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FISCAL POLICY ISSUES IN THAILAND

by

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## 1. INTRODUCTION

The last two decades witnessed the Thai economy growing at a rapid average growth rate of 7-8 percent per year. This, in conjunction with the declining population growth rate in the last decade, has resulted in a rapid increase in the per capita income of the population. In addition, there was a significant transformation of the economy from one relying mainly on agriculture to one with a more diversified base. (see Table 1.1) In fact, it is now widely acknowledged that the country is fast approaching the state of a semi-industrialized society.

Since the success of any economic system is to a great extent determined by the role of the government, the credit for the rapid economic expansion and transformation of the past must at least partly be attributed to the public sector. In the case of Thailand, the basic philosophy guiding the public sector in the past is to refrain from direct competition with the private sector. The public sector has chosen to play a supportive role to the private sector by providing the necessary public facilities, services and certain incentives to encourage investments.

Public expenditures and revenues were thus maintained at a stable and low level so as not to compete too greatly with the private sector for resources. They were generally kept below one fifth of all economic activity. (see Table 1.2) The public sector

deficit has also been managed so as not to create instability in the economy. It was about 3 percent of GDP during 1977-1981.

Another basic philosophy adhered to by the public sector is the promotion of free exchange of goods and services with foreign countries. Table 1.2 shows the ever increasing proportion of economic activity which is linked with other countries. The proportion of exports plus imports in GDP increased from 38.7 percent during 1962-1966 to 55.1 percent during 1977-1981. The openness of the economy has no doubt contributed to the rapid economic growth of the past.

Despite being regarded as a success case, the rapid growth of the Thai economy also has its costs. It is widely acknowledged that income and wealth distribution have gotten worse. Furthermore, the economy is facing the problem of absorbing the increased labor force. There is also the lingering problem of the increasing trade deficit. This is not to mention the increased instability which comes with a more open economy especially at a time when the world economy is subject to increasing trade protection.

Notwithstanding the above, the weakness of the public sector has become more glaring in recent years. The government is finding it more difficult to finance its growing expenditure needs under the present revenue system. There is also concern that the

government has become more involved in the economy. Although figures in Table 1.2 show that the proportion of public expenditures to GDP in nominal terms has not changed too much, such a proportion in real terms has increased from 16.1 percent during 1972-1976 to 20.7 percent during 1977-1981. Since 1974, the trend has always been up. The increased competition for resources with the private sector could mean that the government may be moving in a different direction than in the past. This paper hopes to review some major fiscal policy issues of the past with regard to some of the problems mentioned. It does not hope to give a definite conclusion as to the general direction of fiscal policy. This will be left to the reader.

## 2. FISCAL POLICY IN MOBILIZATION OF FINANCIAL RESOURCES

### 2.1 Changes in Savings and Investment

In the process of economic development, a major problem usually faced by a developing country is the lack of sufficient financial resources needed to finance a rapid increase in capital formation required. Thailand is no exception. It can be seen in Table 2.1 that there is a large savings-investment gap in both the private and public sectors which must be supplemented by foreign capital. This internal savings gap is in fact much greater than the external trade gap. It can therefore be drawn through the two gap analysis that Thailand's domestic resources are insufficient to help finance the large investment demand needed to promote development.

The savings gap as a proportion of GDP has in fact shown an increasing trend since the 1960's except for a decline during 1971-75 as shown in Table 2.2<sup>1</sup>. It has, however, increased to 10 percent during 1976-80 which is much higher than the 6.8 and 4 percent during 1966-70 and 1971-75, respectively. It is also higher than the 6.1 percent trade gap during 1976-80.

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<sup>1</sup> The decline in the gap as compared to GDP during 1971-75 was due to the sharp decline in the growth rate of investment while savings growth remained high. (see Table 2.2)

The increasing savings gap, however, is not due to any inability to mobilize domestic financial resources. Savings as a proportion of GDP has remained at a satisfactory level of 15-17 percent during the past two decades which may be considered high for an LDC. (see Table 2.2) It has shown a gradual increasing trend from 15 percent during 1961-1965 to 17.2 percent during 1971-1975. However, it dropped to 15.3 percent during 1976-1980.

The increasing gap is instead due to the high level and rapid growth of capital formation. Except for the period 1961-1965, gross investment has always been above 20 percent of GDP. It was relatively high during 1966-1970 and 1976-1980 at 26.6 and 24.1 percent respectively. The sharp decline to 21.9 percent during 1971-1975 was probably due to the first oil shock. The slower GDP growth and high inflation rates as a result of the shock may have created uncertainties to the investment climate. In addition, the student uprising in 1973 and its aftermath may have created political uncertainties which adversely affected private investments. However, a larger blame must be placed on the government. Public investment as a proportion of GDP declined sharply from 7.9 percent of GDP during 1966-1970 to 5.4 percent of GDP during 1971-1975. (see Table 2.3)



## 2.2 Public Sector Savings

Table 2.3 also shows that the public sector has been making less contribution towards savings in the past two decades. The trend is quite clear. From a high 4.6 percent of GDP during 1961-65, public savings declined to only 1.8 percent of GDP during 1976-1980. The persistent use of deficit financing could have also contributed to a lower savings rate for the economy as a whole. This is because the government savings rate is found to be lower than the private savings rate. It was 9.5 percent during 1976-1980 as compared to an economy average of 15.2 percent.

A more detailed breakdown of savings in Table 2.4 shows that both the government's and public corporations' shares in total domestic savings have gone down considerably over the years. From a combined share of 30.3 percent during 1961-1965, it went down to only 11.7 percent during 1976-1980. Household savings and business savings have, on the contrary, went up significantly. The former went up from 67.5 percent to 77.8 percent while the latter went up from 2.1 percent to 10.5 percent. (see Table 2.4)

## 2.3 Financial Institutions in Savings Mobilization

In mobilizing household savings, the government has relied mainly on the private sector to do the job. There are many

financial institutions in the country with the role of mobilizing financial resources. The most important group is the 16 domestic commercial banks with 1,448 branches including 14 overseas branches. There are also 14 foreign banks with 20 branches. But their role in mobilizing domestic financial resources are rather small. They rely mainly on foreign funds for their capital base. In 1980, commercial banks as a whole generated about 70.8 percent of savings mobilized by financial institutions.

In addition to the commercial banks, there are finance companies, life insurance companies, agricultural cooperatives, savings cooperatives, pawnshops and credit foncier companies. Together these institutions accounted for 17.5 percent of savings mobilized by financial institutions in 1980.

Although no reliable figures are available concerning the unorganized money market, it is believed to play an important role in savings mobilization. Any policy employed by the government to influence savings must therefore take into consideration the unorganized money market and the various private financial institutions in the organized money market since they are major outlets for household savings.

#### 2.4 Interest Rate Policy on Savings

Since the majority of savings are mobilized by the private sector, fiscal policy influencing savings are done mainly in an indirect fashion. The most important policy concerning savings is the government policy governing the rate of interest.

Prior to 1975, the maximum interest rate on savings and time deposits remained stable at 3.5 and 5 percent, respectively. But due to the high inflation rates of 1973-74 which eroded the real return to savings, they were adjusted up by 1 percentage point in 1975. Since then, there were also 3 other adjustments in 1979, 1980 and 1981 as shown in Table 2.5. These were adjusted to conform with the inflation caused by the second oil shock.

Although the 1970's witnessed a more flexible interest rate policy, the adjustments lagged somewhat behind inflation. In addition, the rates of inflation were usually much higher than the nominal rates of interest. This means that the real rate of interest remained negative for most of the decade. It is therefore not surprising to find that the savings rate declined somewhat during 1976-1980.

The direction of fiscal or monetary policy in this matter is expected to be towards more flexibility. This is witnessed by the recent action (August 1982) of the Bank of Thailand not to

force a change in the interest rate through the lowering of the interest rate ceiling on savings and time deposits. Instead the bank relied more on market forces and indirect measures to pressure the commercial banks to lower the interest rates themselves.

## 2.5 Tax Policy on Savings

Another policy which affects savings is the tax on interest income earned. During 1961-1976, income earned on interest were exempted from taxes. The equity considerations in the Fourth Plan period changed this in 1977 when a 10 percent tax was collected on such income. It has also been planned that by 1984 interest income earned will be included with other types of income and assessed under the personal income tax structure. This would be more equitable to those people whose income come mainly from wages instead of interest.

However, the tax package introduced in February of this year has postponed taxing interest income under the personal income tax until 1987. Instead, the tax on interest income was raised to 12,5 percent. This means that income from savings will generally be taxed at a lower rate since the income tax rate is between 7-65 percent. This may reflect concern on the policy makers part that savings may go down significantly if there were to be such a switch. It seems economic growth consideration has outweighed the equity issue in this case.

## 2.6 Debt Management Policy

Recent fiscal policy trends show that the government has been relying more on the mobilization of financial resources through debt financing (see Table:2.6). The proportion of public sector debt outstanding to GDP in 1975 was only 18.6 percent. But in 1980 and 1981, they went up to 27.8 and 30.1 percent, respectively. Debt increases from domestic sources did not show much significant change. It was 14.5 percent of GDP in 1975 and increased to about 16 percent of GDP in 1980-1981. External debt, on the other hand, increased significantly from 4.1 percent of GDP to 11.8 and 14.2 percent of GDP in 1980 and 1981, respectively.

