The Thai Economy: A Picture from the Past

Srawooth Paitoonpong
Shigeyuki Abe*

HISTORICAL BACKGROUND

The origin of the Thai people can be traced to southern China around 1,000 years ago. After coming to present-day Thailand, they formed the Sukhothai Kingdom around 1238, following a rebellion against the ruling Khmers. In 1350 the Kingdom was moved to Ayutthaya. In 1767 Burmese invaders completely destroyed Ayutthaya. The Kingdom was reunified under King Taksin, a survivor of the rout. He established his base in 1768 at Thonburi along the western side of the Chao Phraya River. In 1782 the capital was moved to Bangkok on the opposite bank by King Buddha Yodfa (Rama I, 1782-1809), who was the first king in the Chakri Dynasty. The foundations of modern Thailand were laid by the Chakri Dynasty, which progressively extended the rule of Siam – south along the Malay peninsula, north to Laos and east into Cambodia.

Although there had been varied and long-established trading and diplomatic contacts with the West since the early sixteenth century (Ayutthaya period), the 1850s became a watershed in Thailand's development. From this period the Thai economy became incorporated into the Western-dominated global economy. The Kingdom also became a supplier of raw materials, a buyer of cheap manufactured goods and a field where foreign, particularly British, capital could develop economic activity (Dixon 1999, 27).

Indeed, from the early 1800s Thailand had been brought into close contact with Britain. During the era of rapid colonization, the British spread their influence into the Malay peninsula through Penang in 1786. Singapore was occupied in 1819, Malacca in 1824, and Assam, Arakan and Tenasserim of Burma in 1826. In the 1850s Britain annexed the whole of Lower Burma and in 1885 Upper Burma. Further, during the 1870s the major Malay states were occupied. Meanwhile, the French in the 1860s established control over Cambodia and Cochin China.

During the reign of King Mongkut (Rama IV, 1851-1868), the relationship between Thailand and the Western powers was strengthened, mainly owing to Thailand's awareness of the danger posed by imperialism. Moves were made to introduce into Thailand Western ideas, methods and institutions (Dixon and Parnwell 1991, 214).

European imperialism was a powerful force and Thailand could not escape its pressure. For example, the Bowring Treaty was negotiated and signed in the presence of the British navy (Dixon 1999, 30). Under the Bowring Treaty, Thailand agreed in its economic policy to embark on some free trade. However, unlike similar treaties Western powers signed around that time with China and Japan, the treaty with Thailand was apparently signed without much overt coercion from the British (Warr and Bhanupong 1996, 8). Nonetheless, in 1867 the Kingdom ceded its claim on Cambodia to France and later recognized French control over Laos.

King Chulalongkorn (Rama V, 1868-1910) is given credit for preventing the colonization of Thailand, for establishing its modern civil service, and for abolishing slavery. He also introduced cabinet government and created a standing army. During this period, free-trade policies promoted the expansion of agricultural exports but did not produce rapid economic growth, and there was virtually no structural change (Warr and Bhanupong 1996, 9). Agricultural exports were the main source of both foreign exchange and government revenue. Agricultural growth was not driven by improved productivity but by expansion of the area of land under cultivation (Ammar, Suthad, and Direk 1993 in Warr and Bhanupong 1996, 9). Land remained abundant until the 1960s. Those reforms and the country's pragmatism helped to preserve Thailand's independence: in 1917 the Kingdom entered the First World War on the side of the allies, while in the Second World War it sided with Japan.

King Vajiravudh (Rama VI, 1910-1925) succeeded the popular monarch, but during his rule, the government's financial position weakened, owing mainly to the expenditures required for the King's modernization program, as well as his own

* *Dr. Srawooth Paitoonpong is Senior Research Specialist, TDRI. Dr. Shigeyuki Abe is Professor of Economics at Doshisha University, Kyoto. This paper was written in 2003 when both authors were at the Center for Southeast Asian Studies, Kyoto University.*

extravagance. For example, in 1911 the King organized his second coronation in grand style, with foreign dignitaries in attendance. The affair cost about 4.5 million baht, which at that time represented nearly 8 percent of the national budget. Such lavish spending provoked a plot in 1912 to overthrow him. During the period 1919-1922, Thailand experienced its first financial crisis when the global price of silver rose sharply. This resulted in the flight of silver out of the country and the revaluation of the baht against the pound sterling. At the same time the price of rice increased fivefold. Consequently, the real income of civil servants fell drastically in relation to those in commerce.

When King Prajadhipok (Rama VII) ascended the throne in 1925, the government was in serious financial trouble. Thailand had suffered severely during the deep global recession of the late 1920s and the Great Depression of the early 1930s. However, because of Thailand's less intensive assimilation into the market economy, and–for the majority of the population–a much lower level of direct dependence on the export of commodities generally, the adverse impacts of the recession were mitigated in Thailand. During the 1920s there was a movement against the monarchy. The absolute monarchy was increasingly criticized and depicted as a major barrier to Thailand's development. The economic difficulties and recession during this period gave additional impetus to the movement against the absolute monarchy (Dixon 1999, 59-61). On June 24, 1932 a coup d'état grasped power from the monarchy. Two days later a constitution was promulgated that reduced royal power to the absolute minimum without actually abolishing the monarchy.

