
THAILAND

INTRODUCTION

THAILAND has a total area of approximately 200,000 square miles and a population, according to the census taken in 1960, of 26.3 million.

Agriculture occupies over 80 per cent of the working population, and, together with a few extractive industries such as tin-mining, lumbering and fishing, forms the essential foundation of the economic structure. Other economic activities in the country are confined to handicrafts, processing of agricultural and forestry products, and a few light manufacturing and service industries. Most of Thailand's cultivated area is devoted to rice, and because of favourable climatic conditions and a low population density, rice production not only provides for domestic needs but also furnishes, at present, almost two-fifths of the total export earnings.

The economy of Thailand is heavily dependent on foreign trade. The annual value of exports as well as that of imports usually amounts to between 18 and 20 per cent of the gross national product. Among the commodities that are exported, rice is the most important. Other principal export commodities include rubber, tin, teak and, since 1960, maize, kenaf and tapioca. Imports consist mainly of manufactured goods, machinery and petroleum products.

SITUATION AT THE END OF THE SECOND WORLD WAR

Although agricultural production, as a whole, was little affected by the war, Thailand was nevertheless confronted with several problems in 1946. First, there was the need to restore foreign

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Since 1949, Dr Puey Ungphakorn has served the Thai Government as a Senior Economist in the Ministry of Finance, as Deputy Governor of the Bank of Thailand, as Economic and Financial Counsellor at the Royal Thai Embassy in London, and as Budget Director in the Prime Minister's Office. In 1959, he was appointed Governor of the Bank of Thailand. He is also a member of the National Economic Development Board of Thailand.

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trade and exchange. Secondly, there was the problem of fulfilling the obligations imposed by the Allies for making available quantities of rice free-of-charge and subsequently at low prices. Thirdly, there was the urgent need to repair the damage inflicted upon power facilities, the port of Bangkok, the railway system and other means of communication. Overriding all these problems was the inflationary pressure which gathered strength during the war through the heavy financing of Japanese military expenditure in Thailand, and which became aggravated by heavy government budget deficits.

There follows a brief discussion of the main measures taken by the Government to meet these problems in the immediate post-war period.

Exchange System

The Baht was at first tentatively fixed at Baht 60 to the Pound Sterling but subsequently changed to the rate of Baht 40. To safeguard the depleted gold and foreign exchange reserves by using them only for payment of essential consumption goods, the demand for which had been kept unsatisfied during the war years, the government decided to impose a system of comprehensive exchange control. The entire proceeds of all exports had to be turned over to the Bank of Thailand at the official rate, and exchange was sold only for approved imports. This system proved ineffective, however, and consequently was replaced by a multiple exchange rate system in early 1947. Under the new system exporters of the main products, namely, rice, rubber, tin and teak, were required to surrender, in some cases the whole, and in others part, of their foreign exchange receipts at the official rate. Importers generally had to buy the needed foreign exchange in the free market at a much higher rate. Government imports and a few essential payment items such as hospital supplies and students' expenses abroad were permitted the cheaper official rate. Beginning in March 1948, some foreign exchange was sold by the Bank of Thailand for imports at rates slightly below those of the open-market. The profit which accrued from these transactions was then placed in a Stabilization Account at the Bank of Thailand. This exchange profit, amounting to about Baht 515 million in 1949, served to counter the inflationary effect of the Government budget.

Rice

To fulfil international obligations and to keep the internal price of rice lower than that prevailing in the world market, the Government assumed a monopoly of the rice export trade in 1946. Minimum prices for paddy and milled rice at all levels of distribution were fixed and rice was bought from the mills by the Rice Office at a price which was well below the Baht equivalent of the export price. The difference between the export price calculated at the official rate of exchange and the internal buying price, less taxes, resulted in the Rice Monopoly gaining a handsome profit, the greater part of which was turned over to the Treasury.

Despite the fact that these measures were deflationary in effect, money supply after 1947 continued to show an increase. This was partly due to the heavy world demand for Thailand's exports, particularly rice and rubber, which resulted in a growing trade surplus from 1948 until the end of the Korean boom in 1951. Another major factor accounting for the rise in the volume of money during this period was the big increase in budget spending.

DEVELOPMENT MEASURES

Financial and Fiscal Reform¹

During the period 1947-55, when a multiple exchange rate system was in effect, the government was relying on exchange rate policy to combat inflation. The official rate for government imports served as a means of lowering the cost to the government of imported goods, and the profits earned from the sale of exchange at higher rates also helped to finance government deficits. On the other hand, the penalty rates of exchange for the country's main exports served indirectly as anti-inflationary taxes. However, during the world trade recession immediately following the Korean boom, a sharp deterioration in tin and rubber prices set in. The rice market also changed from a seller's to a buyer's market. By 1953, the usual trade surplus had

¹ See S. C. Yang, *A Multiple Exchange Rate System - An Appraisal of Thailand's Experience 1946-1955*. The University of Wisconsin Press, Madison, 1957.

turned into a sizeable deficit. The country was also rapidly losing reserves as a result of the official appreciation of the Baht against sterling for imports in 1952. The purchasing power absorbed from the private sector as a result of exchange operations was placed back in the market through government deficit spending at an average annual rate of over fifteen hundred million Baht during 1952-4.