A look at the debt service ratio in Table:2.7 also confirms that debt repayment is consuming a larger proportion of the foreign exchange earnings from export of goods and services. It increased from 2.3 percent during 1972-1976 to 5.2 percent during 1977-1981. However, the debt service ratio is still much lower than the ceiling set by law at 7 percent excluding the repayment of defense debt and at 9 percent including the repayment of defense debt.

The total public debt ceiling including both the repayment of internal and external loans is set by a 1964 law at 13 percent of the public revenue collected each year. In 1976, another law was passed to control the incurring of foreign debt. A ceiling was



set for new foreign debt commitments at 10 percent of the public expenditure budget. Actual figures in Table 2.8 show that new foreign debt commitment ratios have in fact come very close to the ceiling in recent years. It was 9.7 percent in 1981. This again confirms the increasing reliance of the public sector on foreign debt financing.

### 3. FISCAL POLICY IN ECONOMIC GROWTH AND EMPLOYMENT CREATION

#### 3.1 General Investment Policy

In promoting economic growth, Thai fiscal policy in the past two decades was mainly designed to promote a high level of capital formation in the private sector. The Board of Investment (BOI) was set up in 1959 whereby a number of incentive schemes were provided to both domestic and foreign investors. The government itself withdrew from competition with the private sector by cutting down the number of state enterprises from over 100 in the 1960's to fewer than 80 in the 1970's.

Public expenditures were undertaken with the view of promoting private investments and strengthening the economy. In the 1960's, the largest proportion or over a quarter of the budget was expended to provide for economic services. (see Table 3.1) Although the economic budget has declined in share somewhat in the 1970's, it still remains the largest component after those on social services.

Table 3.2 shows the distribution of the budget for economic services. A major proportion of the expenditures went to the transportation, storage and communications sector which is mainly in terms of providing basic infrastructures. The 1960's

also saw large expenditures for public utilities as shown by the power and fuel sector. Even in the agricultural sector, the major proportion of the expenditures were utilized to build infrastructures such as irrigation systems. The share going to the manufacturing sector, on the other hand, was insignificant and in fact shows a sharp decline in the past two decades.

In addition to expenditures above, the government also utilized external loans in financing its development effort. During 1961-1981, the total committed debt of the public sector amounted to US \$ 9.15 billion or 190 billion baht. Table 3.3 shows the distribution of the public external debt across economic sectors. A major proportion of the loans went to the energy and transportation & communications sectors. The loans disbursed for the energy sector went into the construction of large dams and other projects mainly for electricity generation and distribution. In the Fourth Plan, a large part also went to the development of natural gas fields in the Gulf of Thailand. Transportation & communication loans were expended in building roads, railways, telecommunication systems and purchasing airplanes. In the Fourth Plan, there was also a large increase of loan disbursement to public utilities. These were spent mainly to improve the metropolitan water works system, to build the Sathorn Bridge, to support the building of the expressway system, and to improve the traffic

system in Bangkok. As can be seen, all of these projects are for the benefit of the Bangkok area. A main feature of such loans is that they are mainly concentrated in state enterprises rather than in the public sector. All the measures of loans and debts in Table 3.4 shows that much more than half are concentrated in the state enterprise sector.

Although the government still seems to be committed to a policy of promoting a strong private sector, recent events show that such a policy may not be followed as vigorously as in the past. There was that case in 1981 in which the Summit Corporation's lease of the government refinery was suspended with the government stepping in to manage the refinery itself. Recently the government decided to go into the convention business, thus killing a private investment project under consideration for promotion. In addition, the government has decided to become involved in the setting up of a fertilizer factory and the export of liquified natural gas (LNG). Even though some projects involve large investments, which may discourage private investments and thus justify public involvement, it must be cautioned that in a number of cases public participation is sought in order to guarantee against losses through the use of special privileges. The government must therefore act with extreme care and be quite certain of a project's economic viability before committing itself and its finances.

### 3.2 Agricultural Policy

Although the government has spent a large proportion or about 40 percent of its economic budget for agricultural development, the economic growth of the sector in the past has come about mainly through the expansion of cultivated areas rather than general productivity increases. Irrigation expenditure which controls about 60 percent of the budget for agriculture has not benefited the sector greatly since they were mainly utilized in the construction of large dams. Follow-up expenditures for ditches and dikes to diffuse irrigation over wider areas were not planned in many instances. This may not be surprising considering that the design for these large dams are mainly for power generation with irrigation a secondary objective.

The benefits from such irrigation projects in the past are confined to small areas and concentrated mainly in the Central Plains region. Although productivity in the irrigated areas increased tremendously, they were balanced off by the decline from the use of less fertile marginal lands. In addition, the large dams also resulted in productivity declines in other areas where water has been diverted away from. It is also widely acknowledged that there is widespread destruction of orchards and farming in the coastal areas due to the flow of seawater back



up into these areas as the flow of fresh water slowed down due to dam construction. Other ecological costs are also said to be quite high. In fact, there has recently been increased resistance against the construction of dams as witnessed in the case of the Nam Choen Dam in Kanchanaburi province.

Another measure which has inhibited the growth of the agricultural sector is the use of restrictive policy for primary exports. The reliance of export taxes on agricultural products for revenues in the 1960's has reduced the incentive of farmers to produce and invest in the sector. The rice premium policy has been one of the most widely discussed public policy in the past. There are also other measures in restricting agricultural export such as export bans, export quotas, and others. These measures, however, do not necessarily earn the government revenue, but were utilized for domestic price stabilization purposes. Although in the 1970's less reliance was placed on export taxes as a source of revenue, government regulations on exports abound which acted to inhibit agricultural exports. Recent fiscal policy trends, however, are encouraging in the the government is liberalizing the export trade and studying ways to simplify the export process. There has been talk of concentrating export procedures in one government agency.

With agricultural land having been utilized fully, growth in the agricultural sector will have to come mainly from productivity growth or a switch to higher valued output. However, fiscal policy in this area is not very clear. For example, it is not known how vigorously the land consolidation and land reform programs started in the seventies will continue. The major policy in this area may instead be mainly in terms of marketing. The government has been, in many cases, directly involved in the setting up of central markets although it has not been very successful. The Fifth Plan also calls for the greater participation of the private sector in agricultural development which could mean the promotion of large integrated farming systems. This could result in large agri-business concerns along the line of the Charoen Phokapand Group.

### 3.3 Industrial Policy

As has been mentioned, the government did not get directly involved in the industrialization process. Instead, basic infrastructures and certain incentives were provided to private investors. In the 1960's, there was widespread use of import taxes and quantitative restrictions to help protect local industries. Other major incentives provided to investors through the BOI included the exemption of import duties on machinery and other capital equipment, the reduction or exemption of import

duties on raw materials and other intermediate input, and the exemption from corporate income tax for a certain length of time. The basic thrust of fiscal policy then was to promote industrial growth through import substituting industries. The majority of products promoted were consumer nondurables.

In the 1970's, there was increasing talk of promoting exports. It was realized that the import-substitution policy of the 1960's has resulted in increased import demand for intermediate products. In addition, the phase of easy import-substitution of less sophisticated products seems to have reached its limit. An Export Service Center was thus created by the Ministry of Commerce. However, all the lip service paid towards export promotion of the decade was actually not implemented seriously. Figures in Table 3.5 show that the effective rate of protection given to the export sector remains negative and was actually getting worse over the years. It was -24.3 percent in 1971, -39.9 percent in 1974 and -40.3 percent in 1978.

In the same table, the evidence shows that high levels of effective protection were accorded the non-import-competing industries and the import-competing industries. The industries receiving exceptionally high effective rates of protection were the transport equipment industry and the consumer durable good

industry with levels generally above 100 percent. Non-durable consumer good industry also retained a high level of protection.

The high effective rate of protection in the transport equipment industry is due to the high protection levels given to local automobile, truck and motorcycle assembling. Not only import bans, import restrictions and import taxes were utilized, a local content requirement was also set for such production. In 1982, the requirement is 45 percent for automobile assembling, 15-25 percent for truck assembling and 70 percent for motorcycle assembling. However, it has also been recognized that the protection given to this sector is hurting the economy.<sup>1</sup> There is thus an effort to dismantle the import ban on automobiles and allow a certain amount of import competition. It remains to be seen how successful this effort will be

In the consumer durable good industry, the main protection were given to electrical appliances. The result has been widespread smuggling of such goods into the country. The government has also been unable to collect the expected amount of import revenue due to such smuggling. Realizing the futility of such heavy protection, the government announced the reduction of import

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<sup>1</sup> An estimate in 1982 by Trent Bertrand and Pawadee Tongudai of the Faculty of Economics, Thammasat University found that the economic cost of promoting the industry is about 2 billion baht annually.

duties for finished electrical goods to 40 percent and their components to 10 percent in February 1982. Recent events have shown that the prices of domestic electrical goods have gone down considerably.

The early 1980's may be witnessing a more determined and vigorous effort at export promotion. Various export restrictions have been dismantled in 1981-1982 although this may be more the result of declining crop prices. The government has also been studying ways to facilitate the export of goods by reducing red tape. An export agency to centralize exporting procedures is also under consideration.

