1. An overview of the Thai Economy

1

An Overview of the Thai Economy

The aim of this chapter is to briefly review the development of the Thai economy in the postwar period in order to show the background of the changes of income distribution in Thailand. At the same time, we will review the efforts made by the government to reduce income inequality and poverty.

Even in the latter half of the 1980s, Thailand was still dominated by the agricultural sector in the sense that it accounted for more than 60 per cent of employment. On the other hand, Thailand is becoming less and less dependent on agriculture in terms of GDP. The agricultural share in GDP has been decreasing since the 1950s and now is less than 20 per cent. This means that the majority of the people receive only a small part of GDP and that the minority who are engaged in the non-agricultural sector receive a much larger share of GDP. In other words, the labor productivity of the agricultural sector is much lower than that of the non-agricultural one. This is the most important aspect of income inequality in Thailand.

The non-agricultural sector is concentrated in Bangkok, which is the most developed region of Thailand. More than 60 per cent of all urban households live in Bangkok, and more than 80 per cent of all households in Bangkok live in urban areas; in other regions, at most about 12 per cent live in urban areas. The income gap between the agricultural and non-agricultural sectors is reflected in the income gap between Bangkok which is urban and non-agricultural and other regions which are rural and agricultural. Therefore, it can be said that the three aspects of income inequality, agriculture vs. non-agriculture, rural vs. urban, and Bangkok vs. other regions, are all related to the low productivity of the agricultural sector. Thus agriculture is one of the most important factors of income distribution in Thailand.

Figure 1–1 shows the annual growth rate of agricultural GDP at constant prices. It is very clear that the agricultural sector shows a short-term cycle with a length of two or three years. This is largely because agricul-

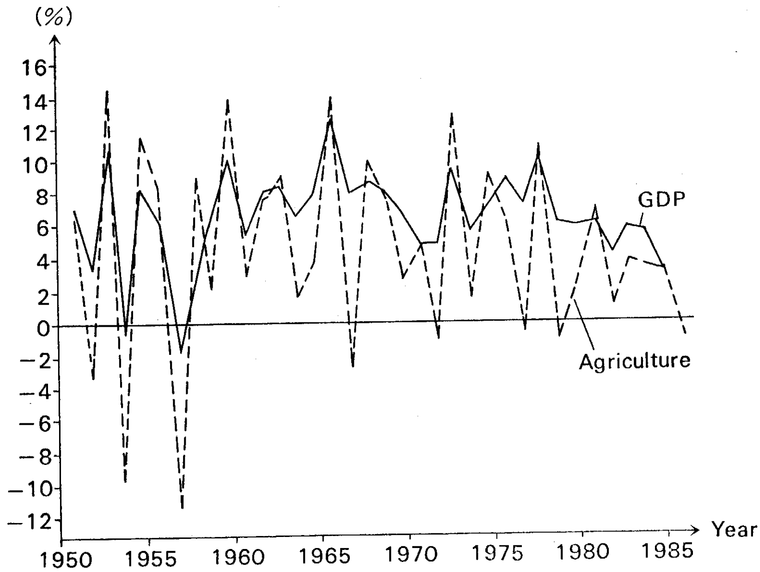

Figure 1-1
Growth Rates of GDP and Agriculture
Source: Ikemoto [20], Figure 6-10.

tural production is affected by weather conditions. This fluctuation implies that income distribution between the agricultural sector and the non-agricultural sector may be very different depending on whether it is a peak or bottom year of the cycle. Due to this aspect, we must be very careful when interpreting the results of income distribution.

Figure 1-1 also shows the annual growth rate of GDP. From this figure we can see that the fluctuation of GDP is similar to that of agricultural GDP. This is a natural phenomenon because the agricultural sector accounts for a large part of GDP, and so long as the other sectors do not counteract the agricultural ones, the fluctuation of the agricultural sector will cause a similar fluctuation in GDP. In the 1950s the agricultural sector fluctuated very violently and therefore GDP also fluctuated, though a bit less violently. But since the 1960s GDP has not fluctuated as much as the agricultural sector has. This is because the agricultural sector became less and less a dominating factor in GDP and its influence on GDP declined.

Table 1-1 shows the percentage share in GDP by industry. The agricultural share decreased rapidly from 47.1 per cent in 1950 to 23.2 per cent in 1985. On the other hand, the share of manufacturing increased from 12.4 per cent in 1950 to 20.7 per cent in 1985. But we should not conclude that the manufacturing sector is still smaller than the agricultural one.