The ensuing period (1932-1938) was far from politically stable: there was a second coup d'état in 1933, followed by elections in 1933, 1937 and 1938. In 1938 Field Marshal P. Phibun Songkhram became prime minister.

In 1939, the country's name was changed from "Siam" to its present English-language name "Thailand." "Siam" is a non-Thai word (possibly Khmer or Chinese) that came into use after its formal appearance in the nineteenth-century treaties with Britain and France. "Thailand" is a literal translation of the Thai-language name for the country (Warr and Bhanupong 1996, 9).

Phibun Songkhram's government was to an extent nationalistic and militaristic. The landing of Japanese troops in Thailand at the same time as the attack on Pearl Harbor was weakly resisted. The subsequent rapid passage of Japanese troops through Thailand to attack Malaya and Burma and the declaration of war on the Allied Powers resulted in serious damage to Anglo-Thai relations in the post-war period (Dixon 1999, 68).

Disaffection with the Japanese occupation and with the Phibun Songkhram regime gave rise to the Free Thai Movement (Seri Thai) under the leadership of Pridi Banomyong. The Seri Thai conducted small-scale sabotage against the Japanese troops in cooperation with Chinese workers and businessmen. After 1941, underground communist organizations worked in a united front with the Seri Thai. With the decline of Japan, Thailand's military leaders were deposed and the Seri Thai group led by Pridi took over the offices of government (Pasuk and Baker 2002, 196).

The period from 1944 to 1947 was a rough one politically and economically, with five governments and ten cabinets. Inflation reached 100 percent during the period, and overt official corruption increased public unrest. The civilian government was further destabilized by the mysterious death of the young King Ananda (Rama VIII) who was found shot in bed in 1946 (Dixon 1999, 69). In 1947 a military coup overthrew the government and resulted in the establishment of a military government under Phibun Songkhram in 1948. Phibun Songkhram was prime minister from 1948 to1957, when he was forced into exile as the result of a coup sparked by charges of election-rigging (Warr and Bhanupong 1996, 13). Field Marshal Sarit Thanarat, who took control, appointed two prime ministers, first Pote Sarasin (September-December 1957) and then General Thanom Kittikachorn (January-October 1958). In October 1958 Sarit assumed the premiership himself. Sarit's government soon arrested many people it suspected of being communists and dissolved Parliament. However, an important event, which may be considered a milestone in Thailand's modern economic system, was a World Bank advisory mission sent in 1957 to work with Thai counterparts. In addition to making a number of sensible economic recommendations, this technical assistance mission resulted in the adoption of Thailand's First National Economic Development Plan in 1961.

With Sarit's death in December 1963, power shifted to a new military alliance headed by Generals Thanom Kittikachorn and Prapass Charusathien. Thanom became the prime minister and Prapass assumed the powerful posts of the commander-in-chief of the army and minister of interior. After the military's dissolution of Parliament in November 1971, the government continued to ban political parties and political gatherings despite its promise to restore democratic institutions. The military government of Thanom Kittikachorn became unpopular, particularly among university students, the Bangkok-based middle class, heavily suppressed labor organizations, and farmer groups. The opposition centered on the increasingly politicized Bangkok-based student movement organized under the National Student Center of Thailand (NSCT) and the illegal rural-based Communist Party of Thailand (CPT). From the end of 1972 there was an escalation in the number of demonstrations and clashes with the police. In early October 1973, 13 students were arrested for distributing leaflets calling for a constitution. They were charged with treason and attempting to overthrow the government. Protests against their arrest escalated. On October 14, 1973, riot police, the army and demonstrating students clashed. Several government buildings including police stations were attacked. Over 100 students were killed.

The military government, in preparation to suppress the demonstrators by force, was held back by another military power, Army Commander-in-Chief General Krit Sivara, who refused the order of Prime Minister Thanom and Supreme Commander and Deputy Prime Minister Prapass to use army tanks en mass to crush the demonstration. Following the resignation of the government on October 14, the King (Rama IX) personally selected Sanya Dharmasakti as the new prime minister. More importantly, the King the next day ordered Thanom, Prapass and Narong, Thanom's son, to leave the country. This unprecedented action shows clearly that the King was no longer a mere symbol to be manipulated by the government in power, he had become a significant center of authority in his own right (Keyes 1987, 84 quoted by Dixon 1999, 96). Indeed, it shows why the King is deeply respected and beloved by the people and even the army.[1]

Subsequent to the Sanya government (1973-1975), there have been 15 governments including the present one. The last coup, led by General Suchinda Kraprayun, overthrew the Chatichai Chunhavan government in February 1991. The Suchinda government was ousted in May 1992.

ECONOMIC DEVELOPMENT IN THE 1960s

The economic development process involves a large number of social, political, administrative, and external factors, both in terms of causes and consequences. To give a full account of those factors is impossible, while to give a sufficient account of them would require a few thick books. Since there are a number of good books on the Thai economy, as already listed in the references, it is justified to keep this paper brief and focus on salient features of the country's economic development. For the sake of convenience, the paper refers to the National Economic and Social Development Plan periods as a reference.

