

# THAILAND'S ECONOMIC PROSPECTS<sup>1</sup>

by

Puey Ungphakorn

## I Introduction : Present and future problems

In order to see whether and how far a nation has made economic progress, we usually consider two things : (a) the real income of the nation as a whole with the resulting average real income per head of the population; and (b) the distribution of wealth and income among the various sectors of that nation.

In what follows, I shall concentrate primarily on the first consideration, i.e. the overall economic conditions of the country, although the second criterion of economic and social progress, the distributive side, will not be neglected and will be dealt with at some points. I have decided to do so because I understand that what is foremost in my audience's mind at the moment is the question of economic survival of Thailand as a nation.

The questions often asked at present are the following :

Our production and exports recently have grown at very low rates and our imports have grown at very high rates. Our trade deficits have widened and a deficit in our balance of payments has emerged in 1969 for the first time and is likely to continue. What shall we do about these ?

The green revolution i.e. the success in rice production everywhere will adversely affect Thai rice exports which are the main source of our foreign exchange earnings. Can anything be done about this ?

What can be done to replace the loss in foreign exchange earnings as a result of sizeable reductions in U.S. military spending ?

---

1) Paper presented at the Siam Society, 5th February 1970.

Before answering these important questions, and in order to keep our sense of proportion, I find it necessary to quote a few facts and figures.

<sup>1)</sup>Our domestic product (at constant prices) grew at the average annual rate of 6.0% in 1958-1962, and 8.9% in 1963-1966. Then in 1967 the growth rate dropped to 4.6%, and recovered to 8.5% in 1968. It is estimated that the growth continued in 1969 at about the same rate as in 1968. The drop of the growth rate in 1967 is attributed to the drought and consequent poor harvest during the 1967/8 season.

<sup>2)</sup>The deficit in the merchandise trade (exports-imports) has widened during the past eight or nine years from 269 mn. Baht in 1961 to about 11,250 mn. Baht in 1969. If we take goods and services together, the current account deficit in 1968 was about 4,425 mn. Baht and in 1969 perhaps 5,280 mn. Baht.

<sup>3)</sup>Under the heading of Services in the Balance of Trade, there are two items connected with the Vietnam War, i.e. R & R spending and U.S. military spending in Thailand. The estimated total receipts from these two sources increased from U.S. \$3.7 mn. in 1961 to \$256.6 mn. in 1968 and declined to \$222.0 mn. in 1969. It is expected that the loss in direct income from these sources will continue at the annual rate of some \$50 million over the next few years.

<sup>4)</sup>Since 1959, Thailand's balance of payments has shown surpluses every year until 1968, at the end of which our net gold and foreign exchange reserves stood at nearly U.S. \$900 million (official reserves about \$1,021 mn.) In 1969, the balance of payment deficit amounted to some \$48 mn. with net international reserves now at \$873.7 (official reserves about \$985 mn.)\*

---

\* These figures do not take into account the U.S. \$17.1 mn. held by the Bank of Thailand in the form of Participation Certificates in the IBRD Loans to the Thai Government for the Pa-Som Dam Project and Third Phase Highway Project. If these are included, the net international reserves would be \$891 mn. (official \$1,002 mn.), a loss of \$31 mn. over 1968. (Table E)

1) See Table A.

2) See Table B.

3) See Table C.

4) See Tables B & D.

To summarize, the Thai economy before 1967 had on the average grown by 7.3% annually. In 1967 the growth rate slowed down, but it had recovered in 1968 and 1969. In our external account, exports have recently stagnated and there has been some reduction in U.S. military spending, while imports remain on the upward trend although at a slower rate. We can expect the payment deficit to continue for a few years until our production and exports pick up. Our international reserves are equivalent to eight months' current payments and, incidentally, more than three times the amount of public external debt outstanding at the end of 1969.

With the cessation of the U.S. war involvement in Vietnam, the current estimates are that the payment deficits will continue and that the international reserves will be drawn down by \$250-\$300 mn. during the next five or six years. These estimates are made on the assumption that nothing drastic is done during the next few years, in other words that production, exports, imports, private and government savings and investments follow the present trend.

Meanwhile, there is the persistent problem of the growing gap of welfare between the rich and the poor, between Bangkok and the rest of the country.

