

A BRIEF HISTORY OF THAILAND'S ECONOMIC DEVELOPMENT

Mainly based on “Capital Accumulation in Thailand 1855-1985” by Prof. Suehiro Akira

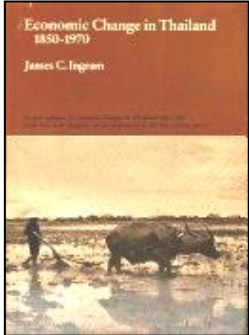
EE464: Urban Economics

EE562: Selected Topics in Development Economics 2

Semester 1 / 2020

Faculty of Economics, Thammasat University

Suggested Readings

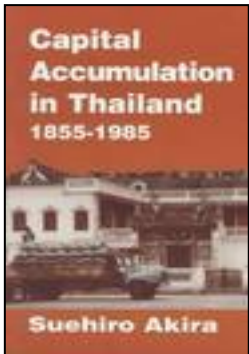


Economic Change in Thailand 1850 to 1970

by James C. Ingram

Publisher: Stanford University Press

Publish Date: August 1971

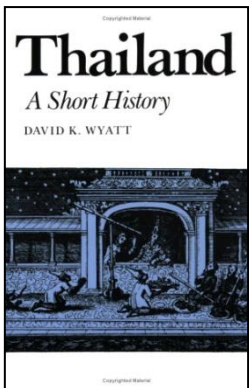


Capital Accumulation in Thailand 1855-1985

by Suehiro Akira

Publisher: University of Washington Press

Publish Date: June 1998



Thailand: A Short History

by David K. Wyatt

Publisher: Yale University Press

Publish Date: December 2003

Chronology



Phase I: Integration into the world economy
(The Bowring Treaty 1855)

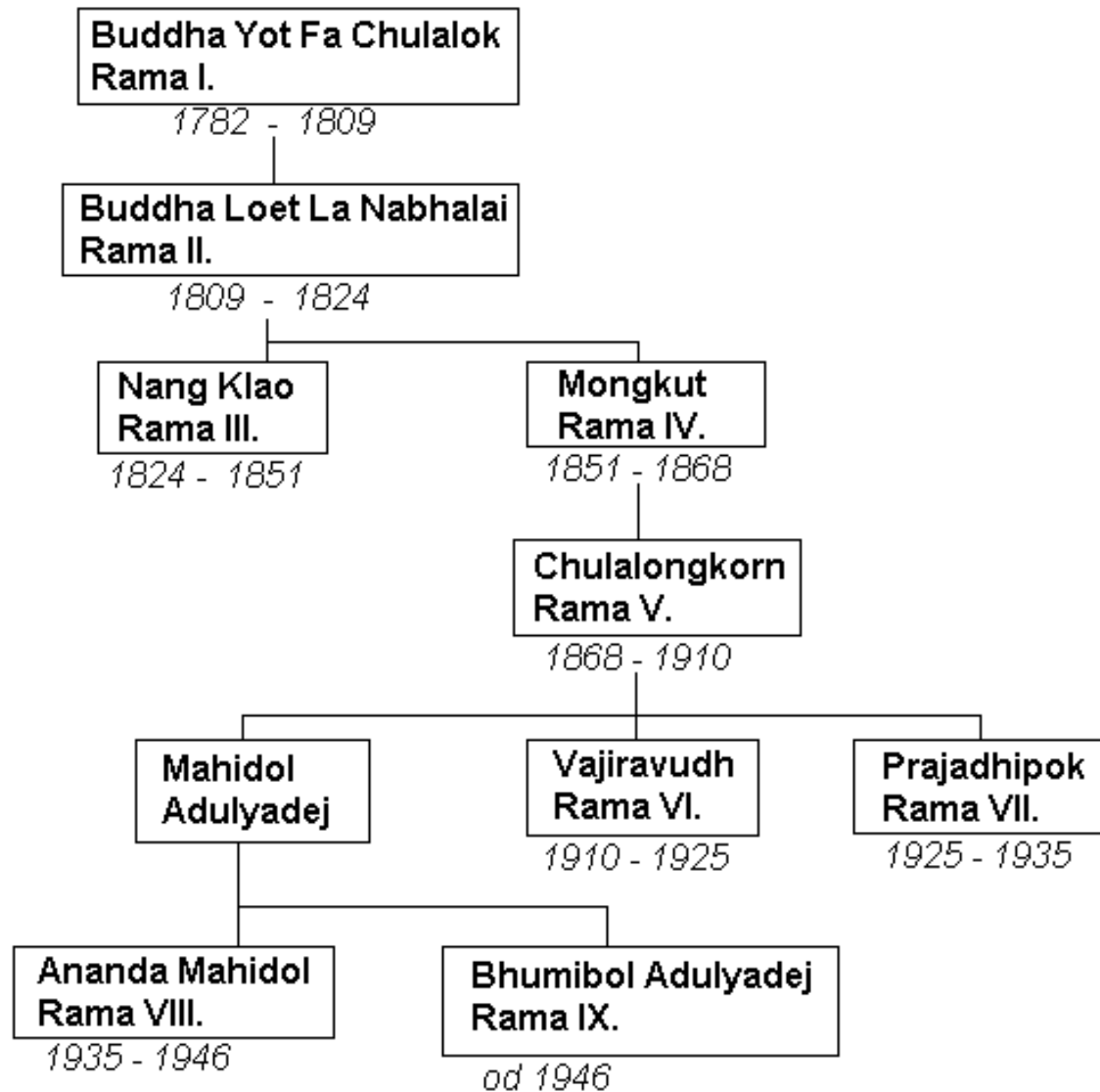
Phase II: Rising of capitalist groups (1885 - 1932)