On the import side, there is also an effort to reduce general import restrictions. An intent was announced in February 1982 to review and overhaul the import tariff structure. The wide differences in tariff rates will be reduced by unifying the tariff structure to a range in tariff rates of between 5-60 percent. Those products presently facing a higher or lower tariff rate than this range will be adjusted accordingly in steps.

Another change under consideration is the restructuring of the business tax system. The tax has been said to discourage domestic production of products which must pass through more stages of production. It is said the tax has a pyramiding effect on the



prices of these goods and thus make them less competitive. Although the use of a value added tax would theoretically solve such a problem, it is difficult to administer such a tax in Thailand. The solution must therefore come from a modification of the present business tax system.

### 3.4 Employment Policy

#### (a) General Policy on Employment

Development policies of the past did not pay much attention to employment generation. It was probably assumed then that a sufficiently fast growing economy will be able to absorb the increasing labor force. Consideration was not given to the dualistic nature of the economy with the majority of the population residing in the rural agricultural sector where productivity is extremely low as compared to the other economic sectors (see Table 3.7). In addition, the high population growth rates of the past is beginning to be felt by the rapid increase in the labor force. There has thus been an increasing awareness in recent years to formulate some sort of an employment policy on the government's part.

Figures in Table 3.8 show the labor absorptive capacity of each economic sector during the 1960's and 1970's. The income elasticity of employment was found to be relatively low in the agricultural sector at 0.33 during 1960-70 and 0.53 during 1971-78.

However, in terms of the contribution to employment growth, the sector was the largest contributor. It was 61.4 and 55.8 percent of total employment growth during 1960-70, and 1971-78 respectively. This was because of the large base of workers in the agricultural sector which at present still account for approximately 70 percent of the labor force.

Although the agricultural sector has been rather successful in absorbing a large proportion of the labor force in the past, the future capacity to do so is not as great now that available land for agriculture has been fully utilized. In addition, the agricultural sector has its own problem of under-employment and seasonal unemployment. This has led to large seasonal migration of the rural labor force into the urban industrial sector during the slack agricultural season. Both such temporary and more permanent migration in recent years have added to the roll of open unemployment in urban areas. The rural employment generation program which was a modification of the tambon council fund of 1975-76 has in recent years been designed such that the flow of rural migrant labor into Bangkok can be reduced through the provision of job programs in rural areas where unemployment is a serious problem. However, such a measure can only be seen as a temporary solution. It is also doubtful how large of an impact such a program would make especially when the budget allocated is not sufficient and has in fact gone down over the years. (see Table 3.9)

The Fifth Plan has advocated once again the decentralization of industries away from Bangkok as a means to promote employment opportunities in other regions. It remains to be seen how serious the government will be this time. In order to seriously promote decentralization of industries, sufficient infrastructural facilities must be provided while discriminatory pricing policies of many public utilities and other basic inputs must be done away with.

However, the effort to decentralize industries should be coupled with the promotion of small scale rural based industries so that migration to urban areas can be reduced and the problem of open unemployment in urban area lessened. In addition, rural based industries may help also to lessen the problem of seasonal unemployment in agriculture.

The development of the Eastern Seaboard area would not help to stem the flow of migrant workers since it is in an area where unemployment is not a big problem. But even here where government commitment is rather strong, there are serious doubts as to the success of such a venture. Actions to provide the basic facilities and infrastructures have not been forthcoming.

(b) Industry Policy on Employment

On the other side, although the manufacturing sector presently employs only about 7 percent of the labor force, its labor absorptive capacity as measured by the income elasticity of employment is the second highest during 1971-1978 after the transportation and communications sector. (see Table 3.8) It contributed 16.9 percent of the employment growth during this period which is second only to agriculture. Since its growth rate is expected to remain relatively high as compared to other sectors, increasing hope is placed on the sector to absorb a larger proportion of the labor force.

In spite of its ability to generate employment growth, there has been serious questions raised concerning fiscal measures which have made such realization to be less than potential. The import-substituting policy of the past did not promote the use of local resources including labor. Technology were mainly imported without studying their appropriateness to the local environment. This is why the import structure showed an increasing share going to raw materials and intermediate goods as economic growth proceeded.

The promotion of industries by the BOI also made the import of capital goods cheap. In addition, there is a tendency on the BOI's part to support modern large capital-intensive concerns

over smaller ones. Figures in Table 3.10 show that except for the textile and leather product industries, the investments per worker of BOI promoted firms across industries were generally much higher than the industrial average found in the SMI study.<sup>1</sup> The grand average for BOI promoted firms was about 283 thousand baht per worker in 1978 which was more than twice of the figure of about 113 thousand baht found in the SMI study in 1976.

The evidence provided by the SMI study in 1977 also showed that the promotion of very large-scale firms may not be conducive to employment generation. Figures in Table 3.11 show, that, except for the very small firms with less than 10 employees, the asset value per worker increases according to the size of the firm. This means that the investment required to employ one worker is less for smaller firms than larger ones. The study also showed that medium scale firms with 50-99 employees is also more efficient as measured by the value added-asset ratio. In short, the evidence seems to show that there is no necessary conflict between employment generation and productivity growth if smaller and medium scale firms were to be promoted. Instead it seems to point out that the promotion of very large scale capital intensive firms especially those employing more than 200 workers is not only inconducive to employment generation, but may also result in a slower growth rate

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<sup>1</sup> Saeng Sanguanruang, Somsak Tambunlertchai, and Nit Sammapan, A Study of Small and Medium Scale Industries in Thailand, (in Thai) National Institute of Development Administration and Thammasat University, 1977,



as shown by the lower capital productivity figure.

(c) Minimum Wage Rate Policy

A Policy which in recent years could have an important impact on the manufacturing sector is that regarding the minimum wage rate. The setting of minimum wages has been used since 1973. However, actual wage rates in Table 3.12 seem to show that they have not been effective before 1979. The minimum wage rates were consistently below the actual market wage rates. However, after the October 1979 adjustment, the legal minimum wage rate has been higher than the market wage rate. This may lead to an adverse effect on employment in certain industries. It also discriminates against unskilled labor since firms may get around such a policy by hiring better skilled labor at higher wages. The present call by labor unions in 1982 to raise minimum wages to 83 baht per day despite the economic recession and the rapidly falling inflation rate should therefore be resisted by the government lest unemployment of unskilled labor become more acute.<sup>1</sup> Nevertheless, it may be comforting to see that figures of actual wage rates since 1979 are lower than that set by Law. It seems to show that the minimum

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<sup>1</sup> Since the writing of this paper, the minimum wage rate has been raised to 64 baht per-day an increase of 3 baht.

wage rate policy has not been very effectively enforced.

#### 4. FISCAL POLICY IN ECONOMIC STABILIZATION

##### 4.1 Fiscal policy and Economic Instability in the 1960's

Inflation was not too serious a problem in this period. The highest rate of 7.2 percent measured by the GDP deflator was experienced in 1966. (see Table 4.1) During this decade, the import and export price index remained rather stable. This seems to imply that inflation was more of a domestic result rather than being transmitted from abroad. However, such a view may be too simplistic. The economy then was based on the agricultural sector with rice being the top export and main staple of the country. Fluctuations in the price of rice thus exerts a large direct and indirect impact on the economy.

This is especially true in 1966 when the export price of rice increased by 16 percent. (see Table 4.2) The higher world price of rice caused a large outflow of rice from the country resulting in domestic rice price increases of over 30 percent. Although world rice prices continued to increase in 1967 and 1968, the control of rice exports by the Thai government through the raising of rice premiums, export bans and export quotas managed to keep domestic price increases within manageable bounds and thus was not reflected in the inflation rates of those years.

In fact, the overall price level in the economy declined somewhat in those two years. (see Table 4.1)

During this period, there was also the use of monetary policy to help stabilize the economy. Real money supply growth was generally held below 10 percent except in 1965 and 1968. (see Table 4.3) In 1966, which is an inflationary year, money supply growth was kept at 5.9 percent which was much lower than the 12.9 percent of the previous year. Public spending increase was also kept at a lower level over the previous year. However, this cannot be interpreted to mean that fiscal policy has been deliberately used to counter inflationary pressures. The spending for fiscal year 1966 has been fixed through the normal budgetary process since 1965.<sup>1</sup> The slower growth rate of public expenditures is thus more of a result of the high inflation rate in 1966 eroding the real purchasing power of the government budget which is always set in nominal terms. The Thai budgetary process can be said to act as sort of an automatic fiscal stabilizer for the economy.

In 1965, the inflation rate was 4.6 percent despite a fall in the domestic price of rice by 8.6 percent. This is the second highest inflation rate in the sixties. It is probably caused by the large monetary growth of 12.9 percent. Real public expenditures also went up by 13.1 percent in 1965 compared to the

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<sup>1</sup>The budget for a particular fiscal year starts in October of the previous calendar year. In this case, fiscal year 1966 budget starts in October 1965 and ends in September 1966.

9.6 percent in 1964.

In 1968, both public expenditures and money supply grew at rates above normal. However, it seems that the large fall in the domestic price of rice of 16.6 percent through export restrictions more than balanced off the fiscal and monetary effects on the general price level.

Since unemployment figures are unavailable and unreliable, it is not certain how unemployment has fluctuated. It is reasonable to think though that unemployment was not a serious problem in this decade. The lowest growth rate of GDP of 6.5 percent in 1970 can still be considered high. In addition, the great majority or 80 percent of the population is in the agricultural sector. If there were to be any unemployment problem, it would not be an open type to unemployment, but more a case of seasonal underemployment. This seasonal unemployment may have increased in 1970 as crop prices especially rice began to drop rapidly.