The First National Economic Development Plan (1961-1966) can be taken as a milestone in the modern economic development of Thailand.[2] To be sure, many studies consider the coup of October 1958 and the establishment of the regime of Sarit Thanarat as marking the beginning of Thailand's modern economic development. Yet, it is also argued that the foundations (for modern economic growth) were laid during the 1950s by the Phibun Songkhram government. During 1957 and 1958 there were clear signs that the Phibun Songkhram government was beginning to shift economic policy in the directions recommended by the 1957 World Bank mission and toward those subsequently followed under Sarit (Ingram 1971, 231, quoted in Dixon 1999, 77). Since the release of the First Plan, Thailand has now completed eight Plans[3] and is currently in its Ninth Plan period (2002-2006). The national development plans, especially the earlier ones, have played an important role in guiding investment and public resource allocation in Thailand by putting forth guidelines for economic and social development, particularly during the first half of more than 40 years of development planning.

As a background, prior to the formulation of the First Plan, in 1946 the government obtained loans from India and the United States; from 1950 the World Bank began to lend money to Thailand for the construction of infrastructure such as roads, railways, irrigation and electric power generation. Foreign loans, grants and overseas investment became regular features of the economy from the early 1950s. These developments were closely related to the United States increasing involvement in the Asian and Pacific region (Dixon 1999, 78-79). The need to monitor and manage overseas loans, grants and investment led to the establishment of related agencies such as the National Economic Council (1950) to look after national income statistics, the Thai Technical and Economic Cooperation Committee to look after requests for aid, the National Economic Development Board (1959) to provide economic planning, followed by the Board of Investment, the Bureau of the Budget, and the Office of Fiscal Policy (1959-1960). In addition, a series of new agencies and councils were established to facilitate policy formulation and coordination in such areas as education and power generation. These agencies, including the established ministries, struggled with individual problems, conflicts of interest, and policy. However, in terms of development planning programs, these were increasingly coordinated.

The First Plan had a single objective, namely, economic growth, with the fundamental assumption that rapid economic growth was the key to development, and that this could not take place without an adequate infrastructural network, including transportation and communication facilities, irrigation systems, public utilities such as power, and so on (Abonyi and Bunyaraks 1989, 23). The fostering of the manufacturing sector was central to the Plan, while the expenditures on agriculture were low and myopic given the sector's importance, low productivity and the possibilities for crop diversification (Dixon 1999, 81). It was noted by a former Secretary General of the National Economic and Social Development Board (NESDB) that the First Plan set a variety of vague and generally unrealistic national targets which were at best projections of likely and desirable trends that seemed to correspond with the intentions of the planners (Phisit 1975, 8, quoted in Dixon 1999, 81). In terms of content, the Plan was primarily an aggregation of the perceived needs of various government agencies for infrastructure development, or a financial allocation plan focusing on infrastructural development (Abonyi and Bunyaraks 1989, 23-24).

During the First Plan, economic growth was rapid and broadly based. The annual GDP growth rate averaged 8.1 percent.[4] As could be expected, infrastructure and construction had the highest growth rates, at 22.3 and 17.8 percent, respectively (Warr and Bhanupong 1996, 71). Agricultural output also expanded rapidly, at an average growth rate of 6.2 percent. To a great extent this was due to a favorable internal and external climate, namely, the attitude of the government regarding expanded public expenditure, favorable global demand for Thai products, and U.S. military spending in the economy. The infrastructural investment during the First Plan also contributed significantly to the diversification and expansion of commercial agriculture (Hirsch 1990, 50). Despite a rapid rate of population growth, i.e., 3.5 percent annually, per capita income rose by 4.8 percent per year.

The Second Plan (1967-1971) was still largely a public expenditure program, although it was more comprehensive in design than the First Plan. The scope of the Plan was extended to consider social issues, and its title was changed to the "National Economic and Social Development Plan." The Plan touched on education and manpower planning, which had been studied but was not ready for inclusion in the previous Plan. It spelled out regional development plans and the goals of balanced as well as national economic growth. It paid greater attention to spatial and personal inequality as well as to agriculture (Dixon 1999, 82-83). It also touched on the role of the private sector in the development of the particular contexts of industry, trade and services. Selected policy measures were aimed at the development of the industrial and commercial sectors, including the enactment of several industrial promotion acts to provide incentives for investment, particularly foreign investment in manufacturing activities, and for promoting the banking system in order to provide a financial base for trade and production. Like the First Plan, its preparation was top-down, highly aggregate, and essentially the work of the government with no participation from the private sector; however, the Plan's analysis was based more on sectoral analysis at the ministry level than the First Plan.