Phase III: Economic nationalism (1932 - 1947)

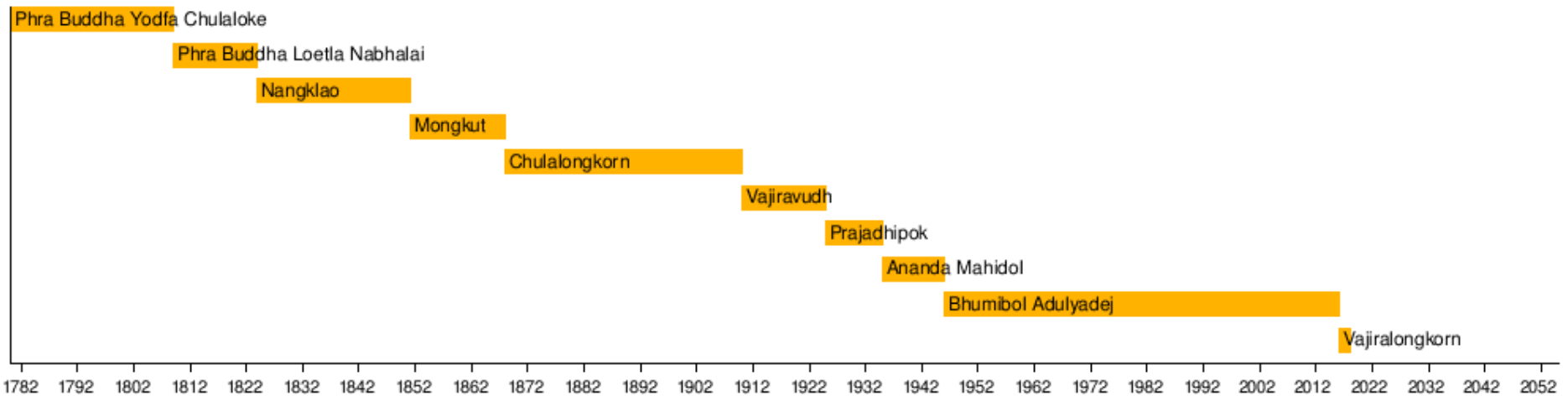
Phase IV: Bureaucrat capitalist development
(1947 – 1957)

Phase V: Industrialization (1960s- 1980s)

Chakri dynasty



Chakri dynasty



Source: https://en.wikipedia.org/wiki/Chakri_dynasty

Phase I

Integration into the world economy (The Bowring Treaty 1855)

Phase I: Integration into the world economy

International Trade and Thai Economy before 1850

- King Mongkut wrote a short description of the system of trade in the first four reigns of the Chakri dynasty (Translated and published in *The Siam Repository*, I (April 1869), 67-68)
- In the first and second reigns (1782-1824) the governments engaged in trade and earned most of revenues from profits of trade
- The governments built junks and exported products to China, bringing back Chinese immigrants as passengers
- During the second reign, possibly because of the decreased profit, the governments have more freedom to trades and established an inland tax, starting the shift from state trading to taxation as a source of revenue.
- At the beginning of the fourth reign (1851 – 68) state trading was abolished and more use was made of taxes.

Source: Suehiro (1998)

Phase II

Rising of capitalist groups (1885 - 1932)

Phase II: Rising of capitalist groups (1885 - 1932)

- The Bowring Treaty initiated the new structure of foreign trade in Thailand after 1855.

North: teak concessions

Central region: rice fields and rice mills

South: tin mining

Source: Suehiro (1998)

Phase II: Rising of capitalist groups (1885 - 1932)

