12. Urban Economy in Sarit's Era

Topics
- US Capitalism and Sarit's Development
- Banks and Capital Mobilisation
- Import-Substitution and Foreign Investment

12.1 US Capitalism and Sarit's Development

US Capitalism

From 1950-1970, the world entered two decades of economic and trade boom. Driven by the growth in US and Europe, world demand for primary produce expanded, capital became more internationally mobile. Rising international trade, capital inflows, and US intervention in SEA had dramatic impact on Thai economy

The US political intervention in Thailand to oppose communism provided the context for US influence on Thai economy. US policymakers believed the best recipe for resistance to communism was strong gov't and economic growth based on private capital. US channeled their support to Thailand's military leader in exchange for their anti-communism fervor. US also pressed Thai military leaders to start econ.dev based on support for private capitalism

Thai military leaders responded enthusiastically in following US's capitalism. They were already involved as partners to local capital. With the post-Korean war domestic recession, the local businesses also asked the gov't to give more favour to private business. Facilitating the Thai economic adjustment was the US's aids. The immense amount of aid eased Thailand's balance of payment position, stimulated local demand, and raised gov't revenue.

Sarit's Development

Phibun was more ambivalent in following the US and supporting Thai domestic capital, but Sarit had always been more supportive of these. Sarit rose to power came from him drawing US support to the military. US also convinced him of developing Thailand with the assistance of foreign investment. Sarit also involved in arms deals and in setting up his own businesses such as in shipping, construction, insurance, shipping, etc.

As Sarit rose to dictatorship, he informed his followers that Thailand needed a stable anti-communist regime to gain more US aid. He justified his coup as a preparation for launching a plan of "national development". Under Sarit, the strategic interests of the US, the dictatorial aim of Thai military, and the business interests of Thai new entrepreneurs converged. Sarit proclaimed "our important task in this revolutionary era is development".

Sarit started on a major restructuring of Thai economy in favor of the growth of domestic capital. The restructuring began with the World Bank's report that criticised the inefficiency of state enterprises in Thailand. SOEs were collapsing, operating at losses or debt. The World Bank recommended the scaling down of SOEs and promoting manufacturing under private ownership by improving legal framework, infrastructure, and credit system, and by establishing institutional structure for econ.dev. With US assertion, World Bank's recommendations were adopted. No more SOEs created except for public utilities.

Institutional infrastructure for promoting economic growth were created. They included the Budget Bureau, National Statistical Office, NESDB, and BOI. These organisations staffed with US trained bureaucrats. World Bank also provided funding support for building infrastructure such as highways, irrigation, electricity, and education. 1st-3rd National Development Plan were drafted with US advisers, prioritising growth driven by private sector.

A New Strategy for Growth

The creation of Board of Investment (BOI) signify the shift to support foreign investment. Investment Promotion Act provided tax and tariff incentives to promote local and foreign investors. Foreign firms gained more favourable treatment, allowed to repatriate profit and occupy land. Labour unions were suppressed.

Tariff protection were set to protect domestic manufacturers of consumer goods. This came more from pressure from domestic capitals. To promote domestic industry, tariff on capital goods were set low, while tariff on consumer goods high. Wages were kept low to help domestic industries, facilitated by supply of labour from booming population.

Thai technocrats in BOT and MOF prioritised economic stability with tradition of conservative fiscal management and support for open economy. External aid and loans helped fiscal deficit and limited inflation. Stable growth came at 6.6% without much inflation. The new strategy was successful in drawing in foreign investments.

The impact of the new strategy on domestic capitals even more dramatic. Rising world's demand for primary goods sparked a boom in Thailand's export of primary commodities. From 1960-75, agricultural exports rose 10% per year.

Tariff regime, the end of economic nationalism, and the better infrastructure, provided incentives for Thai capitals to expand in domestic markets, especially in the countryside. Foreign firms flew in but did not substitute local firms. Most chose instead to partner with local firms.

12.2 Banks and Capital Mobilisation

The Thai banks formed in 1940s rapidly came to dominate Thai business world. Their rise based on the role they played in mobilising capital to take advantage of new opportunities under Sarit.

Chinese immigrants became the main beneficiaries. They had migrated in for generations, but apart from a number of big successes, most remained in small businesses. Significant portion of money sent back to China, small amount invested in pawnshops. The expansion banks provided them with location for savings. Gov't restrictions and problems in China led to fallen remittance and channeled the saving to banks. Between 1962-81, total deposits in Thai Banks grew from 8 millions to 299 million bahts.

The rise of Thai banks also helped by other two factors: political connections and the extensive business networks.

From 1950s, all of Thai major banks had forged close links with Thai military leaders. Bangkok Bank with Ratchakru group and eventually with Sarit. Mahagaruna group (Union Bank of Bangkok), Sri Ayudhaya Bank, and Kasikorn Bank, all had solidified their relationship with the military leaders. The connection led to laws made to prevent new entrants and foreign competitors in banking sector. Banks' Cartel was created and had not been challenged for 3 decades.

Successful banks also possessed extensive connections within local and overseas business communities. The major banks came from dominant Teochew group. They competed but also cooperated in the Chamber of commerce. They forged relations through marriage. Many benefited from having relatives scattered in other Asia's business cities. Beyond providing funds, they also provided business services to client by helping them build business alliances, brokered deals, and found markets.

