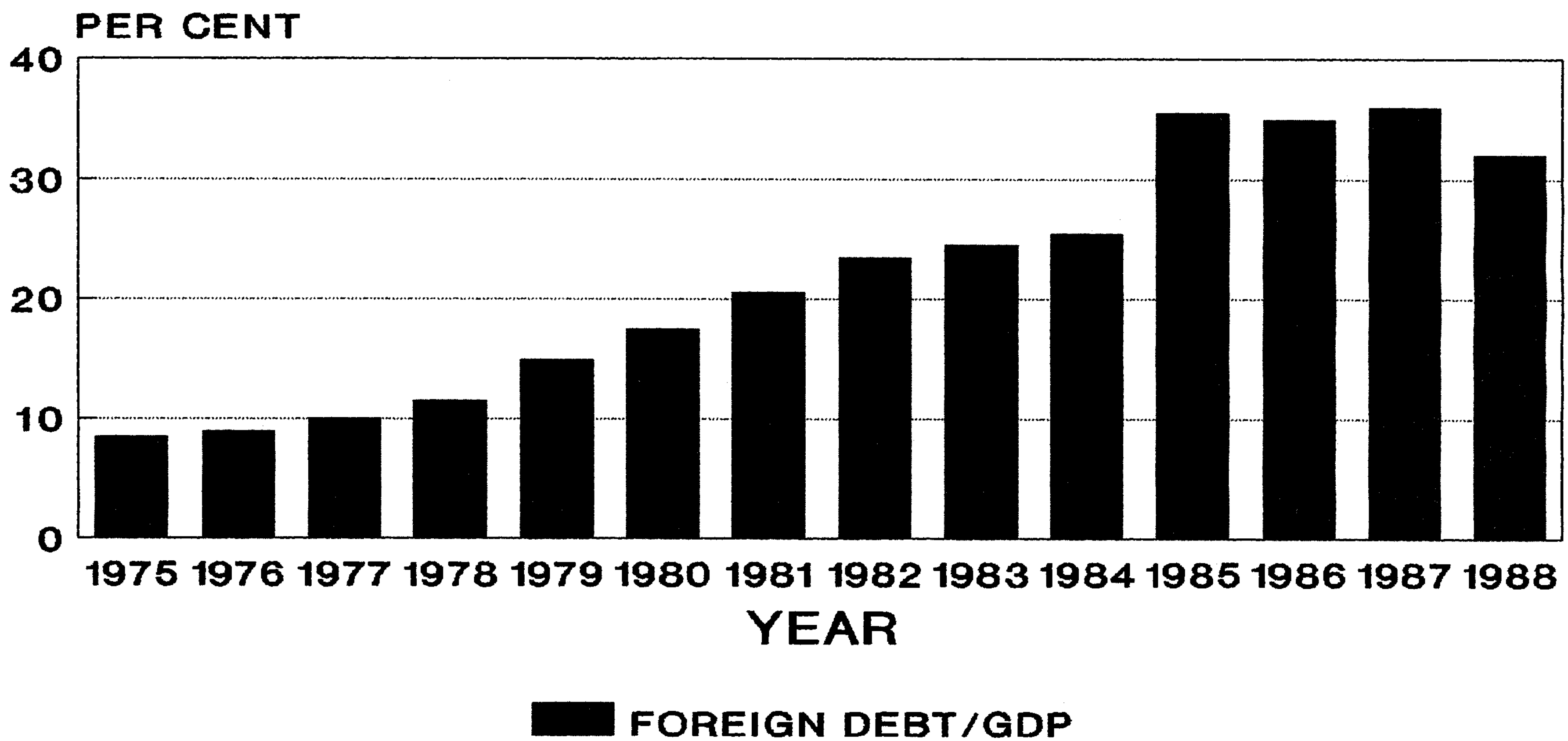
Source: Bangkok Post (1990), op. cit.,
p.12. Refers to NESDB. 1990 estimated.