The government soon realized that to rely on exchange policy to finance this huge government deficit was something which could not go on in view of conditions prevailing in the world market for Thai exports. Some drastic financial reform was needed. Measures to improve government revenue and to bring about more orderly allocation of government resources were clearly essential. The government therefore decided in 1955 to abolish multiple exchange practices and to unify the exchange rate. The Rice Monopoly was disbanded, and export taxes – on sliding scale bases – were imposed on rice, rubber and tin exports, to replace the former partial surrender of export proceeds at the official rate. In the case of rice, the tax imposed to replace the Rice Monopoly profits was called an 'export premium', the rate of which could be changed according to world market conditions, and used as an instrument for preserving rice supplies for domestic consumption at low prices.

All exchange transactions have since then taken place in the free market, with rates determined by market forces. The Currency Reserves were officially revalued from the rate of Baht 12.50 to the US dollar to Baht 20.00. An Exchange Equalization Fund was set up from the surplus accruing in this revaluation, with the purpose of evening out short term fluctuations in the exchange rate.

In 1957, the government undertook several measures which were to prepare the ground for more conscious and orderly planning of expenditure, especially for development in the 1960s. In this year, the World Bank was asked to send a mission to make a general survey of the country and draw up a public development programme. Their recommendations resulted in the establishment of the National Economic Development Board in 1959. In the meantime, a Public Administration Service Team, which had been brought in a few years earlier with the aid of the US Government, drew up a scheme of

reform for budget procedure and the government accounting system. Their recommendation resulted in the enactment of a new Budget Procedures Act in 1959.

Besides more orderly planning of expenditure, several measures were also taken to increase revenue. The Customs Tariff Code was revised, so that classification of items now follows the Brussels nomenclature. A new method of collecting the business tax was introduced in 1961. The government also abandoned the system of borrowing from the central bank by means of an overdraft. It also tried to mobilize more savings from the private sector by raising the interest rate on long-term government bonds to 8 per cent in 1956, as well as declaring the interest tax free and making the bonds resaleable to the government on demand.

These financial reforms have considerably strengthened the government's fiscal position since then. By 1958 the government cash deficit was reduced to less than Baht 500 million, and direct borrowing from the Bank of Thailand to less than Baht 250 million.

Provision of Basic Facilities

It was becoming evident by 1949 that the government would have to make a determined effort to provide the necessary basic facilities before the private sector could grow. A larger portion of government expenditure was still taken up by current expenditure – especially on the pay of civil servants, and defence. To accelerate the rate of spending on development, and at the same time to avoid inflationary pressures, foreign capital had to be sought.

In 1950, the government was able to obtain three loans from the International Bank for Reconstruction and Development, US \$18 million for an irrigation project in the Chao Phya area, US \$4.4 million for development of the Bangkok Port, and US \$3 million for rehabilitation of the railways. A second Port loan for US \$3.4 million was obtained in 1951, and a second Railway loan for US \$12 million in 1955. The Yanhee Hydro-electric Loan for US \$66 million, signed in 1957, is designed to provide both power and irrigation benefits. In 1950 the Thai Government signed an Economic and Technical Co-operation Agreement with the Government of the United States. During

the period 1951-4, economic aid in various forms averaged more than US \$6 million annually, but since 1955 the total of grants and loans from the US Government has averaged nearly US \$30 million per year. In addition Thai Government Agencies have also been able to obtain financing from the US Export-Import Bank, or the Development Loan Fund. Assistance, both financial and technical, has also been received from the United Nations and other foreign governments both directly and through the Colombo Plan.

The Second World War left Bangkok, the capital, with an acute shortage of electricity. With US aid and loans from the US Export-Import Bank and the Development Loan Fund, Bangkok now has a generating capacity of nearly 170,000 kW. Another power station, with a capacity of 75,000 kW financed by the US Export-Import Bank, is due to be set up and will come into operation in 1963.

Development in transport and communication has also helped to open up the country, and pave the way for the growth of exports in more recent years. The Friendship Highway, primarily built for military purposes, has contributed much in forming a fast and direct means of transporting such crops as maize and kenaf, grown in the north-east of Thailand, to the Bangkok port.