The Second Plan was similarly successful, although the growth of real GDP was less impressive than it had been during the First Plan. The average growth rate of real GDP was 7.5 percent. The industrial sector, infrastructure and services maintained a steady growth rate, averaging 10.1 percent per year. The slowdown in overall economic performance was partly related to the slowdown in foreign investment and U.S. spending[5] (Warr and Bhanupong 1996, 72), and global conditions (Dixon 1999, 83). However, the production structure began to diversify and growth was accompanied by structural changes. Within the agricultural sector, the provision of infrastructure, in particular an improved road network, led to the expansion of the area under cultivation. In a way this was a reason for increased agricultural output, i.e., through an expansion of the land base rather than gains from increased production efficiency (Abonyi and Bunyaraks 1989, 27). The agricultural sector during this period did not show satisfactory performance, growing at an average annual rate of only 4.5 percent. However, the slow growth was due partly to the droughts in 1967 and 1968, and partly to the fluctuations in the global prices of major export commodities. Besides, this was also a period when expansion of the agricultural land base almost ceased (Warr and Bhanupong 1996, 72). Some studies maintained that Thailand remained dependent on a narrow range of primary exports with uncertain price levels and, for agricultural commodities, very variable production levels (Dixon 1999, 83). Partly because of these uncertainties, from 1968 the Plan was supplemented by annual plans, which updated targets and budget allocations to correspond changing situations.

ECONOMIC DEVELOPMENT IN THE 1970s

The Third Plan (1972-1976) focused more on maintaining stability. Although still aimed at economic growth, the Plan set specific priorities for reducing the growing disparities between urban and rural areas and between sectors. The Plan also emphasized more equitable income distribution and social services. Aside from the problems of income disparity, which became increasingly obvious, there was a domestic environment of rapid political change, including labor unrest and frequent changes in government, as well as the consequences of the Indochinese conflict. At the same time, a changing external environment placed constraints on the relatively open Thai economy: the decline in the value of the U.S. dollar, for example, followed by the first energy crisis (1973-1974), resulted in widespread stagflation in the world economy. Thus, the primary concern of the Third Plan was economic stability, income distribution, and other inequalities. Population growth was also seen as a threat to economic well-being. Thus, a population and family planning policy to lower the birth rate was in corporated in the Plan.

Economic growth during the Third Plan slowed to about 6.2 percent per year (Warr and Bhanupong 1996, 72),[6] but there seemed to be a better distribution of income: the incidence of poverty declined from 52 percent of the population in 1962/63 and 34 percent in 1968/69 to 25 percent in 1975/76 (World Bank 1980, 62).[7] Income disparity, measured by the incidence of poverty, between Bangkok and the Central region and the other regions improved. In 1975/76 the incidence of poverty in Bangkok and the Central region was 9 percent and 12 percent respectively compared with 36 percent in the Northeast, 27 percent in the North, and 25 percent in the South. The incidence of poverty in the latter three regions, particularly in the Northeast, declined substantially between 1968/69 and 1975/76.

Industrial development, which had been seriously pursued since 1960, with major emphasis on import substitution industries in the early stage, gradually showed a growing capacity to compete in the global market.[8] These changes were the product of a combination of factors, including the government's policies, the dynamism of the private sector, and a favorable global market. Nevertheless, the World Bank noted that a consistent set of policy objectives was lacking in Thailand.[9] Policy measures were changed frequently and institutions such as BOI retained considerable discretionary powers in the granting of promotional privileges and determining the extent of the incentives given. The range of incentives differed not only between industries, but between firms within the same industry. Aside from BOI, the ministries of industry, finance, and commerce, as well as the Bank of Thailand formulated and administered policies directly affecting industrial investment. The World Bank was surprised that, while inconsistent policies resulted in considerable consumption and uncertainty on the part of investors, the environment for industrial investment was generally favorable, and the manufacturing sector grew rapidly over the period (World Bank 1980, 13).

During the Third Plan period (1971-1976) the average growth of industrial production was about 8.6 percent per year (Warr and Bhanupong 1996, 72). A few problems may be pointed out, however. First, industry was concentrated in greater Bangkok and the Central region; these areas accounted for about 80 percent of the total industrial output. Second, the industries were generally large scale, and capital intensive, but did not have a sufficient effect on employment generation. Third, the rapid growth of many industries, particularly the import-substitution industries, led to greater dependence on the import of raw materials and equipment. The government's promotional privileges led to this situation, which in turn caused balance of payment problems. Fourth, the structure of export incentives was not appropriate as the increase in exports was due mainly to the favorable global market, as was evident in the case of the textile boom in 1973 and in the case of sugar in 1974. Finally, it was widely thought that the benefits of rapid industrial growth did not reach the majority of the population, and it resulted in rapid deterioration of the country's natural resources (Warr and Bhanupong 1996, 72).

It is interesting to note that small and medium-sized industries (SMEs) had been recognized and recommended as a measure to increase the dispersion of industrial activities to regions beyond Bangkok and the Central region, and to reduce the cost of transporting raw materials. Another interesting fact is that the World Bank study showed that during the period 1966-1972, 64 percent of the expansion in manufacturing was due to the expansion of the domestic market, 29 percent to import substitution, and 7 percent to exports. The role of import substitution declined to only 0.5 percent during the period 1972-1975, while the domestic market absorbed 91 percent of the manufacturing expansion and exports the remaining 8.5 percent.

During the 1970s a number of agro-based industries developed, particularly, rice milling and warehousing, feed and seed production, the raising of pigs and chickens, slaughtering, gunny-sack manufacturing, and the freezing and canning of a variety of marine and agricultural products. In addition, there was considerable expansion and diversification of agro-processing, most of it involving sugar, corn, kenaf and cassava. Some of these developments reflected a relaxation of government control, for example, over sugar refining in 1969 and slaughtering in 1973[10] (Dixon 1999, 102). During this period the average annual growth rate of the agricultural sector dropped from 4.5 percent in the previous Plan period to about 4 percent. Migration from rural areas to the capital continued to be rapid (Warr and Bhanupong 1996, 72).