In terms of the balance of payments, the large money supply growth rate and the rice export restrictions in 1968 have adversely affected the payment surplus in that year. Table 4.3 shows 1968 to be the year with the lowest balance of payments surplus figure of 449 million baht. The payments deficit of the following three years (1969-1971), however, seem to be mainly a trade balance problem with exports increasing very little due to the unfavorable crop prices.

#### 4.2 Fiscal Policy and Economic Instability in the 1970's

Inflation became a more serious problem in this decade. Although the energy crisis played an important role here, the effect of agricultural product prices has not become any less significant in Thailand. In 1972, the export price index rose by 9.8 percent due to the increase in world prices of agricultural products. This pulled the domestic inflation rate up from 1.5 percent in 1971 to 8.6 percent in 1972. The continuing sharp increases in agricultural product prices together with the energy shock during 1973-74 resulted in sharp increases in the import and export price index. The import index rose by 10.5 percent in 1973 and 64 percent in 1974 while the export index rose by 53.3 percent in 1973 and 38 percent in 1974. These increases were generally much higher than the domestic inflation rates experienced of 20.2 percent in 1973 and 18.9 percent in 1974.

The generally lower domestic inflation rates of 1973-1974 as compared to the world economy may be explained by a number of fiscal measures undertaken by the government to alleviate the pressure on prices. Once again, export restrictive measures were utilized to control the outflow of agricultural commodities especially rice. This was to ensure an adequate domestic supply of goods which would help reduce the price pressure. It can be seen

that the Bangkok wholesale price of rice rose by about 57.2 percent in 1973 and 31.7 percent in 1974 which were much lower than the increases in export price of 141.6 percent in 1973 and 124.3 percent in 1974. In the case of 1972, domestic rice prices rose about as much as export prices which seems to show that there was a lag in the application of restrictive fiscal measures. The rate of inflation in 1972 of 8.6 percent was thus not much different than the world inflation rate.

In 1973-1974, rather restrictive monetary measures were also utilized to control money supply growth. It grew by only 0.3 percent in 1973 and in fact declined by 0.1 percent in 1974. Such a restrictive monetary policy has not only helped to reduce inflationary pressure but has made it possible to maintain healthy balance of payments surpluses in the two years. As for public spending, it has again acted as an automatic fiscal stabilizer with declines of 2.3 percent in 1973 and 6.8 percent in 1974. In the case of 1972, money supply growth was also moderate at 6.6 percent while public expenditures fell by 0.1 percent.

After a respite of two years in 1975-1976, the rate of inflation started to go up again in 1977 culminating in two digit inflation rates of 11.6 percent in 1979 and 16.4 percent in 1980. Similar to the inflation in the earlier 1970's, it was again fueled by agricultural and energy prices. The import price index rose by

15.6 percent in 1979 and 24.2 percent in 1980 while the export price index rose by 19.5 percent in 1979 and 18.2 percent in 1980. The domestic rate of inflation managed once again to be below the price index of the foreign trade sector. The same pattern emerged. Restrictive export measures were utilized. Monetary growth was kept low at 3.7 percent in 1979 and 4.3 percent in 1980. Public spending again acted as automatic fiscal stabilizers in 1979-1980.

Looking at the balance of payments in the 1970's, the position was not as healthy as that in the 1960's. Half of those years show payments deficits. The deficits were concentrated during 1975-1979. The deficits of 1975-1976 can be attributed largely to declining crop prices. In the case of rice, prices fell by 35.2 percent in 1975 and 29.1 percent in 1976. Public spending also increased markedly by 17.6 percent in 1975 and 22.9 percent in 1976 causing an expansionary effect which may have adversely affected the balance of payments position. The large public expenditure increase is again probably not the result of any deliberate action to expand the economy. The inflation of 1973-1974 has eroded real spending for 1973-1974. The years 1975-1976 reflected an attempt on the government's part to raise real spending of the sector back to previous levels. However, since the rate of inflation fell significantly, it has helped push the real purchasing power of government budget allocations up. In terms of money growth, it was also relatively

high for 1976 at 11.7 percent.

The balance of payments deficit became worst in 1977-1978. In 1977, this is due mainly to the adverse change in the terms of trade with import prices going up by 7.5 percent while export prices increased by only 2.2 percent. In 1978, the explanation may be because of the combined expansionary effect of fiscal and monetary measures. Public spending increased by 16.44 percent while money supply grew by 10 percent.

The balance of payments problem got serious in the first half of 1981 due to an adverse terms of trade movement. The import price index went up 13.9 percent while the export price index increased by only 1 percent. Although a restrictive monetary policy seems to have been followed, since the money supply fell by 6.7 percent for the whole year, it was not sufficient. In order to stop the sharp jump in foreign exchange speculation, there was therefore a devaluation of the baht in July. This has helped to generate a balance of payments surplus for 1981. Indications in 1982 show that the balance of payments is now in a healthy position.

It is not certain how the unemployment rate has fared. Since the industrial sector has gotten larger while the labor absorptive capacity of the agricultural sector has gone down, it seems reasonable to think that both open unemployment and seasonal under-



employment have gotten worse. In fact, industrial unemployment in 1982 due to the economic recession has become rather bad that the government is for the first time seriously considering a comprehensive policy to tackle the problem of unemployment.

In summary, fiscal and monetary measures have been used with general success in the 1970's except in a few cases. However, macroeconomic fiscal measures are still not actively utilized. This may not be too bad considering that they have generally acted as automatic fiscal stabilizers.

## 5. FISCAL POLICY IN INCOME DISTRIBUTION

### 5.1 Public Expenditure in Income Distribution

Although the major concern up to the mid-seventies was mainly to promote economic growth through the provision of basic infrastructures, events since then has shown that the government may have given greater attention to the issue of equity in its expenditure patterns. The share of public expenditures on social services during 1976-1980 went up to 30.7 percent from 28.6 percent during 1971-1975 and 25.7 percent during 1966-1970 (see Table:3.1)

However, the greater proportion spent on social services is not a good indicator that such services have been evenly distributed. A study by Meesook<sup>1</sup> in 1978 employing cross sectional province data found that there were very great disparities across provinces in the standards of living of the population irrespective of a wide array of indicators chosen. In fact, there was a high correlation among all the major indicators chosen which included current income, education, health, housing, communications and security. The most interesting finding in this study was that government spending did not reduce the disparities and might have

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<sup>1</sup> Oey Astra Meesook, "A Study of Diparities in Income and Social Services Across Provinces in Thailand", Research Report No.7, Faculty of Economics, Thammasat University, September 1978.

enhanced the inequities. It was found that well-off provinces tend to receive more resources from the government given their population sizes.

The Meesook study pointed out the inequitable distribution of government spending and social services. It is quite likely that such a pattern is still ingrained in the public budget. Provincial governors are appointed by the central government and the status or clout of each governor may, to a great extent, be linked with the economic strength of each province. Economically weak provinces are therefore liable to get politically weak governors who in turn do not have much clout in obtaining the resources needed to develop these provinces.

## 5.2 Regional and Rural/Urban Income Distribution

It has generally been accepted that the fruits of economic growth have not been equitably distributed among regions. Figures in Table 5.1 show that there is a wide disparity of income among regions. Average per capita income of the Northeast region was less than half of the national average in 1976 while that in the Bangkok area is almost three times that of the national level.

In addition to the regional disparity, there are also wide differences within each region. The study by Meesook,<sup>1</sup> in fact,

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<sup>1</sup> Meesook, op. cit.

found that there were wide disparities in income depending on the degree of urbanization. It was also found that the degree of urbanization is a good yardstick of the level of the well-being of the population.

In Table 5.2, figures for 1975-197- show that non-municipal incomes in the Northeast, North and South were less than half of the incomes in municipal areas. Employing simple averages, the evidence also shows that the disparity across non-municipal income of different regions was greater than the disparity across municipal income of different regions. In the former case, the difference was 1.95 times between the lowest and highest average income while the latter shows a difference of only 1.27 times.

The recognition of the rural-urban inequity was the basis of the tambon council fund introduced by the Kukrit government in 1975. The objective then was to help to redistribute income to the rural areas through public expenditures. Latter governments, however, have modified such a program and called it the rural employment generation program with the objectives of providing employment during the slack agricultural season in rural areas, stemming the flow of rural labor to the cities, alleviating hardships caused by weather, and others. Such a program is in fact quite popular in the rural areas. There has, however, been less

commitment in recent years in this type of program as witnessed in Table 3.9 by the relative decline of such funds in the budget.

An encouraging sign included in the Fifth Plan recently is the identification of poverty areas which will be given priority by the government in its rural development effort. These will cover 246 districts in 37 provinces with a total population of 7.5 million or about three-quarters of the country's estimated 11.5 million poorest rural population. It remains to be seen how vigorously the plan will be followed.

However, the above programs are only shortrun solutions to the inequitable distribution of development. In the longer term, development effort must be designed such that other regions outside Bangkok and the Central region area may also participate in the economic growth and development of the country.