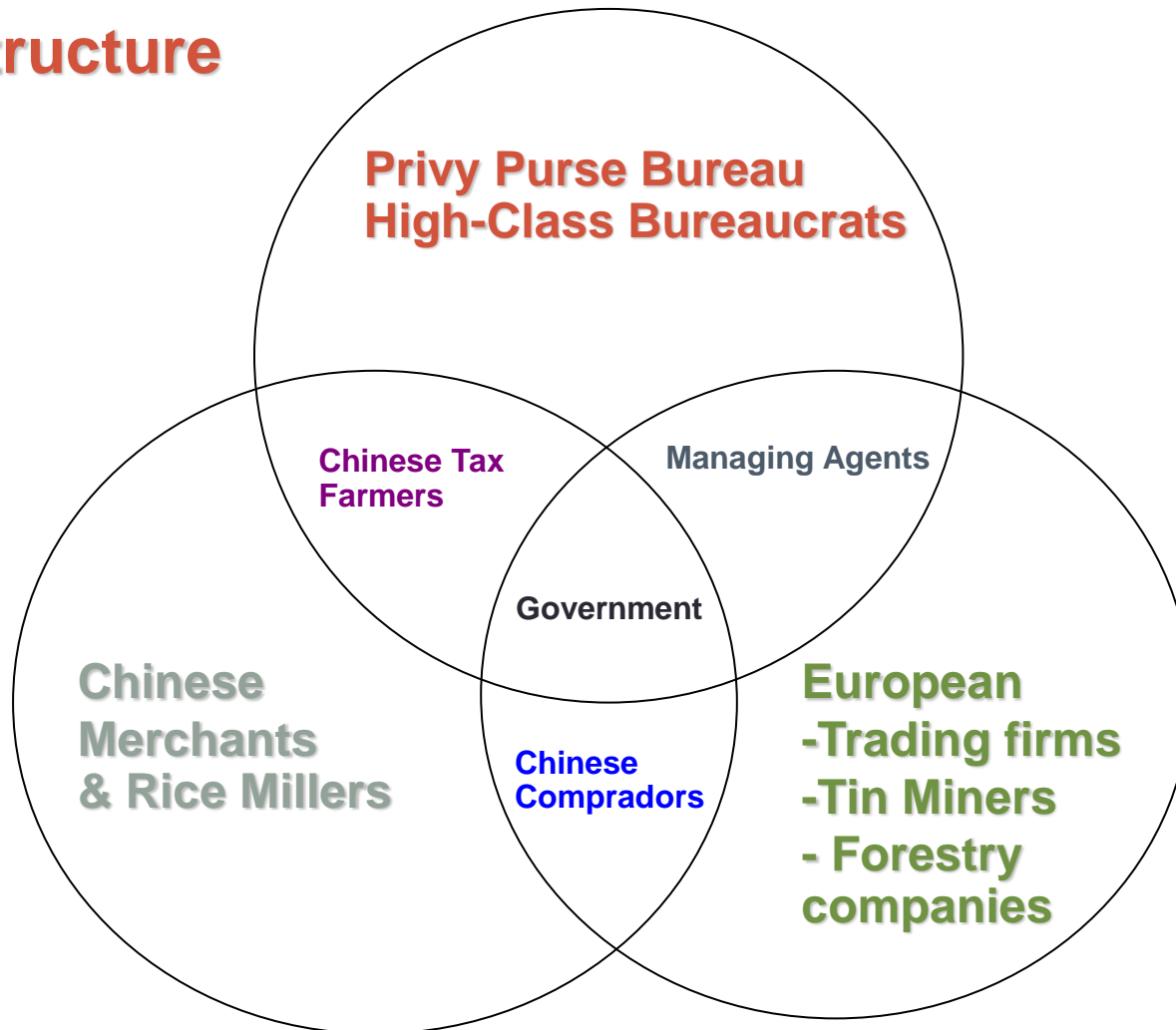
Proportion of Rice, Teak and Tin in Thai Export

Period	Rice	Teak	Tin	Total
1896-99	69.2%	8.8%	9.8%	87.8%
1900-04	67.5%	9.7%	9.9%	87.1%
1905-10	69.3%	11.2%	9.0%	89.5%
1911-15	69.9%	5.9%	12.4%	88.2%
1916-20	64.6%	4.6%	15.0%	84.2%
1921-25	68.5%	4.5%	8.8%	81.8%
1926-30	68.8%	3.8%	9.0%	81.6%
1931-35	59.6%	3.5%	12.5%	75.6%
1936-40	50.7%	4.0%	17.5%	72.2%

Source: Suehiro (1998)

Phase II: Rising of capitalist groups (1885 - 1932)

Main Structure



Phase II: Rising of capitalist groups (1885 - 1932)

Chinese Immigration

Early 1820s : 2,000 – 3,000 immigrants per year

1882 – 1892 (Opium war) : 16,000 immigrants per year

1892 – 1917 : 68,000 immigrants per year

- Key driving forces of immigrations: droughts in the southern part of China and increasing demand for labors in Thai export-oriented sectors.
- Originally, these immigrants worked as “coolie” in the ports, rice fields, rice mills, tin mines, and other small factories.

Phase II: Rising of capitalist groups (1885 - 1932)

Chinese Tax Farmers

- Originated in Ayudhaya period, when the kings entrusted the collections of liquors and other major commodities to Chinese groups.
- King Rama III extended this system to 38 items, including gambling, lotteries and major exportable products.
- King Rama IV furthered included other 38 items to this tax collection regime, including opium, raw silk, iron and tin ore.

Phase II: Rising of capitalist groups (1885 - 1932)

Chinese “Big Five” Rice Business

- **Wanglee**
(Nakhonthon Bank)
- **Balusuk**
(Thai Namthip group)
- **Bulakun**
(Mahboonkrong & Pathum Rice Mill)
- **Lamsun**
(Thai Farmer Bank & Phathara group)
- **lamsuri**
(Kamon Kij group)

Phase II: Rising of capitalist groups (1885 - 1932)

Hi-Class Bureaucrats and Their Investments

- Originally, landholding was recognized as a means to express social status, known as “Sakdina” system.
- Rising world demand for rice increase the demand for cultivation, rice milling, and inventory. The hi-class bureaucrats then gained their income from land renting.
- Minister of Agriculture Chao Phraya Thewet reported in his letter to King Rama V in April 1902 that “it is difficult to find a more profitable undertaking than owning and renting lands”.
- According to the survey in the early 1900s, the price of land per rai was around 13 baht, while land rent came to 1 baht per rai during the first year, 2 baht during the second year and 4 baht from the third year on. Thus, the investment could reach its break-even within 5 years.
- Meanwhile, the return on investment in other business of the royal families and hi-class bureaucrats was documents at around 4%-12% annually.
- In addition, the hi-class bureaucrats, endowed with land earned from “Sakdina” system, constructed row houses (“Hong Taew”) and rented them out to Thai and Chinese customers. These houses were located in urban areas such as Samsen, Charoen Krug Road, Sam Pheng Road, and Rachawong Road.