Efforts at Industrialization

In the past decade, the Government made several attempts to lead the country towards more industrialization. A few pilot plants were set up with the purpose of showing the private sector what could be done. Instances of these are the paper umbrellas, paper clips, metal cabinets, and ceramics plants. Many factories were also set up under the aegis of the Ministry of Defence with the primary aim of supplying the Armed Forces, examples being the glass, pharmaceutical, and battery plants. An oil refinery was set up at Fang, 950 kilometres north of Bangkok, in a fairly inaccessible area, where the amount of probable oil reserves has not yet been quite established. A company, with part of the shares held privately, was set up to produce cement needed by the Irrigation Department in its construction work.

Another conspicuous example of government activity in the

field of industry is the National Economic Development Corporation (NEDCOL). This Corporation was established in 1954 with shares partly owned by many members of the government of the day. It was able to obtain a \$10 million loan from a private foreign bank and bought plant from abroad with supplier's credit, all with Government guarantee. Listed among its holdings are a gunny bag factory, two modern sugar mills, and a paper mill using rice straw as raw material. Most of the machinery was bought at exorbitantly high prices, and the projects indeed lacked planning from the beginning. Within a little while it became evident that the government would have to bear the brunt of the debt burden, and now ownership of the Corporation has totally reverted to the government. With protection for the gunny bag and sugar industries in force, two of its plants are paying their way. The second sugar plant (at Supanburi, 192 kilometres north-west of Bangkok, where cane growing is only in an experimental stage) has yet to run at full capacity, with adequate cane supply, before recovering. The paper mill has yet to start operation. Meanwhile the Government is paying the last instalment of debt service on behalf of the Corporation in the current fiscal year.

In the meantime the Government has taken several measures to promote industry. In 1954, an Industrial Promotion Act was passed. In this Act, the Government declared its policy of non-interference where private initiative was present. Several benefits were offered to industries which were announced as eligible for promotion. This Act has been amended and revised from time to time to offer more attraction to private investors as well as ensuring the practicability and speedy implementation of the provisions. The principles of promotion in the Industrial Promotion Act of 1962 include exemptions from duty on exported products, exemption from tax on profits for a prescribed number of years, and special immigration quotas for technical and managerial personnel and their families. Facilities have long been granted to foreign investors under the Exchange Control law for the remittance of profits and repatriation of capital, even prior to the enactment of the Industrial Promotion Act.

In 1959, the government reorganized the old Industrial Bank. The Industrial Finance Corporation was formed with

private capital, subscribed by Thai and foreign commercial banks, and the Corporation took over the assets of the old Bank. A loan, three times the amount of the initial paid-up share capital, was obtained interest free from the US Government. The main objectives of the Corporation are (1) to assist in the establishment, expansion or modernization of private industrial enterprises, and (2) to encourage the participation of private capital, domestic and foreign, in such enterprises.

The Corporation was faced with several difficulties at the initial stage of operation – a lack of capital and inadequate staff at its disposal, and poor management and accounting on the part of the loan applicants. In 1962, a drastic reform took place in the organization and management, and the Corporation is showing signs of being able to function effectively. Additional resources have been and are about to be made available from its own increase in share capital, from government loans at nominal interest rate, from the Federal German Government and the International Bank for Reconstruction and Development and the Industrial Finance Corporation.

Health and Education

Vast improvements have taken place in the field of health since the Second World War. Here again foreign assistance has played an important role. Technical and financial aid have been received from the World Health Organization, the UN Children's Emergency Fund and the US Government. Recorded deaths from malaria have substantially decreased, and cases of smallpox have become rare. No outbreak of plague has been recorded since 1952. Cholera is believed to have been eradicated, although there was an outbreak in Bangkok and Dhonburi in 1958.

Tuberculosis still presents a large problem, although BCG treatments have been instituted, and expansions have been made at the Nondbhuri tuberculosis hospital and lung operations can now be performed. Projects for the control of leprosy and yaws have also been started.

Maternity and child care schemes have been enlarged, special attention having been given to the increase of facilities in the rural area. Efforts are still being made to increase the number of doctors, nurses and dentists. A new medical school has been

set up at Chingmai, in the North of Thailand, to supplement facilities for clinical work now afforded by the two main teaching hospitals in the metropolitan area. At present the ratio of doctors to inhabitants stands at 1 per 7,700 as compared with 1 per 13,600 in 1947.

A compulsory elementary education system has been in force in Thailand for more than thirty years. Government expenditure on education now accounts for around 21 per cent of total annual expenditure and ranks top of the list, exceeding expenses for economic services and defence. From the end of World War II to 1960, the number of school pupils increased by about 50 per cent, while budget appropriations for education increased by seventeen times. The Government subsidizes education even up to the University level where students are asked to pay very nominal fees. Most parents aim at giving an academic type of education to their children, but every year nearly two out of three of the aspiring candidates have to be turned down, due to the lack of space in the Universities, while at the same time there is a feeling that jobs cannot be created readily to receive graduates of all branches. The Government in more recent years have made an effort to expand technical schools to build up the more specialized skills required by a developing economy.

