

EE460: Thai Economy

Bhanupong

Lecture 1

Historical Perspectives

Objectives

- The objective of this course is to provide students basic understanding of Thailand's social and economic development by using economic theories as analytical tools.
- It is expected that students would be able to understand complex and controversial issues of the Thai economy.

Class Evaluation

- Grading is based on participation and class assignment (10%), midterm (30%), and final exam (60 %).
- Class attendance is a necessary condition for passing the exam. Those who skip more than 10 classes run the risk of receiving an F.

Outline: lecture 1

- Siam and Japan: Historical comparison of early economic development
- Fundamental determinants of growth
- The importance of good institutions

Historical Perspective of Thailand's Economic Development

- What can we learn from historical path of economic development in Thailand?
- Why was Thailand able to grow rapidly between the 1960s and the early 1990s?

Recommended Readings

- J.C. Ingram (1971) *Economic Change in Thailand*, 1850-1970, Stanford University Press
- P.G. Warr (1993) *The Thai Economy in Transition*, Cambridge University Press
- P. G. Warr (2005) “Boom, bust and beyond” in *Thailand Beyond the Crisis*, Chapter 1, London: RoutledgeCurzon

Initial conditions in Siam and Japan: 1850-1914

(Yasuba and Likit, 1985)

- Both countries shared striking similarities when they were ***forced to*** open trade: Siam in 1855, Japan in 1859.
- Both countries started to modernize in contemporary reigns: King Chulalongkorn (1868-1910), Meiji (1868-1912).
- **Industrialization** was the main trend in Japan, while specialization in **primary commodities** was the major tendency in Siam.

Studying abroad

- Japan had sent **6,000** students abroad by 1881, representing a fairly ***wide segment*** of the society, including former low-ranking samurai.
- Until late 1890s, Siam sent ***only a number*** of royal family to study abroad.
- The early groups of Thai ***middle-class*** students produced the leaders of the constitutional coup in 1932.

Higher education in early Japan

- **Science and engineering** have been emphasized from the start in Japan.
- The first national university was established in Tokyo in 1877 with faculties of humanities, law, natural sciences, and medicine.
- There was a separate college of engineering.
- Until 1887, the proportion of graduates in natural sciences, medicine, engineering and agriculture exceeded ***80 percent***.

Differences in higher education

- The forerunner of Chulalongkorn University was the Royal Pages School, established in 1902.
- The aim was to provide a general education with emphasis on training in ***government administration***.
- The engineering school was established in 1913 (36 years after Japan).

Changes in Japan's pattern of trade

- Japan's initial exports were mostly primary products such as raw silk, tea, and marine products.
- What were Thailand's traditional exports during King Rama V?
- How do we explain this pattern of trade?
- **Heckscher-Ohlin theorem** states that countries will export products that utilize their *abundant* factors of production and import products that utilize the countries' **scarce** factors.

Changing pattern of Japan's external trade

- Imports became exports; exports became imports
- Domestic manufactures soon started substituting for imports of light industries and eventually became export industries.
- By 1914, exports included former imports: cotton yarn and cloth (manufactured goods).
- **Primary commodities:** Cotton, sugar, soybeans and petroleum were major imports.
- Implications on the Japanese *terms of trade*

Historical Background

- King Mongkut: 1851-68
- King Chulalongkorn: 1868-1910
- King Vajiravuhd: 1910-1925
- King Pracjadipok: 1925-1935
- King Ananda-Mahidon: 1935-46
- King Bhumiphon: 1946-

James C. Ingram: chapter 1

- Since the beginning of the Chakri dynasty, Thailand has had a period of peace. The British conquest of Burma removed the major source of conflict, but the decline of the old enemy in the west was soon followed by the rise of a new one in the east.
- By 1907, Thailand had lost 80,000 square miles of territory due to French colonial aspirations.
- The worst crisis came in 1893 when French gunboats force their way up to the Cho Praya River and French troops occupied Chandaburi in the east.

James C. Ingram: chapter 1

- The British desire to keep Thailand as a buffer state between British and French possession in Asia, together with British interest in the trade of Bangkok (then 70 percent in British hands) was largely responsible for the use of British diplomacy to preserve the independence of Thailand.
- King Mongkut came to the throne in 1851, with the conviction that Siam must learn to live with the Western nations if she was to survive as an independent nation.

The Bowring Treaty: 1855

- The treaty was signed in 1855
- British subjects were placed under consular jurisdiction, rather than under the jurisdiction of Siamese law. For the first time, Siam granted extraterritoriality to foreign aliens.
- British subjects were given the right to trade freely in all seaports and to reside permanently in Bangkok.

Details of the treaty

- Import duty was fixed at 3 percent for all articles, with two exceptions: opium and gold bullion were to be free of duty.
- Articles of exports were to be taxed just once, whether the tax was called an inland tax, a transit duty, or an export duty.
- The Siamese government reserved the right to prohibit the export of **salt, rice, and fish** whenever these articles were deemed to be scarce.