The present emphasis on decentralizing industries to the Eastern Seaboard area will not help to lessen the existing disparities since the Eastern region is already relatively well off. In addition, if there is to be promotion of labour-intensive industries, an effort should instead be undertaken to promote the Northeast region which is the area with an overabundant supply of labor. However, the current lack of infrastructure such as transportation, communications, water supply and others is not encouraging.

If the government is serious about decentralizing industries to other regions, it must also take action to do away with the discriminatory pricing of water, electricity, diesel, gasoline and other basic public services which are presently charged at a higher rate in provincial areas outside the Bangkok Metropolitan area.

### 5.3 The Revenue Structure and Equity Considerations

The revenue structure of the country is one of largest source of inequity in the country. Indirect taxes which are considered to be regressive still predominates the revenue structure. In 1981, it provided 70 percent of all revenue collected by the central government. (see Table 5.3)

One of the most inequitable types of revenue collected is the export tax which is mainly concentrated on agricultural products such as rice, rubber and sugar. The rice premium used to provide up to 10 percent of all government revenues. It has redistributed income from the poorer rural masses to the better off urban population by depressing domestic prices. Since the 1970's, the government seems to have reversed such a revenue policy. The proportion of export duties declined significantly from 18.2 percent in 1960 to 4.5 percent in 1970 and 2.5 percent in 1981. It must be cautioned though that due to increasing

political sensitivities, the government has changed the form of the tax. The rice premium which almost disappeared since the mid-seventies has been replaced with increasing use of the rice reserve requirement whereby exporters are required to sell to the government a portion of their rice stocks at below market prices in order to obtain export licenses. In fact, the rice reserve requirement has also changed in form with exporters now paying cash instead of selling rice into the Rice Reserve Fund. In addition, there are also other forms of restrictions other than export taxes such as the use of quotas which are still frequently utilized and thus created a redistributive impact on the economy. Nevertheless, the decline in crop prices since 1981 has resulted in the removal of the rice reserve requirement and other export restrictions early this year. It remains to be seen whether the restrictive fiscal measures will be reintroduced as crop prices become more favorable.

It is undeniable that the rural population should also contribute towards public revenues. An export tax, however, is undesirable since it distorts relative prices and may have hindered agricultural development. In addition, it redistributes income in a regressive manner. It would be much better if a land tax is collected. Past agricultural policy has resulted in rapid development in certain areas at the expense of others. Income distribution

in the rural areas has in fact worsened through development. There are now farmers who are relative rich. They are mostly those who benefited from the limited irrigation facilities provided. A land tax, if collected, would result in more equity since those who gained from past agricultural development will be made to bear a larger share of the burden.

The land tax is also justifiable in urban areas. Land prices have increased tremendously in the past few years. These are unearned surplus which should be taxed to make income distribution more equitable. However, the government policy this year of reducing the land tax base from the land value assessed in 1981 to the average land value during 1978-1981 is a discouraging sign. The tax rate on land is still very low. The latest figure in 1977 show that such taxes amounted to only 1.1 percent of total central government revenues.

In another case which is more encouraging, the government in February 1982 introduced a tax on the sale of immovable property obtained through inheritance, gifts or for non-profit motives for the first time. This would make capital gains from such sale be subjected to tax for the first time and thus creates greater equity. However, in the case of the long awaited inheritance tax, it seems to have been killed again for the time being.



As for direct taxes, although it is gaining in importance, its base is still rather small. It provided about 20.1 percent of revenues in 1981 as compared to only 8.6 percent in 1960. However, the increased utilization of such taxes is undesirable under the present tax administration.

In the case of the personal income tax, it discriminates against wage earners whose taxes are withheld at source by employers and thus makes evasion quite difficult. But for self employed income, evasion is much easier and income are liable to be grossly under-reported. In addition, the taxing of other types of income, such as capital gains and interest income, are presently fixed at a much lower rate.

As for the corporate income tax, it has been found in a study that evasion is very widespread.<sup>1</sup> Furthermore, for those who actually pay taxes, the income tax base seems to be grossly underestimated. The present tax administration discriminates against modern large and well-established firms since these are the one where accounting books are more reliable. It was therefore not surprising that when the Finance Ministry raised the corporation income tax and introduced the bi-annual collection of such taxes two years ago, there was widespread disenchantment by those who were paying these taxes. In the end, the tax rate had to be rolled

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<sup>1</sup> Somchai Richupan, "Analysis of the Personal Income Tax in Thailand," Faculty of Economics, Thammasat University, Bangkok, November 1980 (mimeograph)

back from 35 percent to 30 percent for listed companies and from 45 percent to 40 percent for nonlisted companies.

Given that the existing tax loopholes are not plugged and tax administration and collection made more efficient, the greater reliance on direct taxes as mentioned will actually not bring greater equity but may in fact cause greater inequity in society.

#### 5.4 State Enterprise Policy

The government's policy on public enterprises also has a large welfare distribution impact on the Thai economy. It is generally well-known that many of these enterprises are a drain on the public budget and as pointed out earlier incurs a heavy debt burden. Some large enterprises which incur continuing losses include the Bangkok Mass Transit Authority (BMTA), the State Railway of Thailand (SRT), the Metropolitan Water Works Authority (MWWA), the Express Transport Organization (ETO), the Provincial Water Works Authority (PWWA), and National Housing Authority (NHA).

The losses are in many cases not only due to incompetent management and political interference, but also because of the price control policy of the government. Prices of water supply, electricity, cooking gas, bus services and others have been subjected

to such control. This has resulted in large losses of many state enterprises in the past few years when inflation was at a high level. Such losses have been a drain on the government budget and have created inequities in the sense that the general taxpayers are made to subsidize the users of these goods and services.

A very good example, although by no means the exception, is the case of the BMTA. It has always suffered huge losses since its inception in 1976. In FY 1980, the losses amounted to over 1,000 million baht. Before 1981, these losses were subsidized out of general government revenues. The provided services of the BMTA, however, were confined to the Bangkok Metropolitan area. People outside Bangkok paid a much higher transportation fare based on market prices for the same services and they are the ones who must subsidize bus-riders in Bangkok. In 1981, the government attempted to correct such inequity by placing the BMTA under the jurisdiction of the Bangkok Metropolitan Administration. Such an action, however, has only confined the inequity to Bangkok. Given that the poorer sections of the Bangkok population are those in most need of cheap transportation and are in fact those who utilized bus services to a greater degree, the government may have thought that such a form of inequity is acceptable as it may be used as a fiscal measure for income distribution.

Nevertheless, the excessively large and continuing losses of the BMTA still requires the government's attention and budgetary resources in order to avoid bankruptcy. In August 1982, the government, in an effort to solve the chronic solvency problem of the BMTA, therefore announced that it is stepping in to help shoulder the enterprise's debt in stages whereby short term debts will be refinanced with long terms ones. It has been proposed that about 5,200 million baht will be required for investment and the refinancing of BMTA's debts. There has also been a call to raise the bus fare by 100 percent to 3 baht recently.

Another facet which should be considered on state enterprise policy is the issue of intergeneration equity. Many of the large public enterprises such as the Electricity Generating Authority of Thailand (EGAT), the Metropolitan Electricity Authority (MEA), the Provincial Electricity Authority (PEA), the Telephone Organization of Thailand (TOT), the SRT, the MWWA, the PWWA and others, holds a large level of long term debt portfolio. With prices of many of these enterprises being controlled, the profits generated may be insufficient to repay the long term debts. This means that the future generation would have to be taxed to subsidize for the consumption of the present generation. The government measure of refinancing BMTA's short term debts with long ones is a very clear case in point. Care should therefore be made

regarding the government's policy regarding long term borrowing of state enterprises especially when pricing and costs are out of line.

The different prices charged in different areas for the same type of goods and services may have also created an inequity. Electricity and water tariffs are known to be higher in provincial areas. Gasoline and cooking gas are also priced higher in provincial areas. This has not only placed a greater burden for those outside Bangkok but raises questions concerning the government's policy of decentralizing development away from Bangkok.

In spite of what had been said, the government has in the past two years tried to carry out reforms. Prices of many utilities have been rationalized to a certain degree, e.g. electricity and water tariffs. Attempts have also been made to improve the operational efficiency of enterprises sometimes through changes in the management teams. Two major examples are the MWA and the PWA.

6. THE PUBLIC BUDGET AND THE FIFTH ECONOMIC AND SOCIAL  
DEVELOPMENT PLAN (1981-1986)

There have now been five economic and social development plans drawn up since Thailand embarked on employing indicative planning in the economy. These plans are mainly confined to the planning of the public budget system and the state enterprise sector. The National Economic and Social Development Board (NESDB) was given the power to screen and make consistent the investment plans of government agencies and state enterprises so that they do not conflict with the general policy framework of the government. These plans must therefore receive approval from the NESDB before they go to the Budget Bureau for financing. In the 1970's, it has been said that the NESDB had lost some of its influence due mainly to its inactive role. Investment plans of public agencies and enterprises have been known to bypass the NESDB and go directly to the Budget Bureau. Indications in the last couple of years have shown that such a trend has been reversed. The NESDB has been gaining back its stature. The reason here is that the government in recent times has relied more heavily on the NESDB to help formulate its policies. It may also show a stronger commitment on the government's part towards the fulfilling of goals and targets set in the Fifth Plan.

An indication that such commitment and the planning process as a whole may be gaining acceptance is the introduction of program budgeting into the Thai fiscal system in 1981. The government has also somewhat shown that new projects which do not fit into the framework of the Fifth Plan may not get government backing as easily as in the past.

