14. Thai Urban Economy from 1980s to 1990s: From Import-substitution to Export-oriented

Topics

- Import-substitution or export-oriented
- Recession and devaluation
- Golden Age
- Industrial relocation and the development of export industries
- The changing shape of domestic capitals

Overview

The reorientation of economic strategy under Sarit regime led to 2 decades of rapid expansion of urban economy. Capitals accumulated in banks, industries, and agri-businesses. In the late 1970s, the growth slow down, the strategy was facing its limit. Growth based on domestic protection seen as no longer working.

The business community and the World Bank pressed for changes in economic strategy. The gov't resisted changes for many years, until it faced economic recession in early 1980s .The change in strategy came with a dramatic result. Thailand's growth became one of the fastest in the world. The economic miracle was underpinned by relocation of industries from East Asia, and another boom period in domestic market. Thai economy became fully capitalism.

14.1 Transition: import-substitution to export-oriented

In Sarit's era, the economy was driven by 2 engines: (1) expansion of agricultural exports; (2) the inflow of foreign aid and investment. Surplus was transferred from agrarian economy to urban economy. Domestic economy expanded through domestic market

The strategy worked in attaining impressive growth (approximately 8%) for almost 2 decades, helped by good world agricultural prices. Yet, the growth under Sarit's import-substitution strategy depended on the expansion of domestic market

At the global level, the trend of economic strategy changed. The failure of Latin American's import-substitution strategy was contrasted with the success of East Asian's export-oriented strategy. World Bank and US economists developed economic theory supporting export-oriented strategy, advocating lower tariff and undistorted factor markets. The changing ideas also influenced some of Thai technocrats. But the outcome was mixed

Despite showing interests in export-oriented strategy, Thai gov't actualy could not turn away from import-substitution. NESDB recognised the need for export-oriented, but stated that protection could not be abandoned. 1972 Investment Promotion Act started to give incentives for export-promotion, but overall strategy was still protectionist.

Little was actually done to promote export in 1970s, due to a number of constraints. Import-sub fundamentally worked against export, as tariffs raised the costs. The Baht was tied to Dollar, and appreciated with dollars in 1970s

MOF wanted still import tariff as tax revenue. The army wanted strong baht to reduce price of arms. Ministries also sought power from the ability to give protection, while firms tended to look for more protection as the easy solution to the fall in profits.

Instead of reducing protection, from 1970-1980, gov't actually raised protection. Effective protection almost doubled. In 1975, to aid recovery from the oil crisis, gov't economic packaged combined higher tariff with policies to increase rural incomes. Reflecting a continual belief in protecting infant industry, and the attempt to sustain it by stimulating domestic demand. Gov't also sought to expand import-substitution into capital and intermediate goods

But in the late 1970s, the underpinning of Thailand's import sub economy started to shake loose. From 1974, world's market for agriculture in decline. Terms of trade that Thailand faced deteriorated. Agri-export slowed down leading to deceleration of domestic demand and current account deficit. Problems were added by (1) the gov't decision to carry the burden of oil price rise, resulting in budget deficit; (2) the withdrawal of US from the region, leading to the fall in foreign aid.

To deal with problems, public sector's borrowing from foreign sources grew. Military borrow to substitute the reduction of aid. Gov't borrowed to invest in large infrastructure to replace energy imports. Gas pipeline and pants, hydroelectric dams. Another oil crisis in 1979-80 contributed further to the problems. Oil bill rose to 30% of import. External foreign debt grew from 21% to 38% between 1973-1986

To solve the growing problems, Thailand asked for the World Bank’s loans. The World Bank pushed Thailand to restructure its economy toward export-oriented.

Yet, even in the early 1980s, the adjustment was slow. Baht was not devalued in the fear of rising debt. Gov't still tried to deal with problems by reducing imports. Gov't also promoted export of labour and tourism

14.2 Recession and devaluation

Thai business community were actually more sensitive to the recession, and moved to pressed for changes. Until mid-1970s, domestic capitals concentrated on opportunities from domestic market. But In the late 1970s, they organised to press the gov't. Thai Bankers Association (headed by Boonchu Rojanasatien from Bangkok Bank), Thai Association of Thai Industries (headed by Pramarn Adireksarn), and Chamber of Commerce worked together to pressed the gov't to adopt strategy of suppoting exports.

The textile industry, the largest manufacturing sector in the early time, also pushed government for direct concession to improve export. BOT to give credit for export. MOF to grant refund of taxes and tariffs. Other industries followed.