## II Proposals to restrict imports

When income falls short of expenditure, it is natural for a person to try to (a) increase income or (b) reduce expenditure or (c) both.

For a country as well as an individual, to increase income is much more difficult than to reduce expenditure. For bureaucrats wielding the power of control, it is also natural that the first thoughts are to control and restrict imports. One cannot very well pass laws and regulations forcing people to produce and export more; but it is easier to legislate and control imports.

Assuming for the moment that restriction of imports is the objective, there are many alternative methods of achieving the same result, with varying consequences. The worst method in my mind is quantitative control of imports. A total ban on certain imports, if effective, will not be too bad; it will avoid discriminatory and unfair

practices. But in a country like Thailand, anything as drastic as a total ban is usually rejected: we prefer to compromise. Hence restrictions by quotas have always been preferred. Past experience and practice indicate that quota restrictions eliminate the rule of law in economics and trading, breed corruption and open the door wide for the exercise of political and military influence. If and when it is found necessary to restrict imports, I would therefore advocate doing it by banking or fiscal measures, i.e. restricting the terms of credit granted to our importers by their overseas suppliers, or raising customs and other duties on imported goods. In this way, the rule of law can be maintained.

We might remind ourselves here that any import restriction by whatever method will (a) raise the price of the goods under control, and (b) stimulate smuggling activities.

<sup>1)</sup>The next point to consider is what kind of imported goods are we proposing to control and restrict. The growth of total imports, in this connection, has always been cited with alarming effects. In 1963 and 1964 total imports rose by 11.3% in each year; again in 1966 and 1967 the growth rate was 19.9%. (The fact that import growth rate in each of the years 1965, 1968 and 1969 was fairly normal at around 8% is usually not mentioned.)

<sup>2)</sup>When one looks more closely at the statistics, it becomes evident that the categories of imports which have risen spectacularly in recent years are: capital goods which rose by 25% in 1963, 19.4% in 1966, 32.3% in 1967; and raw materials which increased by 26.5% in 1964, 25.8% in 1966, 20.8% in 1967. Fuel and automobile imports went up 26.3% in 1966. On the other hand, consumer goods imports have grown on the annual average of 6.7% between 1963 and 1968, reaching the maximum increase of 11.8% and 13.1% in 1966 and 1967.

What then happened in 1963, 1964, 1966 and 1967, the years when imports rose the most?

---

1) See Table F.

2) See Tables F & G.

1) First, the capital goods under the aid and loan projects which normally came in at the rate of some 1,000 mn. Baht reached the level of 1,600 mn. Baht in 1962, nearly 1,700 mn. Baht in 1963, then again 1,466 mn. Baht in 1967 and 1,674 mn. Baht in 1968.

Secondly, under the industrial promotion scheme, the government has been very successful—perhaps too successful—in encouraging the import of capital goods and raw materials by the private sector. Such imports are usually exempt from import duties. The value of such goods, under 250 mn. Baht in 1963 reached 2,000 mn. Baht in 1967, 2,400 mn. Baht in 1968 and is still rising.

2) Thirdly, U.S. military construction in Thailand, starting with 166 mn. Baht in 1963, reached 645 mn. Baht in 1966, 1,144 mn. Baht in 1967 and 1,165 mn. Baht in 1968. This particular item tapered off in 1969.

What this analysis shows is that if we seek a substantial reduction in imports, we have to cut down capital goods and raw materials which, we were hoping, would help us increase agricultural as well as industrial production. Such a reduction would be a great pity. Restriction of consumer goods imports would not yield us much savings, would reduce our people's welfare, and would cause many other problems of various sorts.

Of course, it would be extremely unwise for the government to reduce the import of producers' goods indiscriminately.

What then could we do at all on the import side? We should rule out quantitative restriction and various forms of undesirable control. Even so, there are still many ways by which to reduce the growth of imports.

First, the reduction and eventual disappearance of U.S. military spending on bases and on R & R bring some automatic adjustment. The presence of so many rich consumers in the guise of American troops and officers and families on vacation or on duty in various

---

1) See Table H.

2) See Table H.

parts of the Kingdom directly and indirectly has induced our own traders to accommodate them with goods to which they are accustomed, i.e. foreign goods. The departure of these customers, if unreplaced by other foreign tourists, will gradually reduce the growth of imports of consumer goods.