Although program budgeting is a good concept, there is concern that the public sector is not yet ready for such a fiscal system. Various public agencies still lack the trained manpower and know-how of drawing up a good plan let alone coming up with a good program or project. Such know-how is also unevenly distributed. The inequitable distribution of talent would make competition for limited funds of public agencies an undesirable feature since it may actually distort sectoral public spending plans.

On plan implementation, one recent area of concern regarding the Fifth Plan, which is now in its second year, regards the position of the public budget. Due to a growing spending need and a stagnant public revenue system, it has raised doubts that resources in the public sector will be sufficient to fulfill the aims of the Plan. In order to fulfill most of its goals and targets, the plan has been drawn such that real spending by the

government should grow at a 6.8 percent annual rate while revenues would have to be raised from the present 14 percent to 18 percent of the gross domestic product.

Spending increases in these first two years show that they were less than the target-about 6 percent in 1981 and 5 percent in 1982. If the Fifth Plan's aims were to be strictly followed, it would mean that public expenditures have to increase more significantly in the 3 years remaining in the plan. This could lead to an increase in competition for funds with the private sector and may give rise to inflationary pressure. The more active role of the government in large scale joint investment projects with the private sector may also strain the budget.

On the revenue side, the large increase required to get revenue to the target of 18 percent of GDP has not yet materialized. In order to reach such a target, the tax structure and tax administration have to be improved. New taxes like inheritance tax, valueadded tax, capital gains tax and property tax are required as stated in the plan. All this is still lacking.

To rely on an increase in foreign financing is also now difficult especially when debt commitment as a proportion of the public budget in recent years have come very close to the ceiling allow by law. Such foreign finance can expand faster only if the



public budget grows faster. But the public budget cannot grow by much due to a revenue constraint.

The financial weakness of the public budget could finally lead to a resetting of priorities and the eventual sacrifice of a number of programs and projects. It is therefore interesting to follow closely how the government will face up to such a problem in the following years.

TABLE 1.1  
GROWTH AND DISTRIBUTION OF  
GROSS DOMESTIC PRODUCT  
(percent)

Economic Sector	GDP share			GDP growth rate	
	1960	1970	1980	1960-70	1970-80
1. Agriculture	40.2	32.2	24.9	5.5	4.2
2. Mining and Quarrying	1.2	1.7	1.6	11.5	6.5
3. Manufacturing	12.0	15.5	20.7	10.8	10.0
4. Construction	4.8	5.8	5.7	10.0	6.7
5. Electricity and Water Supply	0.3	1.1	1.9	22.8	13.0
6. Transportation and Communication	6.9	6.1	6.4	6.7	7.4
7. Wholesale and Retail Trade	15.9	17.7	16.5	9.1	6.2
8. Banking, Insurance and Real Estate	1.9	3.9	5.9	16.1	11.6
9. Ownership of Dwellings	2.9	2.0	1.5	3.8	4.1
10. Public Administration and Defense	4.5	4.3	4.2	7.4	6.7
11. Services	9.4	9.7	10.6	8.2	7.9
Total	(100.0)	(100.0)	(100.0)	7.9	6.6

Source : NESDB

TABLE 1.2

## THE PUBLIC AND FOREIGN SECTORS IN THE THAI ECONOMY

Proportion to GDP of	First Plan 1962-66	Second Plan 1967-71	Third Plan 1972-76	Fourth Plan 1977-81
<u>Public Sector (%)</u>				
Expenditures (real)	16.1	18.8	16.1	20.7
"    (nominal)	14.1	17.1	15.8	16.9
Revenues	13.2	14.9	13.2	13.9
Deficit	0.9	3.1	2.6	2.9
<u>Foreign Sector (%)</u>				
Exports	18.6	18.8	21.4	24.2
Imports	20.1	22.3	24.3	30.9
Exports + Imports	38.7	41.1	45.8	55.1
Imports - Exports	1.5	3.5	2.8	6.7

Source : NESDB and Bank of Thailand

TABLE 2.1  
SAVINGS AND TRADE GAP<sup>1</sup>  
(million baht)

	1961-65	1966-70	1971-75	1976-80
Savings Gap (investment-savings)				
- Private	4,483 (1.3)	22,471 (3.8)	21,413 (2.0)	97,690 (4.0)
- Government	3,822 (1.1)	17,741 (3.0)	22,714 (2.1)	144,796 (5.9)
TOTAL	8,306 (2.4)	40,211 (6.8)	44,037 (4.0)	242,486 (9.9)
Trade Gap (import-export)	5,683 <sup>2</sup> (2.0) <sup>2</sup>	17,910 (3.0)	31,474 (2.9)	146,189 (6.0)

<sup>1</sup> Figures in Parenthesis are percentages of GDP

<sup>2</sup> 1962-65 only

Source : NESDB and Bank of Thailand

TABLE 2.2

## SAVINGS, INVESTMENT AND GDP

	1961-65	1966-70	1971-75	1976-80
<u>Total domestic savings</u>				
(million 1972 baht)	64,987	106,212	154,270	202,041
<u>Gross investment</u>				
(million 1972 baht)	82,922	174,128	196,397	309,792
<u>Gross domestic product (GDP)</u>				
(million 1972 baht)	432,038	653,708	895,324	1,289,254
<u>Percentage of savings in GDP</u>	15.0	16.2	17.2	15.7
<u>Percentage of investment in GDP</u>	19.2	26.6	21.9	24.0
<u>% growth of</u>				
- Savings	n.a	63.4	45.2	27.7
- Investment	n.a	110.0	12.8	58.4
- GDP	39.2	51.3	37.0	44.2

Source : NESDB

TABLE 2.3  
SAVINGS AND INVESTMENT OF  
THE PRIVATE AND PUBLIC SECTORS

	1961-65	1966-70	1971-75	1976-80
<u>Savings in GDP (%)</u>				
- Private	10.5	11.7	14.3	13.4
- Public	4.6	4.5	3.3	1.8
Total	15.1	16.3	17.6	15.1
<u>Investment in GDP (%)</u>				
- Private	13.5	18.8	16.5	17.1
- Public	5.7	7.9	5.4	7.0
Total	19.2	26.6	21.9	24.1

Source : NESDB

TABLE 2.4

## DOMESTIC SAVINGS BY MAJOR SOURCE

(percent)

SOURCE	1961-65	1966-70	1971-75	1976-80
1. Household & Private Non-Profit Institutions	67.5	67.6	74.9	77.3
2. Private Corporations & Cooperatives	2.1	4.6	6.6	10.5
3. General government	23.7	20.5	13.5	8.5
4. Public Corporations	6.6	7.3	5.0	3.2
TOTAL	100.0	100.0	100.0	100.0

Source : NESDB

TABLE 2.5

Interest Rate, Inflation, and Tax Rate on Interest  
(percent)

Year	Maximum interest rate on		Inflation	Tax rate
	Saving deposits	Time deposits		
1961-69	3.5	5.0	1.9	-
1970-72	3.5	5.0	5.0	-
1973-74	3.5	5.0	19.5	-
1975	4.5	6.0	2.8	-
1976	4.5	6.0	3.9	-
1977	4.5	6.0	8.6	10
1978	4.5	6.0	8.6	10
1979	5.5	6.0	11.6	10
1980	8.0	9.0	16.4	10
1981	9.0	10.0	9.0 <sup>e</sup>	10
1982	9.0	10.0	5.0 <sup>e</sup>	12.5

e = estimate

Source : Bank of Thailand and NESDB



TABLE 2.6  
PROPORTION OF DOMESTIC AND EXTERNAL  
DEBT OUTSTANDING TO GDP  
(percent)

Proportion to GDP of	End of year				
	1965	1970	1975	1980	1981
Domestic debt	11.9	17.4	14.5	16.0	15.9
External debt	6.2	4.8	4.1	11.8	14.2
Total	18.1	22.2	18.6	27.8	30.1

Source : NESDB and Bank of Thailand

TABLE 2.7  
DEBT SERVICE RATIO

	First Plan 1962-66	Second Plan 1967-71	Third Plan 1972-76	Fourth Plan 1977-81
Foreign debt repayment (million baht)	2,460	4,417	6,504	35,511
Exports of goods & services (million baht)	72,834	119,291	276,957	677,672
Debt service ratio (%)	3.4	3.7	2.3	5.2

Source : Supote Chunanantatham and Praipol Koomsup, "The Role of the International Financial Sector in Development Plans", a paper presented at the annual symposium of the Faculty of Economics, Thammasat University, February 22-23, 1982.  
(in Thai)

TABLE 2.8  
PUBLIC FOREIGN DEBT COMMITMENTS AND EXPENDITURES  
(million baht)

Fiscal Year	Actual expenditures	Foreign debt commitment	Debt commitment ratio (%)
<u>Third Plan Period</u>			3.64
1972	28298	908	3.2
1973	32212	1072	3.3
1974	35027	560	1.6
1975	41926	2477	5.9
1976	58304	2410	4.1
<u>Fourth Plan Period</u>			7.64
1977	67364	3528	5.2
1978	81000	5924	7.3
1979	87631	7732	8.8
1980 <sup>e</sup>	113000	8052	7.1
1981 <sup>e</sup>	140000	13616	9.7

e = estimate

Source: Chunanantatham & Koomsup, op.cit.,

TABLE 3.1  
DISTRIBUTION OF PUBLIC EXPENDITURES BY MAJOR FUNCTIONS  
(percent)

Major Functions	1961-65	1966-70	1971-75	1976-80
1. Economic services	25.4	29.0	23.2	21.3
2. Social services	28.3	25.7	28.6	30.7
3. Defense	17.2	16.4	19.2	18.9
4. General administration & services	19.8	15.5	14.6	13.4
5. Others	9.2	13.3	14.5	15.7
Total	100.0	100.0	100.0	100.0

Source: Bank of Thailand.