MANUFACTURING SECTOR
FIGURE 3



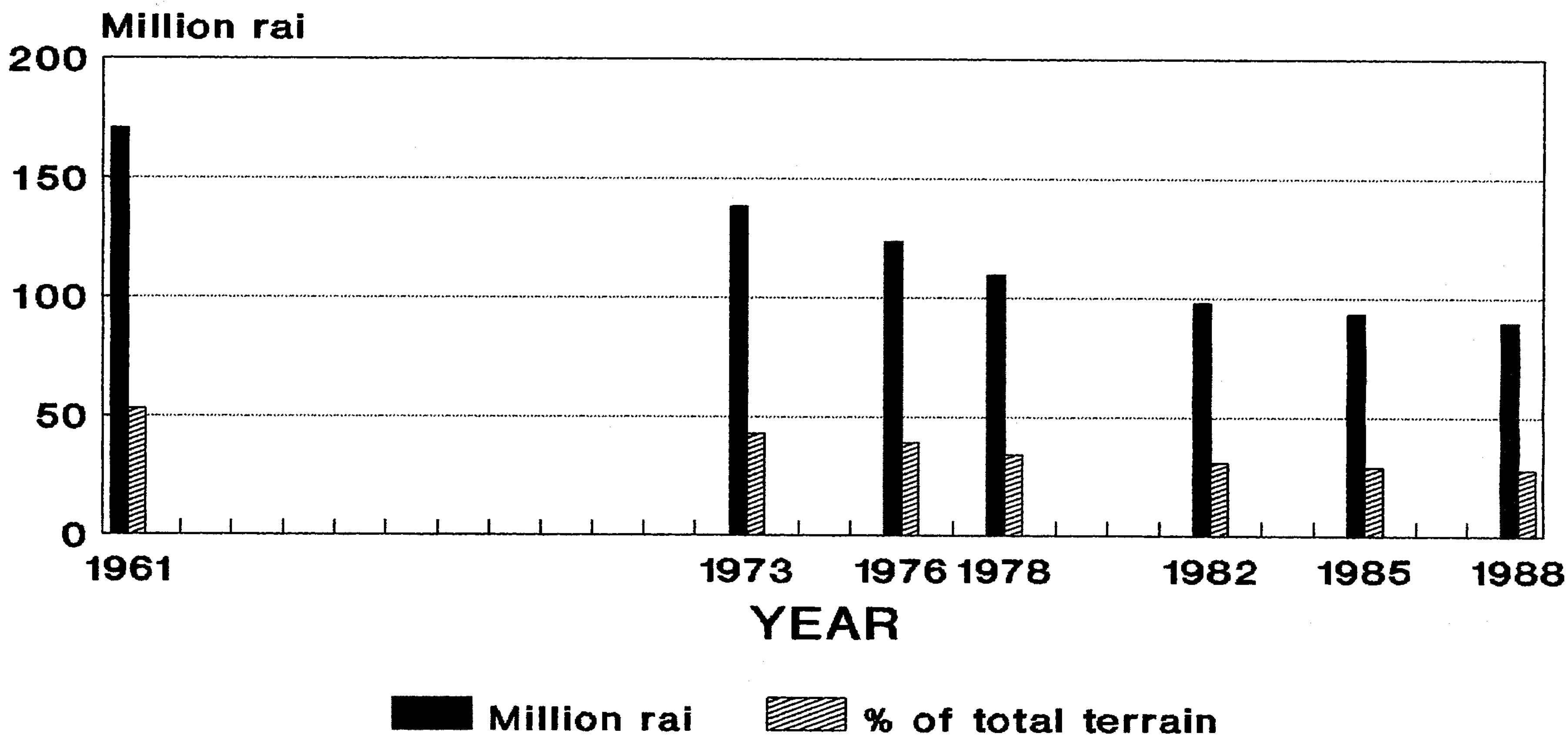
Source: Bangkok Post (1990), op. cit., p.13. Refers to Bank of Thailand, Bangkok Bank Ltd. 1990 is estimated.