Secondly, although the industrialization policy of the government should continue, it has become apparent that some categories of industries will not be as useful to us as we first expected. Automobile assembly plants and other factories with high import content and low domestic value added come in this category. The hotel industry also appears to have reached the limits of desirable expansion. For these industries, a reversal of policy from encouraging to discouraging imports by tariff measures will save us a few million dollars. I believe the Board of Investment Promotion is already looking into this matter.

<sup>1)</sup>Thirdly, some categories of durable consumer goods imports have been encouraged by foreign exporters by means of long-term credit. I refer to the categories of motor cars, buses, lorries, TV sets, and refrigerators. The credit granted has covered larger and larger values of imports every year, rising from about 17 million Baht in 1960 to 925 million Baht in 1968. Some discouragement, particularly of private motor cars, will bring us substantial savings.

Fourthly, Thailand as a whole can do with the virtue of economizing. I do not mean by this to preach austerity to which so many prominent people have paid lip-service. Thrift and buying Thai goods are indeed desirable; but preaching is usually futile, particularly when the preachers and prominent people do not practise what they preach.

Economizing, in the macro-economic sense, means saving both by the private sector and the government sector. In the private sector, individual citizens may save and put their savings in banks, insurance companies, other financial institutions or government bonds. A great proportion of savings in the private sector however comes

---

1) See Table 1.

from corporate savings, i.e. the undistributed profits and providential funds of companies and partnerships, In the government sector, saving corresponds roughly to the surplus of government revenue over government current (non-investment or non-development) expenditures. In the national economy, the greater the rate of saving, the greater the opportunities will be for investment or for development. At the same time, if the whole nation saves more and spends less, the reduction in spending will also cause imports to be curtailed.

<sup>1)</sup>The record of Thailand in saving has been impressive enough, rising from 15% of the Gross National Product in 1958 to about 27% in 1966, dropping to 24.7% in 1967 and dropping further in 1968 and 1969. While the rate of saving in the private sector remains consistently high, the same cannot be said of the government surplus, which dropped in 1967, 1968 and 1969<sup>2)</sup>

In order to help curb the growth of imports, the government itself has the solution in its own hand. The annual budget must be formulated so as to produce a reasonable surplus or saving of revenue over current expenditures. If the government can economize on its current expenditures, particularly on official cars and other fringe benefits for the few privileged officials, all the better. But if defence and security considerations make it difficult for current expenditure to be reduced, then government revenue ought to be increased. In blunt language, we must raise more money by taxation. In short, increased taxation will generally help reduce the growth of national imports.

Incidentally, our present system of taxation leaves much to be desired from the point of view of social justice or the distribution of income. Not only is it true that the "rice premium" discriminates against rice farmers, but it is also true that we can tax the rich more in order to spend more on the poor. The reform of urban land tax, property tax, corporation tax and the reintroduction of death duties and inheritance tax will enable the government to spend more on farmers and other poor citizens, thus implementing the policy advocated by the government of closing the income gap.

---

1) See Table K.

2) See Table J.

To summarize, the growth of imports can and should be checked by the reduction of U.S. military spending, by scrutinizing our investment promotion policy, by the control of credit on imports and by wiser budgetary and fiscal action.

### III To increase production and exports

The really lasting solution of our economic difficulties lies in production and export promotion.

But what shall we produce? What shall we try to export?

In the short run we must concentrate on producing the commodities for which we have adequate skill and in which nature favours us. In the long run, we must develop and improve our skills in various directions in order to diversify our productive activities and find out what else we can do that will bring us higher income and better economic security.

1) For the mass of Thai people at present, agriculture, especially rice growing, is the answer in the short run. Manufacturing has grown at a satisfactory rate, but still yields only about 15% of our GNP and has relatively few people engaged in it.

Efforts at industrialization must of course continue, and promotion policy should be orientated towards export possibilities. Although the average money income of industrial workers is higher than that of farmers, I do not agree with some thinkers who advocate that our people should rush into manufacturing. For manufacturing to succeed in Thailand, without detriment to our people's economic welfare, two conditions must be satisfied: (a) our people must acquire more technical and managerial skills, and (b) the market for our products must be made large enough through international regional coordination and cooperation. Neither of these conditions can be fulfilled in the short run.