For example, Chin Sophonphanich dominant role in Bangkok Bank was based on his extensive network built with Chinese communities through trading activities and from organising the sending of money back to China. Chin built Bangkok Bank overseas branches, and created network with leading Chinese entrepreneurs throughout the region

The banks dictate the economic expansion in Sarit's era, enabling hundreds of companies to emerge. Bangkok Bank dominated the task of promoting new ventures. As the rice trade was released from gov't control, Bangkok Bank helped the rice trading familties with new opportunities such as in the textile industry. Bangkok Bank also facilitated the expansion of agribusiness, most notably that of CP.

Kasikorn Bank continued to play key role in crop exports. They expanded their business to joint venture with foreign firms such as Dole and Firestone. Other banks also expanded their own businesses into other sectors especially in manufacturing. The number of firms that the banks were involved with grew significantly. In 1958, Bangkok Bank, Kasikorn Bank, Bank of Ayudhaya, and Union Bank involved in 51 firms. In 1973, the number became 173, and in 1979, 295. Bangkok Bank financed 42% of total export and 26% of imports.

Connection with banks, and connection with the military generals, were crucial ingredients of newly successful businesses. Sukree Potiratanangkun start building textile business from securing contract as a military supplier.

Thaworn Pornprapa's Nissan benefited from gov't decreed that taxis must be Nissan. Uthane Techapaibool gained monopoly in distilling whisky. Kirati Srifuengfung glass making business started through connection with ratchakru group. In turn, the generals held positions in extensive amount of private firms.

12.3 Import-substitution and foreign investment

With growing domestic market, cheap labour, gov't assistance, and foreign investment, industry began to grow.
The major areas of expansion were agricultural processing, basic manufacturing such as textile, and variety of assembly industries supplying consumer goods to domestic market.

Agri-business was expanded to wide-range of processing. Rice business revived after freed from state's control, benefitting from better irrigation, high-yield seeds, and better cultivation system. The major rice trading families entered into new crops such as cassava, and also new opportunities for processing such as silos and warehousing. Metro group started manufacturing fertilizer.

Other expanded agri-business included suger milling and feedmill. Big sugar milling firms -Thai Roong Ruang, Bangpong, Kwang Soon Lee, and Mitrphol- expanded rapidly and formed cartels. Export of suger increased more than ten times.
With massive growth in production of maize and cassava, forms moved into feedmill business.

CP began as importers of seeds, fertilizers, and other agricultural inputs. Later moved into feedmill and other livestock business Through joint venture with a US company, CP started its chicken industry. As the Thai gov't ended its monopoly on slaughterhouse, CP created integrated chicken business. It used the contract farming system and expand its business to other animals. CP set up range of associate companies covering all aspects of its agro-business and expand to other countries.

Import-substitution

New manufacturing industries founded in 1960s under tariff protection range from glass factories, cement works, iron and steel plants, and paper manufacturing. The most important was textile. By 1979, textile accounted for 19% of value added in manufacturing, and 6% of export. Across all the new industries, the entrepreneurs started from being trader and importers, before moving into manufacturing as a result of tariff protection and gov't incentives.

The tariff structure levied high rates on finished goods while low rates on parts and components encouraged assembly type business to supply domestic markets. Assembly operations covered consumer goods such as household durables and automobiles. Firms joined with overseas supplier to manufacture products that used to be import under tariff walls.
Pornprapa's Nissan "Siam Motors" is a good example of such an assembly business. Other automobile joint venture, Toyota, Mazda, Mitsubishi, all emerged similarly.

Joint ventures between importers and foreign firms also emerged in assembly operation of consumer durables such as radios and TVs. Tanin Co. began as importers. After receiving gov't promotion and technical assistance overseas partners, it produced cheap TV sets and exported to Europe.

Foreign investment

The final aspect of Sarit's restructuring of Thai economy was foreign investment. Through investment promotion regulations, foreign investment flew in at 1 billion baht a year in late 1960s, and around 1.5 billions a year in 1970s. The first investors were from US, who invested in 100% ownership in areas such as petroleam and chemical businesses.
Then Japanese investments started to grow in late 1960s, surpassing the US in 1973. Thailand's trade with Japan also rose significantly during the same time.

At first, Japanese increasing role in Thai economy provoked tension among technocrats and businessmen. They feared that Japanese firms would seek to dominate Thai economy. Japanese gov't attempted to sooth things by reducing duties on many Thai goods, increasing loans to Thai government. Japanese gov't also encouraged joint ventures between Japanese and Thai firms. Japan increased aids to Thailand. By 1980s, Japanese aids amounted to 2/3 of all aids Thailand received.

Japanese investments in this period were of two types. First, tariff jumping assembly operations, mainly in the area of consumer products. Second, investment in manufacturing for exports, mainly back to Japan. Japanese investments accelerated by the rising wage in Japan, causing Japanese to look for cheaper labour elsewhere.

Japanese investments in Thailand started in textile businesss through joint venture. In contrast to US investors, Japanese investors often choose the path of joint-venture. This was partly due to the Japanese themselves wanting to avoid political opposition. And also due to the gov't requiring foreign investors (other than US) to have a Thai majority partner. But equally important was the Japanese firms wanting to use domestic firms to gain access to knowledge about local market. Joint venture also helped Thai firms gained knowledge and technology transfers

In sum

Sarit's development era came with business opportunities enabled by tariff protection, better raw material supply, foreign assistance and technological transfer, political connections, and capitals provided by banks.

Reading

- Pasuk Phongpaichit and Chris Baker (2002). ***Thailand: Economy and Politics***, KL: Oxford University Press. (Chapter 4)