One of the serious economic problems during the Third Plan period was the OPEC oil crisis in 1973/74, which resulted in a fourfold increase in the price of oil internationally; this had considerable consequences on the Thai economy. During this period the cost of oil imports averaged about 10 percent of total imports. Between 1973 and 1974 the cost of oil imports almost trebled, and the share of import costs rose from 11.1 percent to 19.6 percent (Dixon 1999, 94). The rise in oil prices affected the GDP growth rate, which dropped to 4.1 percent in 1974. Some were of the view that Thailand was able to absorb the impacts of the 1973/74 oil price increases and the ensuing international upheaval with no significant slowing of growth (Abonyi and Bunyaraks 1989, 34). It was explained that the small impacts were, in part, due to high commodity (export) prices, and to transfer and account earnings. According to Warr (1993, 51), the reason that Thailand was less adversely affected by the oil crisis as compared with many other oil-importing countries, such as the Philippines, was because of the high prices and ready markets for Thai exports that tended to offset the increase in the cost of imported oil. A few government measures to mitigate the impacts of the oil shock included the adjustment of taxes on fuels, the imposition of fuel price controls, and the introduction of an oil fund. In combination these measures enabled the government effectively to subsidize fuel oil prices, and thereby the cost of electricity, kerosene and cooking gas. In the short run these interventions played a significant role in the comparative ease with which Thailand weathered the first oil shock. In addition, there was a substantial reduction in the average level of tariff protection. This was aimed at controling inflation and boosting the domestic economy (Dixon 1999, 95).

During this period, the number of annual tourist arrivals increased from 485,366 in 1970 to 850,459 in 1975. Also, organized labor exports increased, although remittances during the Third Plan were still small (Dixon 1999, 108).

The Third Plan period suffered many political troubles. During the period 1972-1976 alone, there were six governments, a student uprising, three elections, and one coup. In addition, the American withdrawal from Vietnam and subsequent reduction in American expenditures tremendously affected the Thai economy. Furthermore, in 1975 the Khmer Rouge took over Cambodia, and after 1976 there was an escalation of rural insurgency in Thailand, as well as the threat posed by Vietnam, especially after its invasion of Cambodia in 1979. These troubles had an immediate impact not only on the Thai economy but also on the budget for development and economic management, which was reduced in order to increase the defence budget.

The Fourth Plan period (1977-1981) therefore was faced with difficulties from the beginning. NESDB admitted that political instability made it necessary to formulate the Plan and its strategy in broad terms, with less specific multiple objectives (www.nesdb.go.th–9/4/03). This was necessary in order to cope with rapid changes in political decision-making (i.e., the government) and to facilitate for the new government the allocation of priorities according to its own policy focus (Abonyi and Bunyaraks 1989, 31). The focus of the Plan was on economic recovery through restructuring of the economy. Its immediate objective was to revitalize the economy following the deleterious effects of the global economic recession as well as the oil crisis, and to implement desired structural adjustments. A major change in the planning approach was that the preparation of the Plan would involve greater participation by the private sector and the public instead of the formerly top-down approach.

Development during the Fourth Plan period had mixed results. In spite of the negative impact of the changing global economic conditions, including the second oil crisis (1979/80), high international interest rates, and declining demand and prices for Thailand’s commodity exports, the growth of real output averaged 7.1 percent per year (Warr and Bhanupong 1996, 73). This was partly due to the government’s attempts to maintain growth momentum by expanding public investment despite a drastic deterioration in domestic savings. However, it was pointed out that the Fourth Plan accommodated a wide range of concerns including income inequalities and inequalities in the distribution of social services, leading to continuing pressure for investment, with limited guidance for trade-offs. The result was high and relatively unconstrained investment policies by both the public and private sectors, and an era of overspending. In addition, the public sector failed to adjust the tariffs of state enterprises, key agencies in the provision of public services, to cover the costs of production, particularly those of energy. As a consequence, the government had to borrow heavily to subsidize various state enterprises (Abonyi and Bunyaraks 1989, 34). Yet, on the bright side, the prevailing view appears to have been that Thailand could continue with its expansionary policy and simply grow itself out of the structural imbalances. For example, it was projected that, during the very early 1980s, many major projects in natural gas, chemicals, fertilizer and cement, mainly in connection with development of the Eastern Seaboard, would lead to an increase in productivity, which would enable the government to attend to adjustments in such areas as the low productivity of agriculture and the related problems of low rural incomes, urban unemployment, income distribution and the establishment of a national social security system. These expectations were, however, dashed by the 1979/80 oil crisis which left Thailand in a vulnerable position (Dixon 1999, 110).

During the Fourth Plan period the annual inflation rate averaged 11.6 percent per year. Toward the end of the Plan, three major issues were observed: first, increasingly unstable and complex domestic and external environments (e.g., a slowdown in global economic growth); second, emerging development issues (e.g., deterioration of natural resources, and unemployment); and, continuing unresolved concerns (e.g., poverty and inequity). The depth of the economic problems made it necessary for the government to borrow from the World Bank and the International Monetary Fund (IMF). This was the time when the first five-year program of structural adjustment was initiated with conditionality from the two funding agencies. The program became an integral part of the Fifth Plan in exchange for two structural adjustment loans (SALs); the first in March 1982 for US$ 150 million and the second in April 1983 for US$ 175.5 million.