Phase II: Rising of capitalist groups (1885 - 1932)

Dividends on the Issue Value of Major Thai Royal Chartered Company Stock

Name of Company	Registered Capital (baht)	Year- end Dividends (%)					Dividends Paid (%)		
		1909	1910	1911	1912	1913	1920	1922	1924
Siam Electricity Co., Ltd.	250,000	6	12	12	12	12			
Paknam Railway Co., Ltd.	500,000	22	15	14	13.5	18.5	27	20	20
Meklong Railway Co., Ltd.	2,230,000	5	5	5	5	5	7.5	8	9
Bangkok Manufacturing Co., Ltd.	400,000	14	10	10	8	8			
Bangkok Dock Co., Ltd.	1,000,000	5	2.5	3	7	8	15	10	10
Siam Commercial Bank Ltd.	3,000,000	3	2	2	3.5	4.5	5	5	5
Menam Motor Boat Co., Ltd.	200,000		4	4	4	7	10	10	14
Siam Steam Navigation Co., Ltd.	2,000,000	10	10	10	10	10	15	5	20
Siam Stoneworks Co., Ltd.	350,000	5							
Siam Steam Packet Co. ,Ltd.	190,000	8	7	8					
Bang Nara Rubber Co., Ltd.	240,000						7		10
Siam Cement Co., Ltd.	3,000,000						11	10	10

Phase II: Rising of capitalist groups (1885 - 1932)

Expansion of the International Trade

Period		Trade (million baht)			Trade (Million pound)	Exchange rate (baht per pound)	Population (1,000 persons)	Trade value per capital (baht)
		Import	Export	Total				
1850	King Rama 4 (พ.ศ. 2393)	4.33	5.59	9.92	1.24	8.00	5,200	1.91
1865-67	King Rama4 (พ.ศ. 2408 - 10)	5.61	6.57	12.18	1.51	8.00	5,450	2.23
1870-74	King Rama5 (พ.ศ. 2413 - 7)	7.74	9.92	17.66	2.21	8.00	5,775	3.06
1880-84	King Rama5 (พ.ศ. 2423 -27)	10.36	16.56	26.91	3.14	8.56	6,200	4.34
1890-94	King Rama5 (พ.ศ. 2433 -37)	23.00	33.10	56.10	4.50	12.47	6,670	4.34
1900-04	King Rama 5 (พ.ศ. 2443 -47)	60.21	78.16	138.37	7.67	18.03	7,320	18.90
1910-14	King Rama 6 (พ.ศ. 2453 -57)	77.37	98.53	175.90	13.53	13.00	8,305	21.18
1920-24	King Rama 7 (พ.ศ. 2463 -67)	153.54	169.84	323.38	31.03	10.42	10,202	31.70

Phase III

Economic nationalism (1932 - 1947)

Phase III: Economic nationalism (1932 - 1947)

Gen. Phibun's government and Nationalism

- Gen. Phibun introduced “Rattaniyom” regime, aiming at revolutionizing the society and the economy.
- Driven by Pridi's national economic plan and the influence of the Japanese army, all Chinese businesses were either nationalized or transferred to Japanese enterprises.



Phase III: Economic nationalism (1932 - 1947)

The Rising of Pridi's Group

- The alliance of two prominent leaders promoting the 1932 Revolution collapsed in 1944 when Pridi's group ousted Prime Minister Phibun from political power
- The new government led by Khwong Aphaiwong was fully supported by Pridi Phanomyong, who had organized the anti-Japanese movement in Thailand as well as in UK and US.
- Seven cabinets were set up during August 1945 – November 1947
- Rampant inflation attacked the Thai economy. Putting the 1938 cost of living index at 100, it increased to 222 in 1943, and further to 1,072 in 1946
- During WWII the government's control on the rice trade as a measure to stabilize the economy, which in turn, caused rice hoarding and illegal export.
- The unexpected death of King Rama VII (r.1935-1946) gave an opportunity for the political rivals of the Pridi group and dissatisfied war veterans to attack the Pridi-sponsored government.
- Finally in November 1947 this military group carried out a coup d'etat.

Phase III: Economic nationalism (1932 - 1947)