In general, the education programme seems to have so far achieved satisfactory results on the quantity side but not so much on quality, which is attributed to the lack of qualified teachers and up-to-date equipment.

Planned Development

In the 1950s in spite of efforts to bring about some order in the allocation of government resources, public development effort was unbalanced, unco-ordinated and indicative of a total lack of scientific planning. An economic planning committee was set up in the National Economic Council, to comprise a group of technicians who tried to work out development expenditure budgets for various ministries and state enterprises. The work was, however, purely of an advisory nature. The final job of trimming down requests was that of the Ministry of Finance, which at that time also lacked the necessary personnel to carry out a proper evaluation of projects. The outcome was

that expenditure was mainly decided by arbitrary negotiations and by yielding to the strongest pull.

In 1959, as a result of one of the major recommendations of the World Bank Survey Mission,¹ the National Economic Council was reorganized into a National Economic Development Board to function as a Central Planning body. The present constitution of the Board is not, however, of the form envisaged in the Mission's recommendation. Instead of being composed of Cabinet Ministers directly concerned with economic matters, it consists of forty-five members, drawn from various walks of life, but mostly from the Armed Forces and the civil service, while all the Cabinet Ministers are advisers. An executive committee of ten members deals with the day-to-day problems, and the Secretariat is administratively under the Prime Minister's Office.

A Six-Year Development Plan covering the fiscal years 1961-66, was promulgated by a Royal Decree. Some specific targets were indicated, but due to the lack of the types of statistics which are needed for scientific planning, the document should be viewed more as a general outline of Government policy on economic development, and a programme of public development expenditure. Emphasis is laid on agricultural development, and the provision of such basic facilities as irrigation, power, transport, and communications.²

GROWTH AND STRUCTURAL CHANGES SINCE 1951

National Product

Thailand's gross domestic product, i.e. the value of the production of the nation, is estimated to have doubled during the 1951-61 period. After allowing for price increases, the real rate of growth was 70 per cent for the entire period or about 5.5 per cent annually. During the same period the annual growth of population has been slightly above 3 per cent. Consequently, real output *per capita* has increased on the average by almost 2.5 per cent a year.

¹ See *A Public Development Program for Thailand*, Johns Hopkins Press, Baltimore, 1959.

² See Section on the Six-Year Plan, below.

It will be seen from Table 1 that the growth in this period has been predominantly in public utilities, construction and transport. Agriculture, which is the largest item, increased by 52 per cent and manufacturing by only 50 per cent. Other items which registered a smaller increase than that of the total are mining and quarrying, wholesale and retail trade, and

TABLE 1 GROSS DOMESTIC PRODUCT OF THAILAND,
1951 AND 1961¹

(In million baht at 1956 prices)

	1951	1961	Percentage increase during 1951-1961
Agriculture	13,731	20,099	52
Mining and quarrying	557	764	53
Manufacturing	3,949	5,721	50
Construction	924	2,568	248
Electricity and water supply	43	169	307
Communication and transportation	1,203	3,857	246
Wholesale and retail trade	5,927	9,393	57
Banking and finance	1,565	2,494	64
Services	3,302	5,815	80
Total	31,199	50,881	70

banking and finance. The relative importance of these industries also declined in the period under consideration while that of the remainder showed a rising trend.

Agricultural Production

In the decade 1951-61 agricultural production increased on the average by about 4.4 per cent annually. The increase is attributed principally to the increase in the production of the main commercial crops other than rice, and to a smaller extent, to the expansion in the output of rubber. The last three years of

¹ Source: National Income Division, Office of the National Economic Development Board.

this decade are indicative of the process of diversification which has been going on in the agricultural sector.

Rice – Production of paddy, which is by far the most important crop, varied during this period between 5.7 million metric tons and 8.3 million metric tons. The acreage under cultivation has shown little change while average yields have slightly improved from 203 kg per rai¹ in the crop year 1950–51 to 232 kg per rai in 1961–62. Total output increased on the average at the rate of about 2 per cent annually. With the completion of the main canals under the Chao Phya Project in 1962, it is expected that considerably more land will be brought under cultivation thereby resulting in a much larger output than at present.

Other main crops – Apart from rice the main commercial crops are sugar cane, tobacco and cotton for the fast-growing domestic processing industries, and maize and kenaf, chiefly for export. Under the stimulus provided by the expansion in world demand, output of the two latter crops has increased spectacularly during recent years: from 1956 to 1961, production of maize rose from 115,000 metric tons to 600,000 metric tons and that of kenaf from 17,000 metric tons to 150,000 metric tons. Output of other crops such as cassava, soya-bean, ground nut and castor seeds also increased during the period with the result that the production index of non-rice crops (1953 = 100) rose from 88 in 1951 to 322 in 1961.