Nature favours the mass of our people in agriculture, both in climatic conditions and in skill. We can also do a great deal to improve our natural blessings by way of research, extension service

---

1) See Table L.



and financial help. Though still illiterate, our farmers are smart enough to respond to any changes in the relative prices of products and to the leadership and counsel of officials. Government leadership and service, including infrastructural services, and also including the prevention of crime by the police, are crucial in this matter at this particular time.

For some time, the government has rightly concentrated on the building of roads to give the farmers better access to markets. I believe that maximum efforts have already been made on roads. I believe the government has spent too much time and money on too many simultaneous big projects in its efforts to bring water to the farms. This should be remedied by changing the policy and trying to make water available to farmers as quickly as possible: ditches and dikes rather than big dams. The Bank for Agriculture and Agricultural Cooperatives was recently born, about ten years late. Although it is working well and with great benefit to the farmers, it will have to make up for lost time. The Department of Agricultural Extension Service has just started, also after long delay; and it suffers from the acute shortage of qualified personnel. Technical and higher education in agriculture need therefore to be improved both in quality and quantity to provide people for research and extension. The cooperative movement, in the true sense of the word, must be promoted in great earnest, to enable the farmers to have better control over their own products and activities. These are the main tasks of top priority confronting us.

Our policy on rice, up till now, is to keep the domestic price much lower than the world price. Domestic consumption has been the first and foremost criterion. With the advent of the green revolution, this policy must change: it must be orientated more towards exports. Hence the "rice premium" must be adjusted downward in order to make our rice more competitive in the world market, provide more monetary incentive to the rice farmers, and enable them to invest more and to raise production. A consequence of this new policy will be to improve the distribution of income in favour of the millions of rice growers. The loss of government revenue in so doing will

not be as terrible as might be thought. There is wide scope for fiscal measures to replace the rice premium, especially if the latter is to be gradually reduced over several years.

Rubber, kenaf and cassava all need special attention. In the case of rubber, the replanting programme should be reorganized and made more effective; some relaxation of the forest conservation policy in the South might help to facilitate new planting. Better water service and more rigorous regulation and incentive to encourage the production of high quality kenaf will go a long way towards solving the export problem of this product. Improvement of quality is nine-tenths of the solution of the marketing problem. Earnest promotion of the livestock industry and the animal feed industry will put Thailand in a better position regarding the production and sale of cassava maize. The experience acquired by maize farmers and the reorganization in the cultivation of maize between the left bank of the Chao Phya and the western fringe of the Korat plateau should greatly facilitate the improvement of production.

What possibilities are there for diversification? I believe there are great possibilities; all-out promotional and technical efforts need to be made. The promise of livestock farming has already been mentioned: take politics and private gain out of it and it will flourish. Cotton, tobacco, sorghum are all good potential crops for exports. The Gulf of Siam (upon which hangs our petroleum hope) provides us with fish, prawns and lobsters which need to be scientifically bred in order to provide us with long-run sources of income. Our fishermen have improved their tools and skill over the years: but the progress in their ability has only taken them as far as the neighbouring territorial waters where their poaching often causes a great deal of trouble. Let us help them venture further afield and reap the rich harvest of the wide ocean.

By raising the productivity of our farmers and fishermen, we shall be far on our way to solving the problem of the income gap.

#### IV Can we do it ?

The answer to this question depends mostly on whether and how far we are determined to do it.

Looking back to our records of the past ten years, we find that Thailand's economic progress has been impressive. Even before 1965, i.e. before any substantial American military spending started, our growth rate was already as high as 6% to 8%. At the end of 1964, our international reserves were more than double those of 1959. These facts and figures repudiate the prediction of doom by those who declare that Thailand, having got rich out of the Vietnam war, will now be ruined by the cessation of that war.

Let us also go back further to the year 1950 when the Korean War came to an end. There are several points of similarity between the economic difficulties of 1950 and those of 1970. During the Korean War boom, we were riding on the crest of the high prices of rubber and tin. We enjoyed virtual monopoly in the world rice trade. Our international reserves were rising. Suddenly, the War ended and rubber and tin took a deep plunge. Burma also reemerged in the early fifties as a stronger supplier of rice than Thailand and regained her pre-war status as the leading exporter. Our foreign exchange earnings then dropped sharply and threatened to drop further.