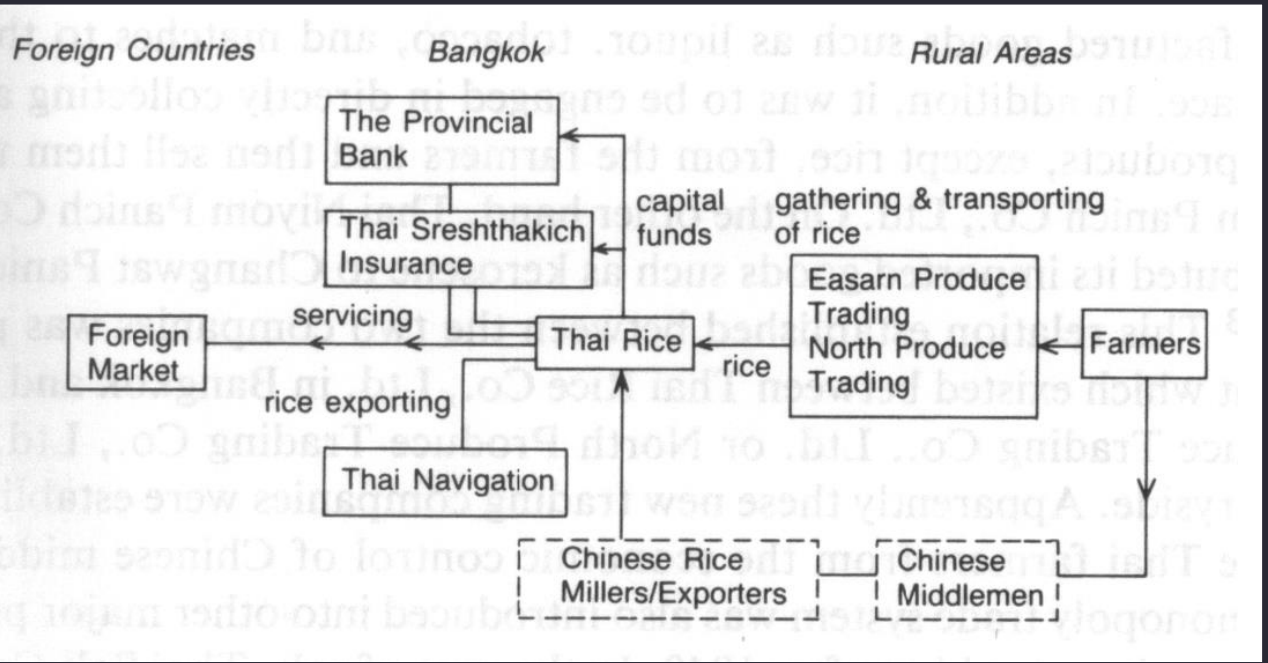
Number of State Enterprises Established during 1923 -60

	No. of Factories	No. of State Enterprises	1923-45	1946-52	1953-56	1957-60
			พ.ศ. 2466 - 2488	พ.ศ. 2489 - 2495	พ.ศ. 2496 - 2499	พ.ศ. 2500 - 2503
M of Industry	19	15	3	5	6	1
M of Interior	0	6	0	0	4	2
M of Agriculture	8	7	1	2	3	1
M of Finance	8	16	7	3	5	1
M of Defence	5	10	1	1	6	2
M of Public Health	1	1	1	0	0	0
M of Communication	0	7	1	3	2	1
M of Econ Affairs	0	25	16	1	7	1
Other agencies	0	13	0	4	4	5
Total	41	100	30	19	37	14

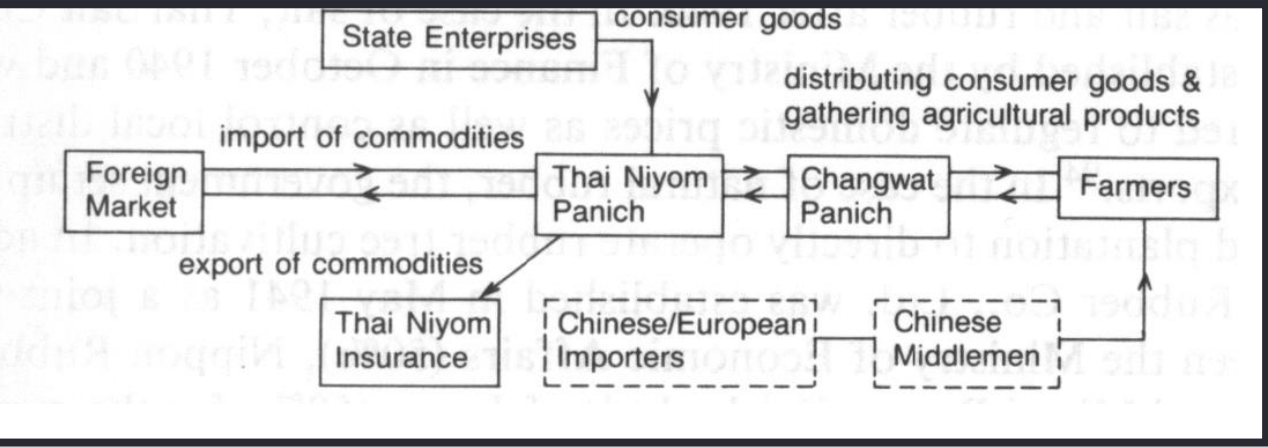
Source: Suehiro (1998)

Phase III: Economic nationalism (1932 - 1947)

The New Structure of Rice Industry



The New Structure of Trade



Source: Suehiro (1998)

Phase III: Economic nationalism (1932 - 1947)

Economic Involvement of the People's Party and The Pridi Group in Major State-Sponsored and Private Enterprises: 1938-46

	TRC	PB	TSI	TNC	TNP	TNI	TNB	TNF	TSC	NCB	SCB	BOA	TSF
People's Party Members													
Charun Rattanakun	D	D	D	D	D	D	D	D		D			
(Luang Seriroengrit)	D	D	D										
Wanit Pananon	D	D								D	D		
Thawi Bunyaket		D	D										
Naep Phahonyothin	D	D											
Yon Samanon		D					D	D	D			D	
Luang Chawengsak- songkhram		D			D		D	D	D			D	
Chun Pintanon			D		D	D				D			
Prayun Phamoramontri					D	D	D	D			D		
Leng Srisomwong				D	D	D			D		D	D	D
Wan Ruyaphon			D		D	D	D			D			
Wilat Osathanon					D	D	D	D	D	D	D		
Sawaek Nisanchai			D		D	D	D	D		D	D		
(Khun Nirandonchai)													
Pridi's group													
Duam Bun-nak												D	D
Somphat Asawanon												D	D
(Luang Prachoet-aksonralak)													
Lui Phanomyong			D						D			D	D