Rubber – Rubber output in 1961 amounted to 186,000 metric tons. This compares with about 99,000 metric tons in 1951. However, it should be noted that a large proportion of rubber trees in production are over-age, and the government has been concerned about the prospects for Thai rubber. In order to help rubber growers to meet competition from more efficient producers of natural rubber and synthetic rubber, the government in December 1960 enacted the Rubber Plantation Aid Fund Act. Under this Act, aid will be provided from the fund, which is composed of contributions from rubber exporters, to the planters for the improvement of rubber trees and replanting.

Forest Products – Production of teak, the most important timber product of Thailand, has shown a steady decline from about 560,000 cubic metres in 1953 to 105,000 cubic metres in 1961, mainly due to the decreased stock of mature trees. However, the

¹ One rai = 1,600 sq. metres.

government has already undertaken a teak reforestation programme as part of an extensive forest conservation programme. Under an initial three-year plan, which began in 1961, about 2,000 acres were to be planted with teak seedlings annually. For the second three-year period this target will be renewed.

Industrial Production

Manufacturing – Industrial expansion has proceeded gradually in Thailand, though since 1958 there has been a noticeable acceleration. Manufacturing now contributes, at current prices, about 12 per cent of the gross national product compared with 10 per cent in 1951. Most of these industries are light industries producing mainly for the domestic market. The major industries are cotton textiles, gunny bags, cement, sugar, paper and tobacco. During the five years 1957–61, the output of the first three more than doubled, while that of paper and tobacco also increased although at much lower rates. In the case of sugar, production in 1961 even rose in excess of domestic demand and means had to be found for exporting the surplus.

Development of Thai industry has been hindered mainly by the lack of sufficient electric power capacity. However, this problem is being partially met by long-range development of hydroelectric potential and by building lignite thermal power plants. Other principal bottlenecks to industrial development are the high speculative prices of industrial sites, shortage of skilled labour and management, poor communications and high transportation costs. In addition, private entrepreneurs in the past have had to face competition from state-owned enterprises in a number of fields.

Mining – Production of tin ore during the period 1950–55 was steady at about 14,000 tons, but thereafter increased to about 19,000 tons in 1957 which, however, was still far below the peak prewar record. In 1958 when control under the International Agreement came into full force, production had to be cut by nearly 45 per cent. Consequently, production of tin ore in 1958 and 1959 amounted to only 10,892 tons and 13,446 tons respectively. However, as a result of the recent rise in tin prices and the lifting of export quotas since the third quarter of 1960, production of tin has again risen to 16,756 tons in 1960 and 18,402 tons in 1961.

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Other minerals which have been mined include tungsten, lead, antimony, manganese and iron but none of them has much significance in Thailand at present - in 1961 production of tungsten ore was only 472 metric tons and that of manganese ore only 532 metric tons.

Electric Power - In 1951 the total installed capacity of electric generators in Thailand was about 33 MW, of which total about 25 MW, or almost 80 per cent, was confined to the Bangkok and Dhonburi area. Since then there has been a considerable expansion. In 1961, total installed capacity was 264.47 MW of which 168.19 MW or approximately 64 per cent belonged to Bangkok and Dhonburi area and total generation of electricity amounted to 601.82 million kWh. In addition, there are three power development projects, two steam and one hydro-electric, now under construction which, when completed, would add about 675 MW to the present installed capacity.

Foreign Trade and Payments

Expansion of Trade - In the decade 1951-62, in terms of dollars, Thailand's exports increased from \$367 million to \$462 million

TABLE 2 PERCENTAGE SHARE OF EXPORTS, 1951-1962¹

	Rice	Rubber	Tin	Others	Total Export Value (US \$Million)
1951	54.0	26.6	6.6	12.8	367
1952	65.7	15.2	6.9	12.2	329
1953	66.2	11.6	6.3	15.2	323
1954	51.4	15.5	6.3	26.8	283
1955	44.2	25.1	6.2	24.6	335
1956	41.3	22.1	7.3	29.3	335
1957	48.0	18.7	7.1	26.2	365
1958	46.1	20.6	3.9	29.4	309
1959	34.1	30.8	5.7	29.4	359
1960	29.8	29.9	4.2	36.1	408
1961	35.9	21.3	6.2	36.6	477
1962 ²	34.3	22.0	7.2	36.5	461

¹ Source: Department of Customs.

² Estimate.

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while imports increased from \$272 million to \$550 million, reflecting an increase of 26 per cent and 102 per cent respectively.