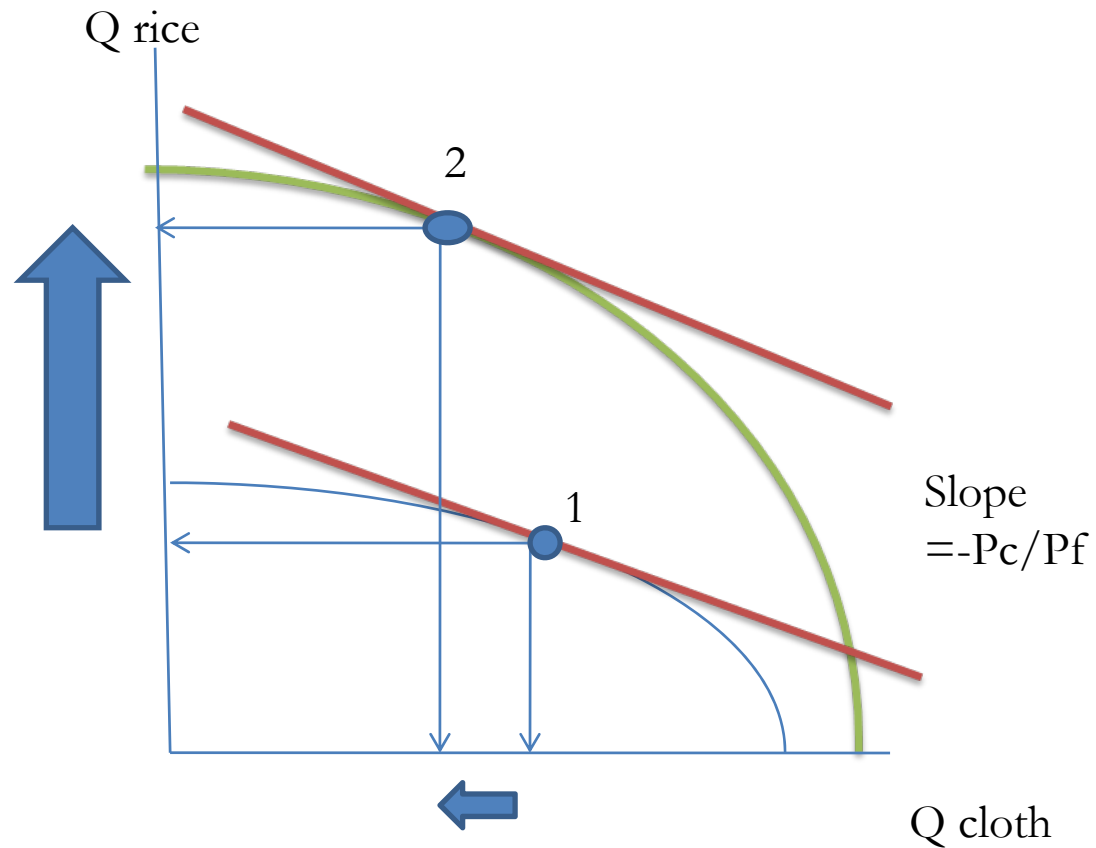
Siam opened abruptly to the West

- The Bowring treat set a pattern which other countries were quick to follow with similar treaties with Siam.
- US 1856, France 1856
- Denmark 1858, Portugal 1859
- Netherlands 1860, Germany 1862
- Italy 1868, Spain 1870
- Japan 1898, Russia 1899

Percentage of Siam's total exports by three major goods

	<i>Rice</i>	<i>Tin</i>	<i>Teak</i>	Total
1867	41.1	15.6	na	56.7
1890	69.7	11.1	5.5	86.4
1906	69.1	11.0	11.2	91.3
1915-16	70.1	15.9	3.9	89.9

- Rice exports became increasingly dominant.
- Impact of trade opening: specialization and concentration in rice production
- Why didn't the pattern of Thailand exports change until the 1970s?



An increase in supply of land (reduction in forest areas) shifts the PPF disproportionately outward in the direction of rice. Production of cloth actually declines, given that the relative price of cloth remains unchanged.

Area planted in paddy (millions of rai)

	1903-7	1948-50	Percentage increase
Central Plain	6.5	16.3	151
All other	2.2	17.1	678

Who would gain and lose from trade?

- **Stolper-Samuelson theorem:** *A rise in the relative price of a good will lead to a rise in the return to that factor which is used most **intensively** in the production of the good, and conversely, to a fall in the return to the other factor.*
- David Ricardo: The political economy of The corn laws (England , 1804)

What were missing in Siam?

- The **abundant** supply of land *may* have retarded industrialization, with lagging technical progress in both industry and agriculture.
- A resource-cursed economy?
- The lack of infrastructure
- The lack of serious efforts to learn from abroad to propagate knowledge domestically.