D means the board member or chairman; TRC = Thai Rice; PB = Provincial Bank; TSI = Thai Sreshthakich Insuranace; TNC = Thai Navigation; TNP = Thai Niyom Panich; TNI = Thai Niyom Insurance; TNB = Thai Niyom Bangrak; TNF = Thai Niyom Phanfa; TSC = Thai Salt Co.; NCB = National & City Bank of Thailand; SCB = Siam Commercial Bank; BOA = Bank of Asia; TSF = The Safety Insurance.

Phase IV

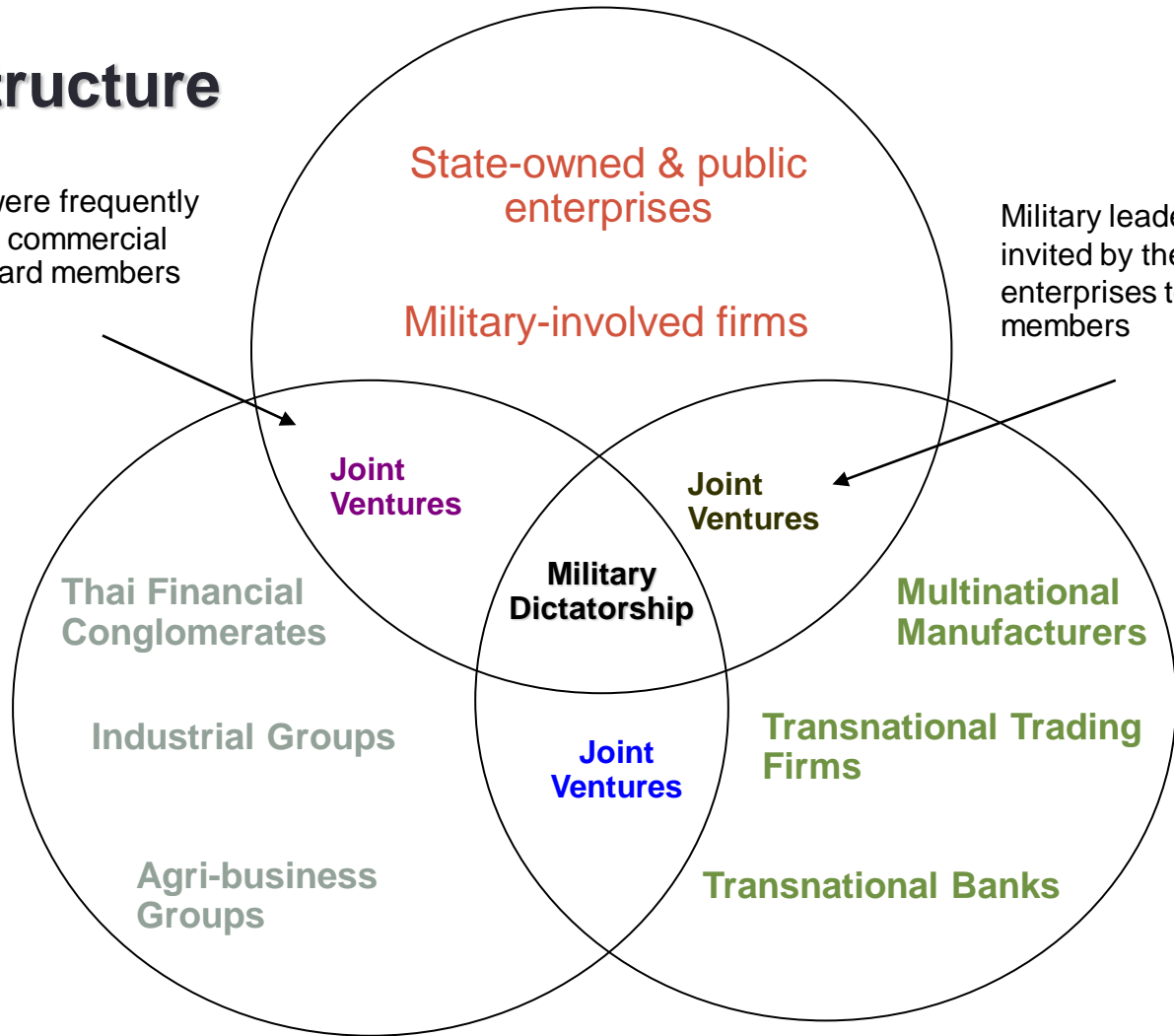
Bureaucrat capitalist development (1947 – 1957)

Phase IV: Bureaucrat capitalist development (1947 – 1957)

New Structure

Military leaders were frequently invited by the big commercial bankers to be board members

Military leaders were frequently invited by the multinational enterprises to be board members



Phase IV: Bureaucrat capitalist development (1947 – 1957)

The Rising of Phin Chunhawan

- ❖ The 1947 military coup was basically the joint activity of two groups; (1) Phibun Songkhran who maintained the political ideals of the 1932 Revolution, and (2) Phin Chunhawan who represented the economic interest of the war veterans.
- ❖ Gen. Phin organized the War Veterans Organization and Taharn Co-operation Co.,Ltd, resulting the emergence of the “Bureaucrat Capitalist Class”.
- ❖ It is believed that it was only after November 1951, when the so-called “silent coup” took place, that Gen. Phin gained the absolute power in both political and economic fields.
- ❖ Another leading figure was Gen.Sarit Thanarat who played a central role in carrying out the coup in 1951. Later he gradually forming his own clique against the Phibun’s group as well as Phin’s group.
- ❖ The military coup in 1957 enabled Sarit to oust his rivals from power, and the 1958 revolution finally gave him absolute power over the army.