In 1980, after an election was held, Boonchu and Pramarn joined the coalition gov't headed Prem. They pressed for more co-operation between gov't and business The Joint Public Private Consultative Committee (Kor Ror Or) was formed as a result. Through Kor Ror Or, the business pressured for changes in export procedure, simplier custom procedure, and easier access to gov't incentives for exports.

The final push for change arrived in 1983-4, as gov't dealt with oil crisis by restraining demand through strict fiscal discipline Stock market and financial institutions were in decline, others suffered loss and difficulties. The downturn forced the gov't to devalue the baht in November 1984. Baht also separated from Dollar. The devaluation signaled the complete shifted toward export-oriented strategy.

In addition to devaluation of Baht, the gov't also introduced other reforms. Taxes for input to exports were reduced, as well as several export taxes. BOT and BOI gave support for exporters. Other two crucial factors also contributed to reorientation of Thai economy at this time: 1) The oil price dropped; 2) The appreciation of Yen: 100% devaluation of Baht against Yen between 1986-1989

14.3 The Effects of Change: the Golden Age

The combination of the change in gov't strategy, the fall in oil price, and the adjustment of Yen led to the "golden age" of the Thai economy. From 1985, Thai economy changed gear. Growth was more than 10% until the end of the decade.
Growth driven by exports of manufacture and services. Between1985-1991, total export increased 4 times, manufacturing export rose 6 times. Manufacturing share in total exports rose from 1/3 to 2/3. Export of labour and tourism also grew strongly.

During 1980s, Thailand changed from an exporter of agriculture to become an exporter of manufacture and services. But the rapid rise of GDP growth did not provoke much inflation due to: the fall in oil price, the ability of labour market to respond to demand, and careful macroeconomic management of MOF and BOT

The growth came with real wage being kept low. Millions were drawn out from their villages into urban-workforce
With limited supervision from the gov't, and weak labour organisation, real wages were low despite rising demand for labour. Even as labour supplies tightened in early 1990s, additional supplies came from illegal workers from neighboring countries, and child labour.

Gov't managed current account by relying on surplus from export of services. Budget deficit was offset by rising indirect taxes. Yet, in a broader sense, the role of the gov't in the economy was in retreat. Businesses lobbied to end Sarit's apparatus of license and control. NESDB was relieved of role in supervising of all gov't investments. More roles were given to private sector.

Thai economy was also left more to the market forces. For example, NESDB stepped away from the policy of dispersing industrial growth away from Bangkok, allowing industries to choose their location freely.

14.4 Industrial relocation

The devaluation of Baht against Yen in 1980s made Thailand attractive for industries moving from East Asia searching for lower costs. In 1970, Japan first choices in moving their production were Taiwan, Singapore, and Hong Kong. The change in Yen also affected other currencies in East Asia, leading to the moving of Japanese firms toward new destination like Thailand, Malaysia, Indonesia, and Sri Lanka.

Relocation came in different forms. Relocating production of parts requiring high labour input OR relocating assembly operation. Transfer of production to subsidiary companies established originally to avoid import-sub, and encourage sub-contractors to also move. By 1987, the number of Japanese firms establishing overseas subsidiaries or joint venture risen to over 1400.

After mid-1980s, Japan capital led the rising flow of investment into Thailand, followed by other East Asian countries. From 1988-91, annual inward flow of investment from East Asia 10 times more than first half of the decade. From 1986-91, investment from East Asia 2/3 of all inward flow. Thailand attractive not just by low wages, but the experiences of Japanese firms in Thailand, Thai gov't careful fiscal management, good infrastructure, openness to foreign investment, free-market attitudes, and political stability.

The new wave of Japanese direct investment expanded from the assembly of consumer goods in earlier times. Their investment from 1980s diversified into intermediate goods industries and exports. Share of Japanese direct investment devoted to manufacturing rose from 32% in 1984-5 to 72% in 1988. Most went to metal products, electrical products, machinery and transport goods, etc.

The influx of foreign investment after mid 1980s also correlated with high rate of capital accumulation of Thai domestic capitals. Many factors combined to produce this. Big businesses benefited further from the joint venture with incoming capitals. Siam Cement, CP, Saha Union, etc. These firms could access their partners' export market, technology, and skills.