TABLE 3.2  
 DISTRIBUTION OF BUDGET FOR ECONOMIC SERVICES  
 (percent)

Economic Sector	1961-65	1966-70	1971-75	1976-80	1981-82
1. Agriculture	32.2	36.5	39.9	42.7	41.0
2. Power & fuel	12.6	7.0	3.9	1.3	3.8
3. Manufacturing & mineral resources	8.9	3.9	1.8	1.7	1.5
4. Transportation, storage & communications	41.5	50.0	51.7	48.8	41.0
5. Others	4.8	2.6	2.7	5.5	12.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Budget Bureau.

TABLE 3.3

## DISTRIBUTION OF PUBLIC EXTERNAL DEBT BY ECONOMIC SECTORS

(percent)

Economic Sector	First Plan 1962-66	Second Plan 1967-71	Third Plan 1972-76	Fourth Plan 1977-80	1961-Sept. 1980
1. Agriculture	18.8	11.0	19.8	15.6	16.3
2. Transportation & Communications	44.3	34.6	20.5	22.4	23.6
3. Energy	29.8	46.4	37.1	36.5	36.8
4. Public Utilities	-	1.2	7.7	20.2	15.9
5. Manufacturing/ Mining/Tourism	5.1	6.6	5.9	2.5	3.5
6. Social development	-	-	3.2	-	0.6
7. Education	2.0	0.3	5.8	1.84	2.6
8. Health	-	-	-	1.08	0.3
Total	100.0	100.0	100.0	100.0	100.0

Source : Chunanantatham & Koomsup, op. cit.

TABLE 3.4  
 PROPORTION OF STATE ENTERPRISE DEBT  
 IN TOTAL PUBLIC SECTOR DEBT  
 (percent)

Year	Loan commitment	Loan disbursement	Debt Repayment
1970	100.0	55.0	65.6
1971	87.3	54.4	65.0
1972	47.7	56.1	67.3
1973	63.5	44.9	68.0
1974	90.5	60.9	67.5
1975	51.7	67.7	72.9
1976	42.1	62.4	73.4
1977	66.2	68.1	64.0
1978	48.6	60.5	61.4
1979	68.8	60.5	58.6
1970-79	62.8	58.1	64.1

Source : Chananantatham & Koomsup, op. cit.

TABLE 3.5  
PUBLIC INVESTMENT EXPENDITURES  
(percent)

Types of Expenditures	1961-65	1966-70	1971-75	1976-80
1. Current	75.6	69.9	76.1	76.3
2. Capital	24.4	30.1	23.9	23.7
TOTAL	100.0	100.0	100.0	100.0

source : Bank of Thailand



TABLE 3.6  
AVERAGE RATES OF PROTECTION  
(Per cent)

	Nominal rates of protection			Effective rates of protection		
	1971	1974	1978	1971	1974	1978
Processed foods	50.9	5.8	9.0	205.9	-16.4	78.5
Beverages and tobacco	116.5	150.1	69.1	439.2	946.2	4.0
Construction materials	21.8	32.9	12.2	23.4	49.3	91.7
Intermediate products I	11.4	0.3	14.8	15.3	-6.7	16.2
Intermediate products II	36.1	30.0	19.2	50.3	75.4	55.3
Non-durable consumer goods	44.9	39.8	64.6	57.4	134.6	212.4
Consumer durables	45.0	48.2	57.3	93.2	136.2	495.6
Machinery	10.2	28.0	21.4	7.6	23.7	58.3
Transport equipment	58.8	37.9	80.5	146.5	135.0	417.2
All industries	n.a	30.8	27.3	87.2	18.6	70.2
All industries excluding food, beverages and tobacco	n.a	n.a	36.4	44.2	45.9	90.3
Non-import-competing	71.2	34.6	50.8	175.0	39.7	99.6
Import-competing	33.6	24.8	35.7	56.1	44.8	85.9
Export	-7.4	-6.5	-13.7	-24.3	-39.9	-40.3

Source : IBRD, Industrial Development Strategy in Thailand, 1980, table 7.

TABLE 3.7

## Employment and Gross Domestic Product 1971-78

	Employment (thousand persons)		GDP (million baht)		Value Added Per Worker (baht)	
	1971	1978	1971	1978	1971	1978
Agriculture	13,750	16,350	50,537	69,645	3,675	4,260
Mining and Quarrying	99	90	2,856	4,053	28,886	45,097
Manufacturing	689	1,475	25,202	54,801	36,590	37,146
Construction	197	312	7,689	13,560	38,948	43,419
Electricity and Water Supply	30	58	1,879	4,518	62,214	77,897
Commerce	1,234	1,638	27,189	41,589	22,032	25,385
Transportation and Communication	223	386	9,373	16,205	42,041	41,938
Service	1,225	1,811	32,363	52,756	26,424	29,131
Total	17,447	22,120	157,088	257,127	8,998	11,624

Source : NESDB, National Income for Thailand, various issues.

TABLE 3.8

## Employment and GDP Growth in the 1960s and 1970s

Economic Sector	Employment Growth (percent/year)		GDP Growth (Percent/year)		Income Elasticity of Employment		Contribution to Employment Growth (Percent)	
	1970-70	1971-78	1960-70	1971-78	1960-70	1971-78	1960-70	1971-78
Agriculture	1.8	2.5	5.4	4.7	0.33	0.53	61.4	55.8
Mining and Quarrying	11.0	1.3	11.2	5.1	0.98	0.25	1.6	0.2
Manufacturing	4.1	11.5	10.9	11.7	0.38	0.98	7.0	16.9
Construction	10.6	6.8	9.9	8.4	1.07	0.81	3.7	2.5
Electricity and Water Supply	5.7	9.9	23.1	13.4	0.25	0.74	0.3	0.6
Commerce	1.9	4.1	9.0	6.3	0.21	0.65	4.7	8.7
Transportation and Communication	5.5	8.2	6.9	8.1	0.80	1.01	3.6	3.5
Service	6.6	5.7	8.4	7.2	0.79	0.79	17.7	12.6
Total	3.2	3.4	7.8	7.3	0.41	0.47	100.0	100.0

Source : IERD, Employment in Thailand, 1977

NESDE, National Income of Thailand, various issues.

TABLE 3.9  
SOME MAJOR BUDGETARY ALLOCATIONS  
(million baht)

Fiscal Year	Rural Employment Pro	Irrigation Department	Accelerated Rural Development Dept.
1975	2,500 (5.8)	2,489 (5.8)	n.a
1976	3,500 (5.9)	3,212 (5.4)	n.a
1977	- -	3,468 (5.4)	855 (1.2)
1978	1,600 (2.1)	3,970 (5.1)	1,019 (1.3)
1979	- -	4,482 (5.0)	1,245 (1.4)
1980	3,500 (3.2)	5,377 (4.9)	1,395 (1.3)
1981	2,500 (1.8)	7,165 (5.2)	1,781 (1.3)
1982	2,500 (1.6)	8,165 (5.1)	1,909 (1.2)

Figures in parenthesis are the percentages of the total budget allocation.

Source : Budget Bureau

TABLE 3.10

## SIZE OF BOI PROMOTED FIRMS BY INDUSTRY

(thousand baht)

Industry	Assets/Worker		
	% of small industry	SMI study 1976	BOI promoted 1978
Food	96.8	112.6	245.21
Beverage	60.7	81.0	263.16
Tobacco	50.4	29.4	66.41
Textiles	63.5	296.1	253.23
Wearing Apparel except footwear	81.7	50.1	78.85
Leather products	94.0	98.5	193.78
Footwear	90.2	45.2	28.71
Wood products	90.2	21.6	156.18
Furniture & Fixture	96.9	50.6	78.29
Paper products	87.9	86.8	739.51
Printing & publishing	98.0	-	535.37
Industrial Chemicals	84.4	400.5	831.44
Other Chemical Products	89.6	82.3	364.14
Petroleum Refineries	-	-	7873.09
Miscellaneous products of petroleum	71.4	-	273.83
Rubber products	82.4	50.7	365.66
Plastic products	96.6	85.2	145.94
Pottery	79.4	34.6	242.05
Glass & glass products	59.1	127.7	273.35
Other non-metallic mineral products	92.7	110.9	470.73
Iron & steel industries	76.2	42.1	488.41
Non-ferrous metals	95.8	51.9	568.62
Fabricated Metal Products	96.9	88.8	290.98
Machinery	98.6	114.7	273.56
Electrical machinery & supplies	90.7	61.5	136.83
Transport equipment	95.0	63.7	468.13
Scientific equipment	86.2	105.1	76.35
Others	94.1	48.6	72.24
Total	93.3	112.5	295.71 (283.42) <sup>1</sup>

<sup>1</sup> Excluding printing and publishing, petroleum refineries, and miscellaneous products of petroleum.