During the period the annual value of exports varied considerably depending mainly on the world market prices and the production of the three main export commodities, namely, rice, rubber and tin. On the whole the importance of these three commodities has shown a steady downward trend in relation to the total value of other exports, as may be seen from Table 2 (opposite). It is also significant that for the last three years, the

TABLE 3 PERCENTAGE DISTRIBUTION OF IMPORTS BY MAIN CATEGORIES, 1951 AND 1962¹

	1951	1962 ²
Food	13.4	6.6
Beverages and tobacco	2.6	1.3
Crude materials	1.7	1.8
Mineral fuels and lubricants	7.2	10.6
Animal and vegetable oils and fats	0.4	0.2
Chemicals	6.1	10.3
Manufactured goods	41.8	33.4
Machinery and transport equipment	15.6	27.4
Miscellaneous manufactured articles	10.4	4.9
Miscellaneous transactions and other commodities	0.8	3.2
Total value in \$ million	272	549

value of exports of goods other than rice, rubber and tin for the first time in Thailand's history exceeded that of rice exports. This was due mainly to the spectacular rise in the exports of jute and kenaf, maize and tapioca products which together in 1961 and 1962, accounted for about 16-17 per cent of the total exports compared with only about one per cent in 1951.

On the import side, it is also significant that imports of capital goods and raw materials together have risen from about 48 per cent of the total import value to slightly over 64 per cent in 1962. Chemicals and petroleum products showed the largest

¹ Source: Department of Customs.

² Estimate.

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increase, while crude material and machinery and transport equipment also increased substantially.

Table 3 (p. 165) gives the percentage distribution of imports by main categories for 1951 and 1962.

Terms of Trade - From Table 4 it will be noted that on the whole export prices fluctuated considerably, whereas import prices show steady increases, with the exception of 1957-58 and 1961-62.

TABLE 4 TRADE INDICES AND TERMS OF TRADE¹
(1953 = 100)

	Unit Value		Terms of Trade
	Exports	Imports	
1953	100	100	100
1954	111	105	106
1955	109	106	103
1956	100	106	95
1957	99	109	91
1958	102	105	97
1959	108	104	104
1960	111	106	105
1961	108	107	101
1962	107	101	107

Bearing in mind that the base year 1953 was a depression year, this table does not represent a true perspective from a long-term viewpoint. It does show, however, that during the bad years of 1956-58, the terms of trade moved sharply against primary products.

Balance of Payments - Table 5 gives a summary balance of payments of Thailand for the years 1951 to 1962. With the exception of 1951 and 1961 Thailand always had a deficit on current account. Despite these deficits, however, gold and foreign exchange reserves increased in eight years out of the total twelve, due mainly to the fact that a large proportion of imports was

¹ Source: Bank of Thailand.

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TABLE 5 THAILAND'S BALANCE OF PAYMENTS, 1951-1962¹
(Millions of US \$)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962 Preliminary
<i>Current Account</i>												
Exports, f.o.b.	367.1	329.4	322.6	283.4	334.9	361.5	390.1	307.0	357.4	405.0	473.3	457.2
Imports, c.i.f.	-272.3	-304.4	-330.4	-311.7	-321.1	-358.5	-404.7	-385.5	-424.4	-447.4	-479.9	-535.0
Trade balance	94.8	25.0	-7.8	-28.3	13.8	3.0	14.6	-78.5	-67.0	-42.4	-6.6	-77.8
Other items	-39.4	-42.1	-50.7	-40.5	-37.5	-27.2	-31.0	-1.5	—	4.9	13.9	24.8
Balance on goods and services	55.4	-17.1	-58.5	-68.8	-23.7	-24.2	-45.6	-80.0	-66.9	-37.5	7.3	-53.0
Official Donations	0.4	3.0	4.5	6.4	14.1	27.1	35.0	25.3	41.3	34.1	21.4	25.1
<i>Capital Account</i>												
Medium and Long-term Capital	3.2	7.3	6.8	0.3	19.4	14.9	23.4	14.7	20.9	19.1	40.2	75.3
Changes in International Reserves (increase +)	83.6	-22.3	-46.0	-21.6	28.8	14.4	7.7	-19.4	6.2	44.9	78.5	62.3

Source: Bank of Thailand.

¹ In this table the item 'errors and omissions' is not shown.

financed by foreign aid and loans, especially grants from the US and loans from the World Bank. At the end of 1962, the total value of reserves amounted to about twelve months' imports.

THE SIX-YEAR PLAN

The National Economic Development Board produced in mid-1960 Thailand's first economic plan covering a six-year period from 1961 to 1966. The plan is divided into two phases: 1961-63 and 1964-66, with the intention of making it a 'rolling' plan, i.e. subject to constant revision and addition. In the next few paragraphs, we present a summary of the targets and the estimated amount of total development expenditure during the period, including the sources of financing.

Targets

For the first phase, 1961-63, a number of specific physical targets have been established. These targets take account of the estimated impact on the general economy of public sector (Government) activities, such as 'infrastructural' improvements: irrigation, road, port, rail, power, etc. Regarding agricultural production, rice is expected to increase by 1.3 per cent annually, rubber by at least 6 per cent during the three-year period, and maize by 100 per cent in three years.