Capitals market also developed new institutions that helped capital mobilisaiton. Finance and securities companies emerged and grew faster than banks From 1987, Thai Stock Exchange also grew rapidly.

The development of export industries

The relocation of foreign industries facilitated development in Thai export industries. Textile had relocated from East Asia to Thailand since 1970s. The rise in Yen caused Japanese joint-venture firms to raise their capacity. They also expanded production in Thailand to avoid US import quotas.

Labour-intensive segment of high-tech industries, such as semi-conductor production, rose quickly in 1980s. Minibea from Japan expanded from manufacture of steel, to computer components, etc. Seagate and IBM also moved production of computer parts to Thailand. Other manufacturing moved to Thailand include toys and footwear.

The joint ventures were transformed from serving domestic markets into production platform for export. Japanese electronic and automotive firms used Thailand to produce specific parts or components, but spread their production network across different SEA countries. From 1988, the fastest export growth came from medium tech products such as computer components, auto-parts, and electrical goods.

Agribusinesses and other resource-based industry also grew. Growth in exports of fruit, seafood, animal feed
Firms started processing imported material. Firms producing food-canning started using imported ingredients such as Tuna. Those who produce furniture for export used imported woods, jewelry also relied on supply of stones from Thailand and neighboring countries.

Domestic market boom

By 1988, the growth in exports and influx of foreign investment created a secondary boom in domestic urban market.
From 1986-1990, per capita real GNP rose 44%. In 1980s, GDP of Bangkok grew at double of the rate of the rest of country. Increased urban spending fuelled booms in real estate and retailing, also indirectly sparked growth in sectors such as financial services and telecommunications. Thai domestic capitals also benefited from these opportunities.

Bangkok real estate market started to grow rapidly from 1987. The Karnchanapas family (Muang-Thong Thani) was the most aggressive player in the real estate boom from 1988. By the early 1990s, they were estimated to be the wealthiest business family in Thailand. Anant Asavabokin and his Land and House Company. The retailing boomed with department stores, supermarkets, shopping malls, and convenient store. Japanese shopping malls like Daimaru, Sogo, Isetan, etc. Central Department Store, and CP's Seven Eleven.

Thai businesses taking on the world

Domestic capitals also began to moved overseas. A few Thai firms were able to use their skills and experience from domestic market to enter foreign markets. Hotel business including those of Imperial, Central, and Dusit Thani Group.

From 1980s, technological change led to world-wide market in computer, telephone, and television. Gov't opened new telecommunication projects for privatisation. Local companies took this opportunities. Shinnawatra's computers and satellite businesses Samart's satellite dishes. Jasmine and Ucom. CP's Telecom Asia. All expanded to neighboring countries, and countries such as Indonesia, India, and China.

14.5 The Changing Shape of Domestic Capitals

In Sarit's era, the growth of Thai domestic capitals was dominated by banks and a small number of large conglomerates. They relied on their networks and connections. They benefited from foreign partners, and from access to banks' capitals
But the post-1985 boom caused this structure to change. Domestic market was replaced by foreign markets

The financial sector has changed. Big banks found new source of competition from the new types of financial companies, and also from overseas. Thai banking industries adapted by turning themselves into portfolio investment companies. They entered the stock market, and shirted their funds into investment companies taking stakes in real estates, retailing, etc.

The expansion of domestic businesses stemmed from strong export demand, new sources of capitals, and from easier availability of technology. Joint venture still provide important route for tech. transfers. But new ways also include reverse engineering, and buying of technology (such as in telecom industry). The new wave of entrepreneurs (Pin, Anan, Thaksin) had skills to operate in a more internationally oriented economy, and responded more quickly to domestic opportunities. Some older generation like CP adapted, but many failed behind

The new nature of domestic capital caused a shift in the relationship between business and the government. In Sarit era, businesses relied on political connections and protection from international competition. But business in export-oriented economy wanted improvement of infrastructure, good management of foreign relations and confidence, upgrade of education system, fiscal and political stability, etc.

The business-bureaucrat relations also underwent changes. Their separation began to dissolved. The two groups used to be separated, having different culture. Descendants of business spread into bureaucrats. The two built connections through marriage, friendship, education. The business also invited senior bureaucrats to sit in their board of directors. The growing connections allowed new channel to lobby policies without relying on cabinets, parliaments, and electoral politics

Reading

- Pasuk Phongpaichit and Chris Baker (2002). ***Thailand: Economy and Politics***, KL: Oxford University Press. (Chapter 5)