Source : Board of Investment and Saeng Sanguanruang, Somsak Tambunlertchai, and Nit Sammapan, A Study of Small and Medium Scale Industries in Thailand, (in Thai) National Institute of Development Administration and Thammasat University, 1977.

TABLE 3.11

Certain Characteristics of Manufacturing Industries by Size of Employment, 1977

	Size of Employment					Average
	Less Than 10	10-49	50-99	100-199	More Than 200	
Workers/Factory (person)	6.8	22.5	68.1	133.5	436.3	49.8
Assets/Factory (1,000 baht)	542.9	1,421.7	4,799.0	11,404.8	80,830.8	5,565.8
Production/Factory (1,000 baht)	583.1	2,309.2	10,671.8	21,062.5	98,795.5	8,237.5
Value Added/Factory (1,000 baht)	153.3	655.7	3,173.3	6,928.5	34,939.7	2,694.8
Assets/Worker (1,000 baht)	85.6	67.7	77.6	87.6	216.1	122.7
Production/Worker (1,000 baht)	85.5	101.9	157.9	157.8	226.4	165.2
Value Added/Worker (1,000 baht)	22.5	29.2	46.6	51.9	80.1	54.0
Production/Assets	1.07	1.61	2.24	1.85	1.22	1.48
Value Added/Assets	0.28	0.46	0.66	0.61	0.43	0.48
Composition of Goods in Production(%)						
- Consumer Goods	71.0	56.9	46.7	39.1	69.5	58.3
- Intermediate Goods	16.3	21.3	42.5	47.0	25.1	31.1
- Capital Goods	12.7	21.8	10.8	13.9	5.4	10.6
Composition of Assets						
- Buildings	27.8	20.9	21.3	17.2	14.6	16.9
- Machinery	30.7	36.2	55.3	50.8	77.3	64.1
- Transport Equipments	10.1	11.3	6.8	8.5	1.6	4.8
- Land	29.9	28.3	12.8	15.9	4.7	11.2
- Others	1.5	3.3	3.8	7.6	1.8	3.0

Source : SMI Study, op. cit.

TABLE 3.12  
 COMPARISON OF MINIMUM WAGE RATE WITH  
 THE ACTUAL AVERAGE WAGE RATE OF UNSKILLED LABOR  
 (baht/day)

Year	Minimum wage rate	Wage rate of unskilled labor	
		manufacturing	all industries
1972	none	19.48	21.24
1973	12 (Apr.)	22.19	24.11
1974	16 (Jan.)	25.46	27.32
	20 (Jun.)		
1975	25 (Jan.)	29.54	-
1976	25 -	30.29	33.85
1977	28 (Oct.)	35.90	-
1978	35 (Oct.)	36.28	36.36
1979	45 (Oct.)	41.64	41.68
1980	54 (Oct.)	49.12	49.20
1981	61 (Oct.)	-	61.20

Source : Nipon Poapongsakorn, "Minimum Wage Rate : Is There Any  
 Alternative ?", Faculty of Economics, Thammasat  
 University, 1982. (mimeograph in Thai)

TABLE 4.1  
INFLATION IN THAILAND  
(percent/year)

Year	Inflation rate based on				
	GDP Deflator	WPI	CPI	Import Index	Export Index
1961	3.7	8.7	1.2	1.3	+2.7
1962	0.1	6.0	2.5	-6.1	-1.7
1963	-1.6	-6.7	0.9	-1.0	-1.6
1964	2.9	-6.1	2.0	0.1	0.8
1965	4.6	3.2	0.9	0.6	1.4
1966	7.2	14.6	4.0	-2.2	3.0
1967	-0.9	7.3	3.1	-0.4	+0.8
1968	-0.6	-4.2	3.0	+0.5	+0.3
1969	2.0	1.8	2.5	+2.0	3.5
1970	-0.6	-0.5	+0.1	1.2	05.3
1971	1.5	0.3	0.4	17.9	-10.1
1972	8.6	7.9	4.8	+0.5	9.8
1973	20.2	22.8	15.6	10.5	53.3
1974	18.9	28.9	24.3	64.0	38.0
1975	2.8	3.7	5.3	6.1	05.7
1976	3.9	4.0	4.2	5.5	+2.7
1977	8.6	7.8	7.6	7.5	2.2
1978	8.6	7.4	7.9	7.8	8.1
1979	11.6	10.8	9.9	15.6	19.5
1980	16.4	20.6	19.7	24.2	18.2
1981	9.0 <sup>e</sup>	9.6	12.7	13.9	1.0

Source : NESDB ; Bank of Thailand ; and Department of Business Economics



TABLE 4.2  
PRICE OF RICE  
(baht/metric ton)

Year	Average export price	% change	Bangkok wholesale price (5%)	% change
1961	2283	6.8	1633	9.9
1962	2549	11.7	1844	12.9
1963	2415	-5.3	1893	2.7
1964	2315	-4.1	1682	-11.1
1965	2287	-1.2	1536	-8.6
1966	2654	16.0	2086	35.8
1967	3139	18.3	2398	15.0
1968	3534	12.6	2001	-16.6
1969	2875	-18.5	2025	1.2
1970	2366	-17.8	1905	-5.9
1971	1846	-22.0	1578	-17.1
1972	2101	13.8	1822	15.5
1973	4235	101.6	2865	57.2
1974	9500	124.3	3773	31.7
1975	6152	-35.2	3723	-1.3
1976	4359	-29.1	3822	2.7
1977	4542	4.2	3866	1.2
1978	6488	42.8	4250	9.9
1979	5575	-14.1	4522	6.4
1980	6968	25.0	5671	25.4
1981	8684	24.6	6500	14.6

Source : Bank of Thailand

TABLE 4.3

GROWTH RATE OF SOME MAJOR MACROECONOMIC VARIABLES<sup>1</sup>  
AND THE BALANCE OF PAYMENTS

Year	% Growth rate of			Balance of	
	GDP	Gov't expenditures	Money supply	Merchandise Trade	Payments
				(million baht)	
1961	5.3	6.9	5.8	-269	16555
1962	8.1	15.9	10.1	-1963	1295
1963	8.4	14.1	8.8	-3117	949
1964	6.6	9.6	5.9	-1961	1430
1965	7.9	13.1	12.9	-2556	1985
1966	12.2	12.0	5.9	-4479	3304
1967	7.8	15.0	8.1	-8150	1313
1968	8.5	17.4	10.7	-10650	449
1969	7.9	5.8	2.0	-11311	-914
1970	6.5	6.5	8.8	-12245	-2652
1971	4.7	3.0	8.6	-9941	-335
1972	4.8	-0.1	6.6	-8885	3991
1973	9.4	-2.3	10.3	-10802	864
1974	5.4	-6.8	-0.1	-14302	8012
1975	7.1	17.6	2.5	-20161	-2858
1976	8.7	22.9	11.7	-11085	-83
1977	7.2	13.9	4.2	-25599	-7538
1978	10.1	16.4	10.0	-28540	-13298
1979	6.1	10.8	3.7	-47053	-7925
1980	5.8	11.8	2.3	-57985	5179
1981	7.6	11.5	6.7	-65800	2531

<sup>1</sup> All growth rates are calculated from constant 1972 price figures

Source : NESDB and Bank of Thailand

TABLE 5.1  
GROSS REGIONAL PRODUCT 1976

Region	Per capita GRP (baht)	GRP (million 1972 baht)
Northeast	3369	34377 (15.6)
North	5393	31306 (14.2)
South	7503	24729 (11.2)
Central	11368	65660 (29.8)
Bangkok	20689	64378 (29.2)
Whole kingdom	7732	220450 (100.0)

Figures in parenthesis are percentages of the whole kingdom

Source : NESDB

TABLE 5.2  
REGIONAL INCOME DIFFERENCES  
(baht/household/year)

Year	Northeast	Bangkok- Thonburi	North	Central	South
<u>1971-73 Survey</u>					
Municipal area	28633	33510	22774	27164	26542
Non-municipal area	6890	24353	11076	15816	11179
<u>1975-76 Survey</u>					
Municipal area	36504	46392	41628	42324	40332
Sanitary districts	27156	40560	22020	30984	23160
Non-municipal area	15624	30444	15816	24420	18012
Total	17940	41304	18432	27012	21456

Source : National Statistical office, Socio-economic Survey :  
1971-73 and 1975-76.

TABLE 5.3

GOVERNMENT REVENUE STRUCTURE  
(percent)

Types of Revenue	1960	1965	1970	1975	1980	1981
1. <u>Direct taxes</u>						
Personal income tax	5.5	5.7	6.9	6.9	7.6	8.1
Corporate income tax	3.1	4.3	4.8	9.2	10.0	12.0
2. <u>Indirect taxes</u>						
Import duties	30.3	25.0	28.8	21.6	30.3	19.6
Export duties	18.2	13.8	4.5	3.6	3.5	2.5
Business taxes	8.1	18.0	19.7	20.3	19.2	19.2
Selective sales taxes	14.4	13.4	16.2	18.7	22.3	22.1
Others	11.7	11.4	9.9	8.3	9.5	6.6
3. <u>Non - tax revenues</u>	8.7	8.4	9.2	11.5	7.6	8.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source : Bank of Thailand