ECONOMIC DEVELOPMENT DURING THE LAST 20 YEARS

The Fifth Plan (1982-1986), with problems spilling over from the Fourth Plan period, emphasized growth with stability, an area-targeting approach, restoring financial stability and maintaining “creditability” in the international financial markets, and restructuring the economy. At the early stage of the Plan period, the external economic conditions were depressed and the global economy did not recover as many had anticipated it would. In response, the government implemented strict fiscal austerity measures while developing measures to smooth out the debt profile (through refinancing and currency swaps) (Abonyi and Bunyaraks 1989, 37). The austerity policy resulted in the delay of a number of capital-intensive projects, including a number of projects under the Eastern Seaboard Development Program. However, other less capital-intensive projects, including the Rural Poverty Alleviation Program, were less affected or not affected at all.

During this period, global economic growth and trade slowed down (as a result of the oil crises in the 1970s and 1980s), trade barriers increased, real interest rates rose, and commodity prices fell. Thailand's economic growth averaged about 5 percent per year. Behind this rate of growth were many serious economic problems faced by Thailand. For example, the current account deficit was persisting at the unsustainable level of 5 percent of GDP, while the investment-saving gap had reached a similar magnitude – savings declined from 20-22 percent of GDP in the late 1970s to about 16-17 percent of GDP in 1985. Furthermore, foreign reserves declined from 12 percent of GDP in 1970 to 3 percent in 1985. A stand-by loan of US$ 500 million had to be borrowed from IMF in mid-1985. The external debt rose to US$ 16 billion, of which about US$ 12 billion was long-term debt. The debt-service ratio increased from 17 percent in 1980 to about 26 percent in 1985. The situation was made more difficult by the government's budget deficit of more than 5 percent of GDP over the five-year period (Warr and Bhanupong 1996, 74).

During this Plan period, the labor force increased at an average rate of 3.0 percent per year, including a sharp increase in the proportion of the labor force educated. With slow economic growth and the consequent slow employment-generation rate, unemployment increased. To sum up, at the end of the Fifth Plan period, the major economic issues faced by Thailand were economic instability, resource depletion, poverty, employment generation, development management system, and unfavorable external economic conditions (Abonyi and Bunyaraks 1989, 40-42).

The Sixth Plan (1986-1991) emphasized efficiency and improved quality in development activities, in order to improve the international competitiveness and self-reliance of the economy. It was intended to continue significant elements of the Fifth Plan, particularly to maintain financial and economic stability, while accelerating the restructuring and diversification of the economic base. An important theme of the Sixth Plan was the reduction in the investment and production role of the public sector through, for example, reform of the regulatory, legal and incentive frameworks, marginal extensions of physical infrastructure, and improving the efficiency of state enterprises. In this connection, the role of the private sector was strengthened in the context of production and investment, employment, and income generation (Abonyi and Bunyaraks 1989, 42).

Another major focus of the Sixth Plan was the diversification of the product-market base of the economy. This was intended to spread the risk burden both of individual producers, and the economy as a whole, through diversification of income sources. One of the main reasons for this strategy was because of the anticipated decline in the role of production and the export of traditional agricultural products. Emphasis was placed on agricultural product diversification under a comprehensive diversification strategy, i.e., agriculture, manufacturing, and services. The government encouraged and created an appropriate environment for the development of progressive agriculture and for shifting from extensive to more intensive higher-productivity agriculture. There was also recognition of the need to address forest and other resource problems (Warin 1988, 141).

The Sixth Plan period (1986-1991) may be considered a golden age of Thailand (Pasuk and Baker 2002, 156) characterized by dramatic economic growth. The GDP growth rates during this period ranged from 5.5 percent in 1986 to the peak of 13.3 percent in 1988, with the average being about 10.3 percent per year. During the early 1980s the rapid re-establishment of political and economic stability, together with changed international and regional circumstances, laid the basis for a period of unprecedented GDP growth. In addition, it has been explained that the boom that began in 1987 was driven by three principal forces: the depreciation of the U.S. dollar in relation to other currencies and the fact that the baht was pegged to it, which made Thai exports more competitive internationally; foreign investment, especially from the then newly industrializing economies (NIEs), including Taiwan and Hong Kong,[11] which wished to avoid rising labor costs in their own economies; and, continuing low international petroleum prices in relation to Thailand's export commodities (Warr and Bhanupong 1996, 44-45).