Development divergence

- The Meiji Restoration drastically *redistributed income* and provided opportunity for the private sector to grow.
- Development was enhanced by *subsidies* of early private factories and a strong emphasis on infrastructure and education.
- Given a contrast in initial conditions, *institutional changes and policies*, economic development divergence between Thailand and Japan emerged.

Why is there a spectacular income gap of the world's rich and poor nations?

- Average income of Sierra Leone is one hundred times **lower** than that in Luxembourg.
- Two-thirds of the world's population lives in countries where average income is only *one-tenth* the U.S. level.

Per capita income in \$ (PPP) in 2011:

- | | | | |
|-------------|--------|----------|--------|
| • Qatar | 98,948 | U.S. | 48,328 |
| • Singapore | 59,710 | Cambodia | 2,239 |
| • Thailand | 9,398 | Congo | 349 |

Dani Rodrik (2003)

What do we learn from country narratives?

- A cursory look at the cross-national record of the last few decades
- Rodrik: There are deeper determinants of economic performance beyond economic variables (such as physical and human capital and price distortions).
- Rodrik attempts to provide answers to these questions:
- How has China managed to grow so rapidly despite the absence of full-fledged private property right?
- What happened in India after the early 1980s to lift its growth rate by three percentage points?

Explain why they differ

- How have Mauritius and Botswana managed to avoid problems that other countries in sub-Saharan Africa have succumbed to?
- Why did Brazil , Mexico, and Venezuela do so well until the early 1980s and so poorly thereafter?
- Why do the Philippines and Bolivia continue to stagnate despite a sharp improvement in their fundamentals since the 1980s?

How economists think of income determination

- Total output is a function of resource **endowments**(labor, physical, human capital) and the **productivity** with which these endowments are deployed to produce GDP.
- The growth of per capita income can be expressed in terms of
 - (a) physical capital deepening;
 - (b) human capital accumulation;
 - (c) productivity growth.
- Causality may run backwards from growth to accumulation and productivity.

Deeper Determinants

- **Geography:** advantages and disadvantages posed by a country's physical location (latitude, proximity to navigable waters, climate), but geography is not destiny.
- **Integration** (trade): market size and the benefits of participation in international trade in goods, services, capital, and labor.
- **Institutions:** quality of formal and informal sociopolitical arrangement—from legal system to political institutions.

Partial association between income and fundamental determinants

- income and distance from the equator
- income and quality of institutions
- income and trade (weaker).
- Jeffrey Sachs and Andrew Warner (1995) argue that countries that are open to trade experience *unconditional* convergence to income levels of the rich countries.
- Rodrik: Trade or government policy toward trade does not play nearly as important a role as the **institutional setting**.

Good institutions

- Good institutions can **overcome** geographical constraints and poor initial conditions.
- Good institutions can be acquired, but doing so often requires experimentation, willingness to depart from orthodoxy and attention to **local conditions**.
- The onset of economic growth does not require deep and extensive institutional reform.
- Good institutions provide public officials with the incentives to provide **market-fostering public goods** at least cost in terms of corruption and rent seeking.
- What is happening in the Turkish economy?

Quality of institutions is the key

- Property rights, appropriate regulatory structures, the quality and **independence of the judiciary and bureaucratic capacity**.
- Institutions that provide dependable property rights, ***manage conflict***, maintain **law and order**, and align economic incentives with social costs and benefits are the foundation of long-term growth.
- ***Sustaining high growth*** in the face of adverse circumstances requires ever ***stronger*** institutions.

Recent key price indicators

	20/8/2007	18/8/2008	23/6/2009
Dow Jones	13,079	11,660	8,323
SET	764	707	570
Baht/USD	34.3	33.8	34.3
Yen/USD	115	110	95.4
Gold (baht/baht weight: 15.2 grams)	10,600	12,850	15,900
Brent Oil price (USD/Barrel)	69.4	109	66.4

Recent key price indicators

	4/1/2010	9/8/2010
Dow Jones	10,584	10,687
SET	732	875
Baht/dollar	33.4	31.98
Yen/dollar	92.3	85.9
Euro/dollar	0.69	0.76
Gold (15.2 gram)	17,600 baht	18,250
Brent (dollar)	81.5	81.5

Two years ago

	9/8/2010	8/8/2011
Dow Jones	10,687	11,444
SET	875	10,787
Baht/dollar	31.98	29.8 100Yen/baht= 38.0
Yen/dollar	85.9	78.4
Euro/dollar	0.76	Euro/baht= 42.3
Gold (15.2 gram)	18,250 baht	24,050 baht
Brent (dollar)	81.5	106.1

At the beginning of the class

	13/8/2013	7/1/2013
Dow Jones		13,435
SET		1415.3
Baht/dollar		30.45 100Yen/baht= 34.6
Yen/dollar		87.8
Euro/dollar		Euro/baht= 39.7
Gold (15.2 gram)		23,900 baht
Brent (dollar)		113.69

Questions

- What do those key indicators tell us?
- Why did they change?
- How are they related?
- Explain the channels through which those changes affect Thai households?
- What are other key prices that can affect living conditions of the Thais?