Table 1–1
Percentage Share in GDP

	Old Series							New Series
	1950	1953	1957	1966	1971	1978	1985	1985
Agriculture	47.1	45.2	38.7	36.6	32.2	27.8	23.2	19.9
Secondary	16.5	17.6	19.2	22.9	24.0	28.6	29.5	29.9
Mining	1.5	1.4	1.6	1.8	1.8	1.6	1.6	2.5
Manufacturing	12.4	12.7	13.4	14.2	16.0	20.1	20.7	20.7
Construction	2.5	3.4	4.0	6.2	4.6	5.2	4.8	4.2
Electricity	0.1	0.1	0.2	0.6	1.2	1.7	2.4	2.5
Tertiary	36.4	37.2	42.1	40.5	43.9	43.6	47.3	50.1
Transportation	3.8	4.8	5.8	6.2	6.0	6.2	6.9	7.1
Wholesale	13.1	15.2	17.7	16.0	17.3	16.7	15.8	16.3
Banking	0.6	0.8	1.5	2.8	4.2	5.1	7.4	3.0
Dwelling	3.7	3.3	3.3	2.2	2.0	1.6	1.5	4.4
Public administration	5.5	4.3	4.6	3.9	4.5	3.9	4.0	5.4
Service	9.6	8.8	9.2	9.4	10.0	10.1	11.7	13.9
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ikemoto [20] Table 5 and NESDB [62].
Note: At 1972 constant prices.

Here we used the old series of national income statistics because the NESDB estimated the new series only for the years after 1970.[1] Using the new series, we can see that the share of manufacturing already exceeded that of agriculture in 1981 measured at current market prices and in 1984 measured at current factor costs. Thus the agricultural sector is gradually losing the power to lead the Thai economy that it had in the 1950s. Now this position has been replaced by that of the manufacturing sector.

Figure 1–2 shows the growth rates of GDP and those of the agricultural and manufacturing sectors, where a three-year moving average is used in order to eliminate short-term fluctuations. This figure clearly shows the medium-term trade cycle of GDP with a length of about fifteen years, which is generally called the Kuznets cycle. By using both this figure and that of the annual growth rate of the original data before the three-year moving average was estimated, we can determine the exact years of peak and trough. The peak years are 1953, 1966, and 1978 and the trough years are 1957, 1971, and 1985.[2] We could not show the upturn after 1986 caused by the export and foreign investment boom because the old series of national income statistics are not given after 1986. But evidently the Thai economy has now entered into a new upturn of the medium-term trade cycle.

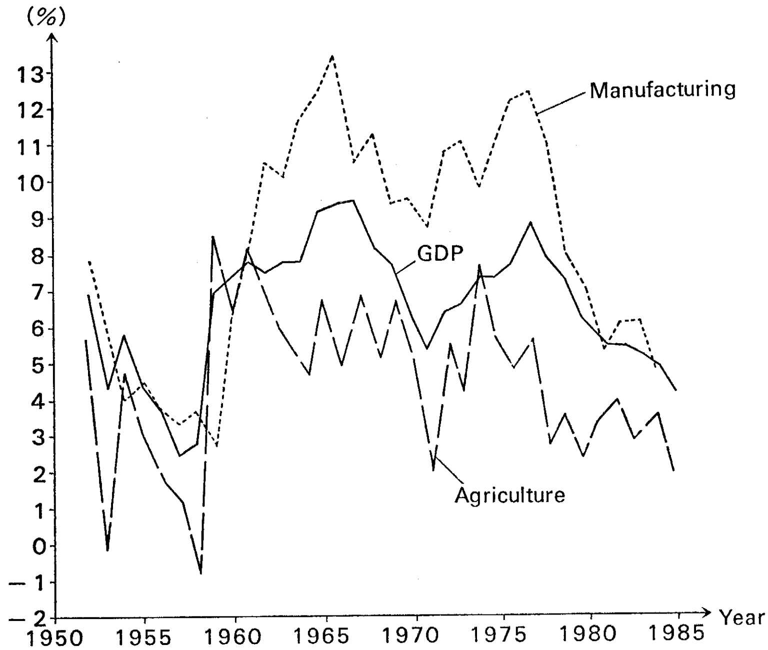

Figure 1–2
Growth Rates of GDP, Agriculture, and Manufacturing
(Three-year moving average)
Source: Ikemoto [20], Figure 8.