The difference is that in the early 1950's, our exchange rate structure was in a mess; there were all sorts of controls over imports and exports; rice trade was under government monopoly; there were then only four main export products to rely upon; government finance was chaotic, treasury bill and bond holdings mounted up at the Bank of Thailand, which was then the only buyer of government papers. Budgetary and exchequer accounting was very poor and ten years behind time. International reserves in 1954 amounted to only \$289 mn.

But out of all this chaos we emerged to prosper for more than ten years. And we did so without any defensive action such as quota restrictions of imports. We acted boldly: we abolished controls, abolished the Government Rice Bureau, abolished controls on rubber and tin, abolished controls on car imports, abolished multiple exchange

rates and abolished categorizing types of imports. We improved our financial system, budgetary system, tax system, and we made them more efficient. We improved the welfare of the people by building roads, railways and harbours. We developed agriculture and suppressed banditry to give the people security for their lives and wealth. We instituted the rule of law in our economic and trading systems.

Can we now repeat this success story? There is one important condition to fulfil before we can succeed, i.e. the economic machinery of the government must be streamlined. At the moment the responsibility for the economic and financial matters inside the government is widely diffused. Economic planning and operations are out of focus. Measures to improve, say, rice productivity, involve four ministries (National Development, Agriculture, Interior, Prime Minister's Office) and perhaps eight departments. In the newspapers one recently read a statement by the Undersecretary of State for Agriculture to the effect that the improvement of agriculture is not the responsibility of his ministry because the Ministry of Agriculture has no control over soil or water !

The organization of government thus needs drastic reform and the need is urgent. A senior cabinet minister, trusted by the Prime Minister, ought to be put in charge of the coordination of all economic activities of the government and he should be given adequate authority as well as responsibility.

This problem is well known to us all, and the leading members of the government are well aware of it. In Parliament recently actions to improve the economic machinery of the government were discussed and promised by the government. We should all bid the government not only good luck, but good speed.

Once this reform is accomplished, I see no reason for gloom about the economic prospects of Thailand. We have been in difficulties before with much less to fall back upon, and we got out of those difficulties with some friendly foreign help, but with most of the spade work done by our own Thai people. I am sure we can do it again. I submit that Thailand's economic prospects should be bright and that with real determination by the government, Thailand's economic prospects are bright.

## Tables

## A. Rate of growth of gross domestic product (constant prices)

Year	Annual growth rate	
1958 – 1962	(average)	6.0%
1962 – 1966	( „ „ )	8.9%
1967		4.6%
1968		8.5%

## B. External Balances (Millions of Baht)

	1961	1968	1969
Exports-Imports (merchandise)	-269	-10,573	-11,250
Services (net)	+ 320	+ 6,148	+ 5,970
Current account balance	+51	-4,425	-5,280
Balance of payments (deficit—)	+1,655	+ 447	- 997

## C. U.S. R &amp; R and Military Expenditure (Millions of Baht)

	1961	1962	1963	1964	1965	1966	1967	1968	1969
R & R	—	—	—	—	—	213	366	420	416
Military									
Expenditures	77	205	361	439	922	2,582	4,107	4,918	4,200
Total	77	205	361	439	922	3,795	4,473	5,338	4,616
(in U.S. \$ million)	3.7	9.8	17.3	21.1	44.3	182.4	215.0	256.6	222.0

**D. International Reserves** (Millions of U.S. dollars)

End of period	Official	Commercial banks (net)	Total net	End of period	Official	Commercial banks (net)	Total net
1949	221	+ 4	225	1959	319	- 10	309
1950	292	n. a.	n. a.	1960	371	- 18	353
1951	361	n. a.	n. a.	1961	454	- 21	432
1952	351	+ 2	353	1962	523	- 28	495
1953	307	+ 5	312	1963	576	- 36	540
1954	282	+ 7	289	1964	660	- 51	609
1955	304	+ 5	309	1965	739	- 48	691
1956	318	- 2	316	1966	924	- 74	850
1957	324	- 3	321	1967	1,008	- 108	900
1958	309	- 7	302	1968	1,021	- 99	922
				1969	985	- 111	874