The manufacturing-based export boom was reinforced in three ways: first, by the expansion of primary exports; second, by the promotion of tourism; and third, by the export of labor. According to Pasuk and Baker (2002, 156), the boom was driven by the export of manufactures and services: between 1985 and 1991, Thailand's total exports of goods almost quadrupled in value; manufactured exports grew almost sixfold in six years; remittances from overseas workers grew to over 20 billion baht per year by 1986 before leveling off; and total receipts from tourism grew from around 30 billion baht in 1985 to 110 billion baht in 1990.[12] Japanese investment also played a big role during this period. In addition to the rapid growth in manufactured exports, from 1987 Thailand became a major focus for Japanese and Asian NIE investment in labor-intensive manufacturing operations. As the Asian NIEs lost their competitive position in these activities, they sought alternative, stable, low-cost locations within the Asian and Pacific region. For Japan, the rapid change in its currency's value forced many Japanese firms to relocate outside the country. In the 1970s, Japan's first choices in Asia had been Taiwan, Singapore, and Hong Kong. The rise in the value of the yen in the mid-1980s caused a general realignment of currencies, which also affected the three Asian NIEs and

South Korea. Japanese capital therefore focused more on countries such as Thailand, Indonesia, Malaysia, and Sri Lanka.

The importance of Thailand's political stability during this period must also be emphasized. Prime Minister Prem Tinsulanonda was in power from March 1980 until July 1988. This was the longest parliamentary premiership in Thai history, which gave an air of continuity, robustness and stability rare in Thai politics. Overall, during this period both the economic and political situations changed radically. Thailand became regarded as politically and economically stable and an investment "hot spot." Thailand was able to take advantage of a clustering of favorable global, regional, and national circumstances (Dixon 1999, 126-128). Prime Minister Prem stepped down in July 1988 and Chatichai Chunhavan became Prime Minister from then until February 1991 when he was sacked in a coup organized by General Suchinda Kraprayun.

With respect to economic planning, the government abandoned policies to plan and control the direction of economic growth. In 1988, the NESDB was relieved of its role as supervisor of all major government projects. The stated intention of the Sixth Plan was to transform the role of the public sector into that of a planner, supporter and facilitator of private sector participation. The government would withdraw from activities which could be carried out better and more effectively by the private sector. In many respects, the government reacted to the boom by retreating toward a laissez-faire approach (Pasuk and Baker 2002, 161-162).

The Seventh Plan (1992-1996) was aimed at fostering economic sustainability and sustainable development; its broad objectives were balanced economic growth; improved income distribution, human resource development, and quality of life; and the environment. During the early 1990s signs began to emerge that, behind Thailand's remarkable growth, a series of long-term problems were emerging, such as rising costs of production, lack of skilled labor, overloaded infrastructure, congestion and pollution, the opening of such low-cost locations as Vietnam and China which would undermine Thailand's comparative advantage in labor-intensive manufacturing, inhibiting the transition to more skill- and capital-intensive activities (Dixon 1999, xi). The GDP growth rate, which remained between 8 and 9 percent between 1992 and 1995, dropped to 5.9 percent in 1996. In 1996 there was a sharp slowing of the rate of export growth, although the impact of this on economic growth was masked by rapid expansion of the property and financial sectors.

During this period, one of the major factors affecting the Thai economy was the financial liberalization over the years 1990 to 1993, and this was linked to the second phase of the boom in the first half of the 1990s.[13] The liberalization coincided with a critical period in the capital markets of the developed world – both Europe and Japan suffered from low domestic investment, high liquidity, and low interest rates. Thus, money flooded into Thailand. In the early 1990s, total private inflows were running at 20 times the level of the mid-1980s. In 1995 alone, more money flowed in than over the entire decade of the 1980s. The nature of money flows also differed. Instead of direct investment, more funds came in as bank loans and portfolio capital. Among others, these capital inflows undermined export growth, fuelled a domestic market boom, and created bubbles in asset markets. By the early 1990s the export boom had already begun to falter. A growing current account deficit, labor shortages, and infrastructure bottlenecks signaled a downturn in the Thai economy.

In 1996 the Thai economy began to collapse. In mid-1996, the collapse of the Bangkok Bank of Commerce provided the starting signal. Meanwhile, the property market topped out and began to crumble. Construction slowed. After a decade of export growth at around 20 percent a year, 1996 ended with zero growth. The finance industry collapsed. In early 1997, Finance One, one of the largest finance companies, folded. That collapse and the attack of currency speculators on the baht put the central bank into the awkward position of trying to cope with the problem through the mobilization of reserves and the Financial Institutions Development Funds (FIDF). By mid-1997 Thailand's foreign reserves were exhausted. Eventually, Thailand was forced to call on the IMF for help. On July 2, 1997, the baht was floated and immediately began to slide downward (Pasuk and Baker 2002, 174-175).