Phase IV: Bureaucrat capitalist development (1947 – 1957)

Industrial Underdevelopment

- ❖ Importantly the newly established state enterprises hardly contributed to either the growth, upgrading, or diversification of the industrial sectors in Thailand.
- ❖ Four industries (tobacco, cement, sugar and liquor) generated 86% of total value added, while Industries which required advanced technology contributed very little values (e.g. steel, textile, glass, batteries).
- ❖ It was not until the Sarit regime (1958 – 63) when the government began substantial industrial promotion with the introduction of foreign capital and technology.

Phase IV: Bureaucrat capitalist development (1947 – 1957)

Changes in Manufacturing Value Added in Thailand at 1962 price

	1950 (พ.ศ. 2493)	1957 (พ.ศ. 2500)	1964 (พ.ศ. 2507)	1971 (พ.ศ. 2514)
Manufacturing Total				
Food (1)	2,227 (48.6)	2,793 (41.4)	3,529 (33.1)	5,271 (20.9)
Beverages (2)	352.00 (7.7)	511.00 (7.6)	906.00 (8.5)	2179.00 (8.6)
Tobacco (3)	404.00 (8.8)	843.00 (12.5)	1162.00 (10.9)	2441.00 (9.7)
Textiles	71	253	754	2,318
Wearing apparels	327	420	533	1,594
Wood, furniture, paper	397	456	1,135	1,129
Printing and publishing	100	288	350	621
Leather and leather products	15	21	31	194
Rubber and rubber products	37	49	68	480
Chemicals	311	442	665	1,631
Petroluem	-	-	139	2,136
Non-Metallic mineral products	86	213	570	1,490
Metal Products	20	31	118	327
Basic Metal	5	11	38	602
Electricals	18	31	80	339
Transport equipments	212	278	577	1,470
Total	4,582	6,640	10,655	24,222
(1)+ (2) + (3) as % of Total	65.10%	61.50%	52.50%	39.20%

Phase IV: Bureaucrat capitalist development (1947 – 1957)

The Rising of Chinese “Big Four” Groups

The most significant Chinese business groups emerging by 1950s constituted the “Big Four” groups:

- (1) The Asia Trust group (Bangkok Bank)
 - Sophonpanit

- (2) The Thai-Hua group (Bangkok Metropolitan Bank)
 - U Chu Liang, Techaohaibun, Saetthapakdi, Srifuengfung

- (3) The Ayudhya group (Bank of Ayudhya)
 - Buasuwan, Angsanana, Chiawsakun, Wattanawekin, Rattanak

- (4) The Magaguna group (Union Bank of Bangkok)
 - Mahakhun

Phase IV: Bureaucrat capitalist development (1947 – 1957)

Industrial Distribution of Four Major Financial Conglomerates: Assets in 1979

	Commercial Bank	Finance & Insurance	Manufacturing	Commerce & Service	Total
Sophonpanit (Bangkok Bank Group)	[1] 39,872 (71.8)	[54] 13,603 (24.5)	[26] 1,286 (2.3)	[25] 738 (1.3)	[106] 55,499 (100.0)
Techaphaibun (Bangkok Metropolitan Bank)	[3] 10,698 (61.9)	[36] 4,473 (25.9)	[10] 687 (4.0)	[41] 1,419 (8.2)	[90] 17,277 (100.0)
Lamsam (Thai Farmer Bank)	[1] 9,048 (68.5)	[17] 2,080 (15.8)	[19] 885 (6.7)	[31] 1,193 (9.0)	[68] 13,206 (100.0)
Rattanak (Bank of Ayudhya)	[1] 6,123 (70.6)	[8] 1,393 (16.1)	[8] 738 (8.5)	[14] 416 (4.8)	[31] 8,670 (100.0)
Total	[6] 65,741 (69.5)	[115] 21,549 (22.8)	[63] 3,596 (3.8)	[111] 3,766 (4.0)	[295] 94,652 (100.0)

Figures in brackets represent the number of firms
Figures in parentheses represent the share of total

Phase IV: Bureaucrat capitalist development (1947 – 1957)

Main Characteristics of “Big Four” Groups

- All groups were formed and developed centering upon the banking and insurance business, although their business lines were gradually extended to other fields such as international trade, warehousing, shipping, and other manufacturing. (In contrast, the “Big Five” in the 1930s were based on rice business)
- All four were founded by the same dialect group and same business association group
- These newly emerging groups formed a sort of “self-sufficient business empire” where from five to eight associated firms were linked with each other through joint investment, interlocking directorships and marriage. (while the former “Big Five” rice millers were a single-family type business)

Phase IV: Bureaucrat capitalist development (1947 – 1957)

The Syndicate System

➤ This system was originally developed in line with increasing restriction on Chinese capitalists after the early 1950s. Major purposes of setting up a syndicate were :

(1) to consolidate leading Chinese capitalists in each industry into a single association and then control their activity through this organization

(2) to appoint a sole agency for local distribution of major manufactured products and then to monopolize their markets.