The relative contribution of industry to national income is expected to be raised during the first phase of the Plan by about 12 per cent annually. Among industrial production during 1961-63, the following increases are expected: 400 per cent for paper, 300 per cent for both lignite and gypsum, 100 per cent for textiles, and 50 per cent each for gunny bags, tobacco, and cement. Other development goals for the first three years include an increase in electric power capacity from 138,000 kW to 370,000 kW, an additional 1,000 km of highways, improvement in railway services and beginning of tele-communication facilities. Further expansion of trade is also expected.

Development Finance

For 1961, the total development plan expenditure financed through the annual budget was estimated at Baht 1,600 million or 19.5 per cent of the estimated total government expenditure.

For each of the following years the increase in development expenditure is estimated to be about Baht 300 million as against an estimated annual increase of Baht 500 million in total government expenditure. Thus development expenditure for 1966 would amount to about Baht 3,100 million or 28.7 per cent of total government expenditure and, for the six-year period covered by the Plan, to Baht 13,900 million with the following distribution:

TABLE 6 SUMMARY OF DEVELOPMENT PLAN EXPENDITURE, 1961-1966¹

	<i>Baht million</i>	<i>Percentage of total</i>
Agriculture	4,000	28.8
Industry	1,100	7.8
Communications	4,400	31.7
Social services	2,600	18.7
Miscellaneous	1,800	13.0
Total	13,900	100

In order to give special attention and different emphasis to different regional needs, the development programmes for the north-east, the north and the south have been entrusted to three special committees, each headed by a prominent member of the Cabinet. Co-ordination among the three regional programmes, and between each programme and the overall plan is done through the National Economic Development Board Secretariat.

For the fiscal years 1961² and 1962 actual development expenditure for items included under the Six-Year Plan were respectively Baht 1,322 million and Baht 1,701 million as against Baht 1,388 million and Baht 1,900 million originally envisaged. Comparable figures of original Plan targets, budget allocations and actual expenditure for these two years are presented in Table 7 (p. 170).

With regard to the financing of the Plan, additional resources

¹ Source: Office of the National Economic Development Board.

² Fiscal year 1961 covered only nine months i.e. from January to September.

TABLE 7 DEVELOPMENT EXPENDITURE, 1961 AND 1962¹
(Millions of Baht)

	Fiscal Year 1961			Fiscal Year 1962		
	Plan	Budget	Actual Expenditure	Plan	Budget	Estimated Actual Expenditure
Agricultural Development	438	386	354	541	567	548
Industrial Development	422	471	448	268	391	378
Industry	(238)	(248)	(230)	(106)	(258)	(252)
Power	(119)	(164)	(164)	(82)	(93)	(84)
Water	(64)	(59)	(54)	(79)	(40)	(42)
Communications and						
Transport Development	319	466	352	618	524	516
Commercial Development	7	—	—	8	—	—
Social Development	202	169	168	346	308	260
Contingencies	—	—	—	120	—	—

are expected from an annual increase of 5 per cent in tax revenue as a result of the growth of national income and improved methods of collection. Also, new taxes are to be introduced as necessary during the Plan period, and net domestic borrowing is expected to rise by about Baht 50 million annually. State enterprises are expected to contribute a further Baht 500 million throughout the period. Foreign grants and loans needed will be about Baht 7,000 million.

At the moment of writing (end 1962/beginning 1963), the National Economic Development Board Secretariat is in the process of evaluating the progress of the first three years and filling in the details of the second three-year plan.

CONCLUDING REMARKS - PROBLEMS AND PROSPECTS

Concluding Remarks

In this study, attention has been mainly focused on the facts relating to production and trade. Space and time do not allow

¹ Source: Office of the National Economic Development Board.

more than passing mention of such matters as the development of the banking systems and other financial institutions, the successful savings mobilization through the Government Savings Bank and commercial banks which has resulted in a considerable increase in investment in Government bonds and bills, the absence of any tax reform until recently when a beginning has just been made, the extent of foreign aid and loans in economic and social investment, the problems of manpower and skill, the relationship between educational planning and economic planning, administrative changes during recent years, etc. For these subjects, the reader is referred to other studies,¹ some of which have yet to be published. In spite of this fact, it is hoped that the present study has provided sufficient information for drawing certain conclusions, some of which may be of general use. The writer's main conclusions are as follows:

1. Among many prerequisites to economic development in countries like Thailand, the two most important are peace on the political side, and monetary stability on the economic side. There must be peace, both external and internal. Regarding internal politics, government may change perhaps frequently; but as long as there is no actual fighting, or if *coups d'état* are, as in Thailand, bloodless, the general atmosphere may remain peaceful enough for economic progress.²

Stable currency is essential for development as long as human actions are motivated, to a large extent at least, by monetary incentives. Savers and investors, both domestic and foreign, can be seriously discouraged by the weakness of the currency. It is much more difficult to prepare Government budgets while prices and wages are violently fluctuating. Rising cost of production and cost of living also add to the problems of trade and payments.