FOREIGN DEBT / GDP
FIGURE 4



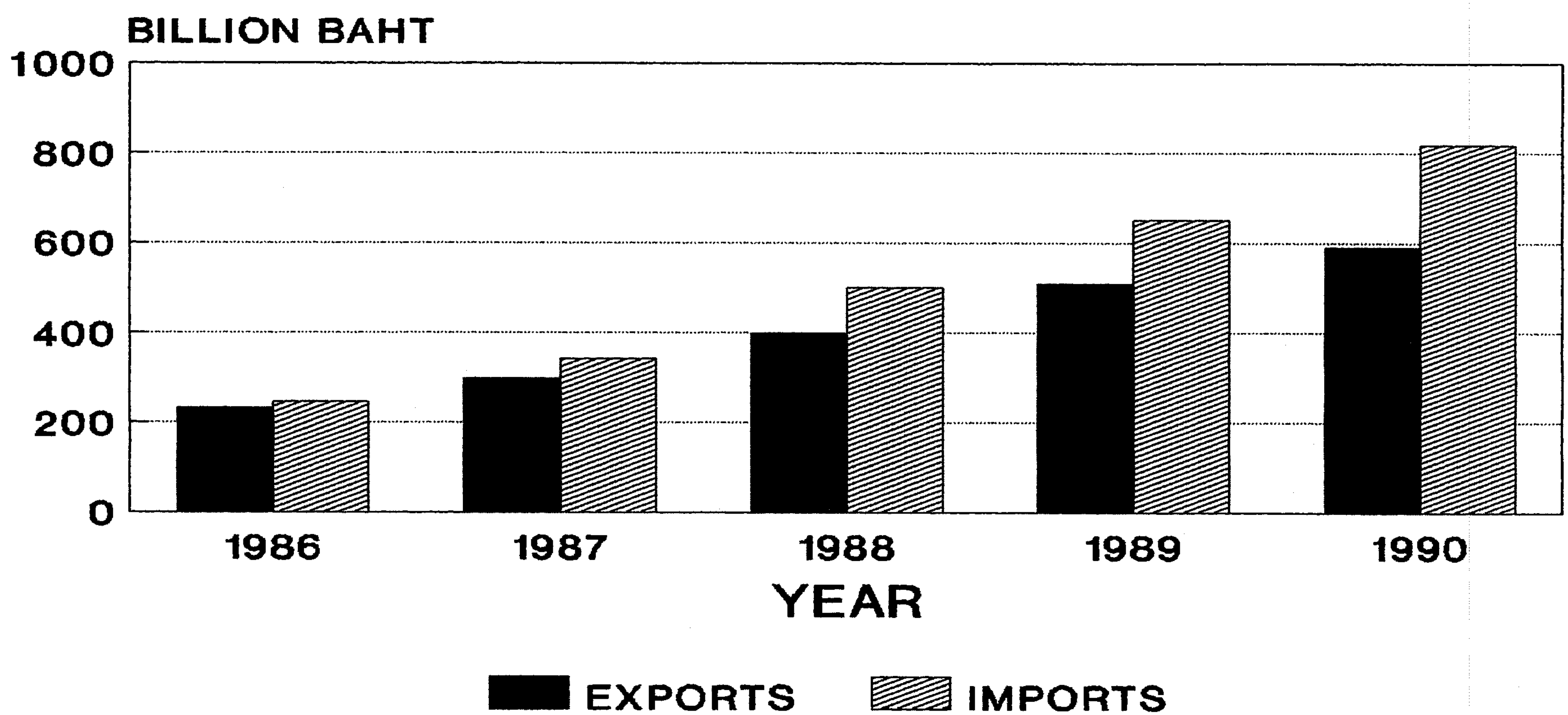
Source: TDRI (1990), op. cit.,
Figure 7

FOREST AREA IN THAILAND
FIGURE 5



Bangkok Post (1990), op. cit.,
p.83. Refers to forestry Department.

TRADE ACCOUNT DEFICIT
FIGURE 6



Source: Bangkok Post (1990), op. cit., p.28. Refers to Bank of Thailand. 1990 is estimated.

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