➤ The military group set up their own private firms as well as state-sponsored companies, and invited Chinese business leaders to become executive directors and major shareholders in these firms. With this alliance, the Chinese supplied the capital and entrepreneurial skills, and the Thai official provided “protection” for the Chinese.

➤ In addition, under this system, the army and the government could substantially control the existing manufacturing plants with no real investments in production facilities.

Phase V

Industrialization

(1957 – 1985)

Phase V: Industrialization (1957 – 1985)

The Sarit Regime and Industrialization

- Gen.Sarit's coup in 1957 and his revolution in 1958 enabled him to oust his political rivals, the Phin and Phibun groups
- Sarit asserted his conduct did not constitute the military coup d'etat (kan rattaprahan) but a revolution (kan patiwat)
- His purpose, he claimed, was to overthrow the traditional political system inherited from the 1932 Revolution and seek modernization and economic progress

The World Bank's Recommendations

- ❖ The World Bank sent its first economic research mission to Thailand in September 1957 to survey economic problems
- ❖ After one year of research, they suggested the introduction of long term economic plan, improvement and expansion of the infrastructure and the establishment of investment incentives
- ❖ Existing ineffective state enterprises were cited as one of formidable obstacles of industrial growth
- ❖ The basic idea of the World Bank was based the US's strategy of "economic development" as a countermeasure against communist threats

Phase V: Industrialization (1957 – 1985)

The Beginning of Industrialization

- In 1959 the National Economic Development Board (NEDB, later the National Economic and Social Development Board [NESDB] in 1972) was set up. Two years later, the first six-year economic development plan (1961-1966) was implemented under the financial and institutional supports of the US
- The government adopted investment incentive policies in order to attract domestic and foreign private investment. Key measures are the exemption of import duties, tax holidays, a freedom to remit profits out of the country, foreign firms' land ownership, and the labor rights
- Restructuring of import duties, shifting from government's revenue to protect the infant industries
- Redirecting the roles of state enterprises in the economy, mainly focusing on providing the infrastructure and utility services only.

Phase V: Industrialization (1957 – 1985)

Target and Actual Growth of Industries During 1961 - 1981

	First Plan 1961-1966		Second Plan 1967-1971		Third Plan 1972-1976		Fourth Plan 1977-1981	
	(พ.ศ. 2504 - 09)		(พ.ศ. 2510 - 14)		(พ.ศ. 2515 - 19)		(พ.ศ. 2520 - 24)	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Agriculture	3.3	4.6	4.3	4.1	5.1	3.9	5.0	3.7
Mining	5.3	10.9	6.6	8.1	6.0	-0.5	3.2	9.7
Manufacturing	9.3	10.2	10.9	9.2	8.0	8.6	9.6	8.4
Construction	3.9	12.3	11.4	8.4	6.5	4.0	3.0	9.1
Electricity & Water Supply	16.4	18.2	18.0	20.7	15.0	14.4	11.3	11.8
Communication	9.3	9.0	11.0	7.5	6.0	8.1	7.4	8.4
Banking & Insurance	5.5	16.6	17.0	14.4	15.0	5.1	8.1	13.1
Trade	5.5	8.0	8.4	7.7	7.0	4.8	6.3	5.7
GDP	5.5	7.3	8.5	7.2	7.0	6.2	7.0	7.1

Phase V: Industrialization (1957 – 1985)

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Basic Metal	5	11	38	602
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(1)+ (2) + (3) as % of Total	65.10%	61.50%	52.50%	39.20%

Ingram's Conclusions

Ingram concludes his view on Thai economy during 1850 – 1950 as follows:

- We have seen many changes in the economy of Thailand in the sense of an increase in the per capita income, and **not much “development”** in the sense of the utilization of more capital, relative to labor, and of new techniques.
- The principal changes have been the spread of money, increase specialization and exchange based chiefly on the world markets, and the rapidly **growing population mainly absorbed** in the **cultivation of more land in rice**.
- The **economic changes** have occurred **in response to external stimuli**. Thailand has been a sort of passive entity, adapting to changes and market influences originating the world economy

Suehiro's conclusions

- Most capitalists enjoyed the **oligopolistic structure** of the domestic market. So they **did not have an incentive** to expand their business to **become overseas operations**.
- Their **monopolies** have principally **supported by government protective** measures and **financial/technical assistant from foreign firms**.
- The capital accumulation has **not progressed systematically**. In the industrialized countries, the process followed the pattern of **merchant capital → industrial capital → finance capital**.
- On the contrary, the **capital accumulation** in Thailand has been centering around the **import-substitution** industries and **export-oriented agro-business**.

Suehiro's Conclusions (cont'd)

“Unlike Japan and other industrialized, Thai technical experts and factory owners seldom developed their business into big business groups. In addition, manufacturing industries were **concentrated on the production of finished consumer goods for domestic markets**. These types of industries usually **did not require constant innovation** of production technology. Moreover, **foreign partners** constantly **provided necessary technology**.”