Figure 1–2 also shows that the medium-term cycle of GDP coincides with that of the manufacturing sector rather than that of the agricultural sector. This indicates that the manufacturing sector led GDP growth in the 1960s and 1970s. Thus it may be said that the medium-term cycle of GDP is caused by the manufacturing sector while the short-term cycle is caused by the agricultural one.[3]

Now we will review the Thai economy according to this medium-term trade cycle. At the end of the sluggish period between 1953 and 1957, Field Marshal Sarit Thanarat lead a coup d'etat to exile Phibun Songkhram. On this occasion, economic policy was drastically changed. Before this coup, industrialization policy depended heavily upon state enterprises to reduce the influence of Chinese capitalists.[4] "The most ambitious of the government enterprises, and the one which brought the system into some discredit through becoming a political scandal, was the National Economic Development Corporation Limited (NEDCOL). . . . Field Marshal Sarit, who ousted Field Marshal Phibun Songkhram by a military coup a few months later, made a major political issue of the government losses of funds through NEDCOL, and thereafter discouraged the formation of new government enterprises " (Silcock [52], pp. 262–63). In 1958 the world bank sent a mission to Thailand " to help the Government plan its contribution to the economic and social development of the country during the next several years, and to advise on the forms of organization which were likely to be most effective in fostering the development " (I.B.R.D. [16], p. vii). Their recommendation was in accordance with Sarit's development strategy, that is, to discourage the formation of any new government enterprises. While the government refrained from direct participation in industries, the role of the government was limited to supporting the private sector by providing such infrastructure as electricity, transportation, communication, etc., and to promote domestic manufacturing industries by investment incentives and tariff protection. Thus a typical import-substitution industrialization policy was adopted. A characteristic of import-substitution in Thailand is that it is lead by the private sector, which the government supports.

The easy phase of import-substitution began in the early 1960s. The growth rate of the manufacturing sector increased in the first half of the 1960s and led GDP growth (see Figure 1–2). At the same time the growth rate of investment also increased (see Figure 1–3). Even though the agri-

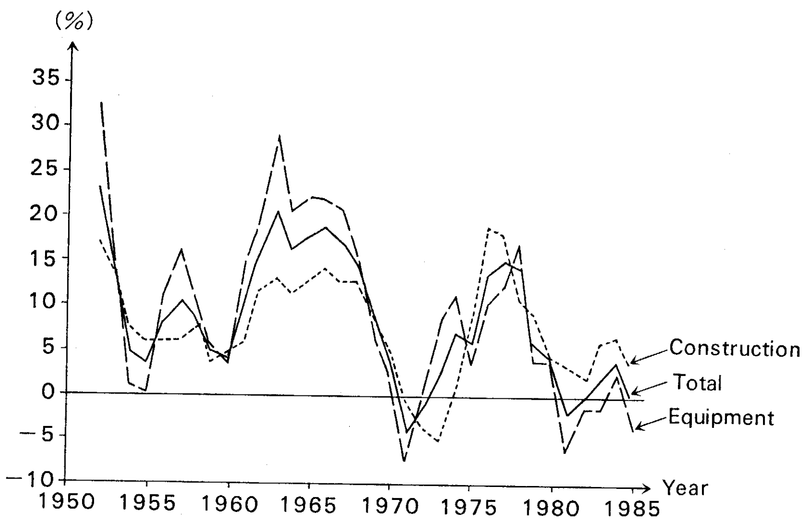

Figure 1–3
Growth Rate of Investment (Three-year moving average)
Source: Ikemoto [20], Figure 6-3.

cultural sector attained a rather high growth rate, the rapid growth in this period benefited those engaged in the non-agricultural sector more than those engaged in the agricultural one. Therefore, the income gap between agriculture and non-agricultural sectors or between Bangkok and other regions became an important issue for the Thai government. Thus the second National Economic and Social Development Plan (1967–71) already took up regional and local development as one of the most important issues. One of the projects for this purpose was that of Accelerated Rural Development (ARD). "The ARD project includes all the border provinces (11 in the Northeast and 3 in the North) from Udon Thani to Chiang Mai . . . . The Project aims at reaching these selected provinces, counties and villages at the fastest possible rate and with the most effective economic results. A major political objective is to increase the development potential in the remote areas and to prevent subversion and infiltration" (NEDB [56], p. 71). For the Thai government, regional development, especially development of the Northeast, which is the poorest region in Thailand, was not only an economic but also a political matter. To prevent communist infiltration from neighboring countries, the Thai government had to raise the living standard of the Northeast and the North.