The Eighth Plan (1997-2001) started in the wake of the financial crisis of mid-1997. The Plan, which had been drawn up prior to the outbreak of the crisis, shifted from growth orientation to people-centered development: the well-being of the people was considered to be the ultimate goal; economic growth was viewed as a means to improve the people's well-being rather than as the final objective of development. The planning process also shifted from a compartmentalized to a more holistic approach, which enabled all stakeholders in the society to participate in the national development planning process. However, the Plan was later revised, particularly with respect to its economic targets and strategies, in order to cope with the problems resulting from the crisis. The economic problems during this critical period included insufficient international reserves, the instability of the Thai baht, weakness in the financial system, high levels of non-performing loans (NPLs), high interest rates, high inflation, liquidity shortage, large capital outflow, a dramatic contraction of GDP, and a very high unemployment rate (NESDB 2003, 55). In late 1998, the proportion of NPLs rose to 47 percent of all credit in the financial system; interest rates rose to around 19-20 percent annually; inflation reached 9.2 percent; and the unemployment rate rose to almost 5 percent.[14] The financial crisis brought an abrupt halt to Thailand's decade of rapid growth. The economic growth rate became negative for the first time in 1997 with a GDP growth rate of –1.4 percent; it reached –10.5 percent in 1998. The economy began to recover in 1999 with real GDP growth of about 4.1 percent, led by the manufacturing sector and increased domestic demand boosted by several government stimulus packages. Private consumption grew moderately, resulting in part from rising consumer confidence and modestly expanding farm income. Government stimulus measures, which included reducing the value-added tax rate from 10 to 7 percent and cutting taxes on petroleum products, also helped to boost private consumption. Tourism increased by 10 percent from 1998, partly as a result of the lower exchange rate, with the number of tourists reaching 8.5 million in 1999. The private investment index declined moderately in 1999, compared with its steep decline in 1998.

The Ninth Plan (2002-2006) was formulated based somewhat on the nightmare of the 1997 crisis. The Plan has adopted the philosophy of a sufficiency economy, a remarkable teaching of the King, which stresses the middle path, moderation, and due consideration, in all manner of conduct, as the guiding framework for national development. The Plan has also been built on the Eighth Plan's advocacy of holistic people-centered development (NESDB 2003, 51).

CONCLUSION

During the past 20 years, Thailand has undergone remarkable changes. At the beginning of that period, it seemed that Thailand could be characterized by remarkably uneven patterns of development, an unusual, non-colonial mode of incorporation into the global economy, and generally limited appeal to transnational corporations and foreign investors. The economic and political uncertainty that characterized Thailand during the early 1980s resulted in limited success in formal structural adjustments; imbalanced sectoral employment, particularly in the agricultural sector; low levels of urbanization; concentration of the population and modern activities in the Bangkok Metropolitan area; rural-urban development and income gaps; and underdevelopment of education and training.

Nevertheless, during the late 1980s, Thailand began to experience a period of growth and structural change, and became a regional investment 'hot spot,' particularly for labor-intensive manufacturing activities decanting from Japan and the Asian NIEs in search of lower-cost locations. In fact, over the last 30 years Thailand has experienced high and consistent rates of growth. Despite the various political and economic issues that remain, the Kingdom has shown great resilience in the face of both internal and external disruptions.

Yet, during the early 1990s signs began to emerge that, behind Thailand's remarkable growth, a series of long-term problems were emerging such as rising costs of production, lack of skilled labor, overloaded infrastructure, congestion and pollution. Furthermore, the opening of such low-cost locations as Vietnam and China undermines Thailand's comparative advantage in labor-intensive manufacturing and inhibits the transition to more skill- and capital-intensive activities. All these factors lead to a slowing of growth. In 1996 there was a sharp slowing of the rate of export growth, although the impact of this on economic growth was masked by the rapid expansion of the property and financial sectors. However, in 1997, this page of Thailand's economic history closed with the start of the financial crisis in July of that year.

ENDNOTES

1 For a brief but good account of the King's great role and how he has earned respect, see Pasuk and Baker (2002).

2 Thailand's economic history prior to this period can be seen from Dixon (1999); Warr and Bhanupong (1996); Pasuk and Baker (2002); Sompop (1989).

3 Except for the First Plan, each plan covers a five-year period.

4 Average GDP growth during the First Plan was 7.2 percent annually, according to Dixon (1999, 81) while Abonyi and Bunyaraks (1989, 25) gave a figure of about 8 percent for the First and Second Plan periods (1961-1972), Warin and Ikemoto (1988, 4) gave figures of 7.6 percent and 7.1 percent for the periods 1957-1966 and 1966-1971 respectively. The World Bank (1980, 6) estimated the same rate of 7.6 percent for the period 1960-1965 but a higher rate of 8.2 percent for 1965-1970. The discrepancy could be due to varying national income estimates, and different sources of data and estimation methods.

5 American presence grew rapidly during the period 1966-1975 when major military bases were established. Thailand became a strategic country as a base for operations against Vietnam and as a "buffer" in preventing the "domino" spread of Communism (Dixon 1999, 83).

6 About 6.5 percent per year according to Abonyi and Bunyaraks (1989, 32).

7 According to Abonyi and Bunyaraks (1989, 32), the incidence of poverty was 32 percent in 1975.

8 Based on policy designs, industrial development since 1960 may be divided into four phases: the initial import substitution period (1961-1971), export promotion period (1972-1976), the Big Push (1977-

1982), and the transformation into an export-led economy (1983-1988).

[9] This was unlike in Japan, whose industrial policy is clear-cut, e.g., it focused on certain sunrise industries.

[10] See also Warr and Bhanupong (1996, 79).

[11] According to Pasuk and Baker (2002, 160), South Korea and Singapore should be included.

[12] See Pasuk and Baker (2002) for an interesting and more detailed discussion of Thailand's economic development during this period.

[13] The discussion in this section is drawn mainly from Pasuk and Baker (2002, 164-178).

[14] February 1998 and 2001, not including seasonal unemployment (about 3.9 percent) and underemployment (about 4.8 percent).

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