2. During the years under study, there were two periods of trade-depression centring around 1953 and 1958. In the latter period the difficulties were fewer and less intense than in the former period, and recovery swifter. The explanation lies mainly in the fact that there was a drastic reform in financial management in 1955: exchange reform, abolition of rice monopoly,

¹ For instance: Annual Reports and Monthly Reports of the Bank of Thailand.

² Government instability is, of course, adverse to administrative reforms, particularly taxation reforms, which require courage and self-confidence.

more liberal trading policy, etc. This reformed economic management indeed is generally considered to be the basis of the progress in 1960-62. Again, the government from 1960 onwards has been able to increase its spending both on current and capital accounts, following a drastic improvement in its accounting and budgetary system. These reforms, which required both wisdom and courage, have proved amply rewarding.

3. In countries like Thailand, good luck and good management still do not earn sufficient resources for development. Grants and loans are needed from international bodies and from other governments. Foreign private investment is also necessary. The figures in the previous section of this essay show the extent to which the Six-Year Plan depends upon foreign resources. Technical skill of all sorts must also be borrowed or imported. More important still, a project approved for loans by an international lender or a friendly foreign government usually has the benefit of a second opinion and its soundness is normally assured.

4. In a country where much land is still unutilized, investment in communication - roads, railways, waterways - normally brings rapid, and sometimes unforeseen, results. The 'Friendship' highway, built with American aid, from Saraburi to Korat, is a case in point. The big increase in the production and export of maize and kenaf in recent years was made possible by it. A road which at first sight is built for administrative or military reasons may have incalculable economic potential, which cannot be realized before the event.

5. Industrialization has not to date been successful in Thailand. The NEDCOL experiment (p. 157) should provide a lesson against hastiness and wishful thinking. One serious defect of NEDCOL operations, more marked at the initial stages, is its secrecy. Not only may it shelter irregularities, it may also hide simple illnesses which could have been remedied if discovered in time. Another conclusion to be drawn is perhaps that an enterprise owned by influential politicians tends to combine both the defects of private enterprise and the defects of government enterprise.

Problems and Prospects

Although Thailand has achieved a fairly satisfactory rate of

growth in real income *per capita*, and at the moment is enjoying a period of prosperity, there are considerable problems lying ahead. The diversification in the export economy has provided some measure of protection against fluctuations in total income. Concern is, however, felt over the fact that the recent increase in income has been too concentrated in Bangkok and has resulted in bigger investment in construction, especially of apartment houses and shopping areas, and not enough has gone into the rural areas and provincial towns in order to increase the productive potential in agriculture and industry to a more satisfactory level.

Each year the Government spends considerable sums on irrigation and highway development, yet no appreciable improvement in the farmers' standard of living or farming methods has been noticed. It is true that the irrigation canal network of the Chao Phya project is not yet completed but measures have to be taken to see that farmers are ready to take advantage of the expansion in irrigated area and proper water control. It is essential that the income of the farm population be improved if markets for the growing industrial products are to be found. Prices which farmers receive for their products and perhaps the crop marketing system need to be thoroughly reviewed. At present the government relies on the rice export premium for 10-12 per cent of its total revenue. If rice premiums are the main cause of farmers' income remaining too low, other sources of government revenue should be explored.

Under the present tax system, tax on foreign trade accounts for about one half of total government revenue while income tax constitutes less than 10 per cent. There is no property tax, and the rate of land tax is relatively low compared with that in neighbouring countries. Professional incomes remain practically untouched. This heavy reliance on foreign trade for revenue makes government resources for development expenditure highly vulnerable to fluctuations in world trade.

In the past the Government has relied on foreign aid and loans to a substantial extent in financing the country's development. There are however limits to borrowing from abroad, as the country cannot afford to see its future foreign exchange income always siphoned away in debt service. The recent tendency to use medium term suppliers credit in financing long

term projects also means that repayments are generally due before the projects bear fruit. Nor can export income be expected to increase at such a spectacular rate as it has in the past three or four years.

The movement towards more conscious planning is to be welcomed. It is too early yet to assess the results of the first three-year phase of formal planning. Whatever these results turn out to be, Thailand, having begun in 1963 with a creditable financial system, a sound international reserve, an economy much more diversified than ever before, is in a favourable position to move forward at greater speed. Whether she will do so depends on how successfully she solves the above mentioned problems: increase in the income of the common man, increase in government resources, and wisdom in the choice of government spending.

PART II

A Comparative Analysis