**E. International Reserves Changes in 1969** (Millions of U.S. dollars)

(Including IBRD Participation Certificates in the official reserves)

	End of 1968	End of 1969	Changes between period
Official	1,021	1,002	-19
Commercial banks (net)	- 99	- 111	- 12
Total net	922	891	- 31

**F. Rate of increase of imports** (percent)

Classification	1963	1964	1965	1966	1967	1968
Consumer goods	1.3	8.2	5.6	11.8	13.1	0.2
Intermediate products and raw materials	10.8	26.5	16.6	25.8	20.8	3.4
Capital goods	24.9	4.6	12.6	19.4	32.3	12.8
Other imports	9.4	14.7	0.2	26.3	10.3	17.1
Total	11.3	11.3	8.3	19.9	19.9	8.6

**G. Imports by Economic Classification (Millions of Baht)**

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Consumer goods	3,624	3,971	3,847	3,896	4,215	4,444	4,968	5,619	5,631
Intermediate products and raw materials	1,577	1,797	1,787	1,980	2,504	2,929	3,687	4,453	4,606
Capital goods	2,367	2,548	3,248	4,056	4,242	4,775	5,701	7,543	8,511
Other imports	2,147	2,149	2,622	2,870	3,293	3,285	4,148	4,573	5,355
Total	9,625	10,287	11,054	12,803	14,254	15,433	18,504	22,188	24,103

**H. Capital goods imports in connection with aid, loans, and U.S. military construction (Millions of Baht)**

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Imports under aid programs	673	326	520	813	468	482	601	766	829
Imports under loans	559	744	1,107	871	863	686	567	700	855
Imports under industrial promotion	—	—	—	248	325	1,202	1,451	2,012	2,407
Imports for U.S. military construction	—	—	—	166	166	270	645	1,144	1,165
Total	1,232	1,070	1,627	2,098	1,822	2,640	3,264	4,622	5,256
As percent of capital goods and raw materials	31.2	24.6	32.3	34.6	27.0	34.3	34.8	39.0	40.3

**I. Imports on credits (private)<sup>1</sup> (Millions of Baht)**

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Lorries, buses, motor cars	17	73	172	161	297	211	328	481	925
Tractors	—	4	4	36	78	99	142	258	202
Machinery and parts	46	91	129	3	232	67	81	146	80
Others	24	6	20	6	6	4	57	119	121
Total	87	174	326	206	613	381	608	1,004	1,328

**J. Government surplus (Millions of Baht)**

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Revenue	6,778	7,449	8,002	8,818	9,957	11,344	12,901	14,780	16,890
Current expenditure	5,506	6,143	6,548	7,326	8,177	8,859	9,827	11,536	14,485
Surplus	1,272	1,306	1,454	1,492	1,780	2,485	3,074	3,244	2,405
∞ Rate of growth of surplus	65.4	2.7	11.3	2.6	19.3	39.6	23.7	5.5	-25.9

1) Excluding goods imported on credits under the industrial promotion scheme.



**K. Savings (Millions of Baht)**

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
GNP	47,021	50,309	55,717	59,876	65,209	68,921	73,730	81,274	96,803	105,634
Savings	7,039	8,287	9,920	10,676	12,335	12,798	14,289	17,609	26,364	26,133
Savings as percent of GNP	15.0	16.5	17.8	17.8	18.9	18.6	19.4	21.7	27.2	24.7

**L. Manufacturing and Agriculture (Constant prices, Millions of Baht)**

	1961	1962	1963	1964	1965	1966	1967
Manufacturing	7,073	7,437	8,617	9,780	11,467	12,468	13,903
Growth rate	2.8	5.1	15.9	13.5	17.2	8.7	11.5
Manufacturing as percent of GNP	11.4	11.4	12.0	12.9	13.9	13.6	14.4
Agriculture	23,748	24,307	26,473	26,645	27,409	30,907	28,423
Growth rate	4.5	2.3	8.9	0.6	2.9	12.8	-8.0
Agriculture as percent of GNP	38.4	37.3	37.0	35.1	33.2	33.7	29.5
GNP	61,875	65,209	71,634	75,951	82,662	91,802	96,269