Toward the end of the 1960s the easy phase of import-substitution began to reach its end. The growth rates of GDP, manufacturing, investment, etc., all decreased. The Indochinese situation, which was unfavorable to Thailand, was another factor in the decrease. The withdrawal of U.S. military troops meant the loss of U.S. military expenditure in Thailand. Not only was this military expenditure lost but exports also stagnated in this period (see Figure 1–4). "This period was bad for rice and rubber, whose export share declined from 35 and 19.3 per cent during the period 1961–65 to 25.9 and 14.6 per cent during the period 1966–70. The aim of the trade policies of the Third Plan dealt with measures to correct the balance of payment deficit through the promotion of agricultural and manufacturing exports" (Bangor [7], pp. 215–16). In 1972 the Export Promotion Act was promulgated which provided export incentives, and in 1973 exports increased rapidly. However this was "a result of sudden increases in world prices of manufactured products rather than the promotion policy" (Kaosa-ard [26], p. 178).

This was also the year in which the first oil crisis occurred. Though Thailand was an oil-importing country, it was not affected seriously by the oil crisis because a commodity boom occurred simultaneously, which increased the value of commodity exports and agricultural income. Another event which happened in the same year was the October Revolution of 1973. The democratic and welfare-oriented governments set up by this

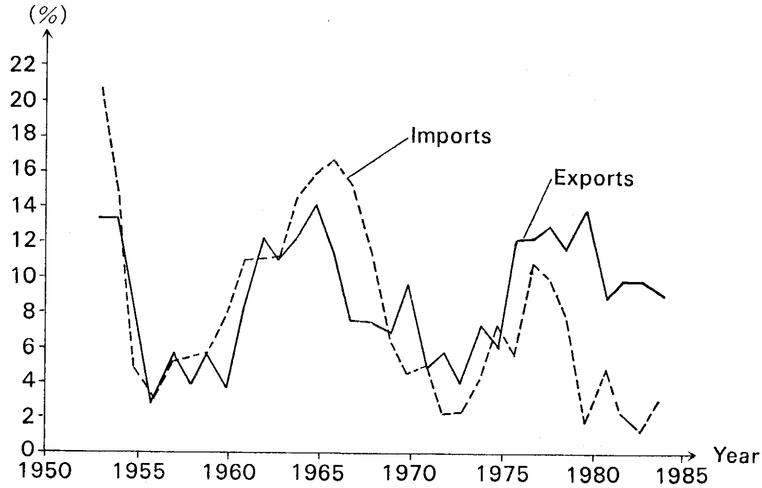

Figure 1–4
Growth Rates of Exports and Imports (Five-year moving average)
Source: Ikemoto [20], Figure 6–2.

revolution lasted for only three years (until 1976). But during this short period several measures were taken by the government to develop rural areas. In 1974 the Farm Rent Control Act was promulgated, and in 1975 the Agricultural Land Reform Act was enacted and the Tambol Council Project begun. This project aimed at creating rural jobs in the farmers' slack season, which increased the central government's capital transfer payments to local governments. During this politically instable period, private investments decreased. The real growth rates of private investment for equipment were −10.1 per cent in 1975 and −6.6 per cent in 1976. All these conditions that are favorable to agriculture and unfavorable to the non-agricultural sectors acted to reduce income inequality between rural and urban areas and between Bangkok and other regions; accordingly, they acted to reduce overall income inequality.[5]

In 1976 the democratic period came to an end. But a Keynesian-type policy of government intervention was adopted by the new governments. As mentioned above, in terms of the medium-term trade cycle a trough year was reached in 1971, the next peak year being 1978. In spite of the oil crisis and political instability, the Thai economy was on an upward trend which was largely led by the government sector. Even though the Thai government refrained from establishing new state enterprises, it began to intervene by public expenditures. This brought about government and trade deficits. Thus, when the second oil crisis broke out in 1979, it severely hit the Thai economy and the government sector because at this time no commodity boom occurred. This time the government deficit and debt problem was the most important issue for the Prem government. As a result, the growth rate of government expenditure was limited to a certain level. Expenditure for the Rural Job Creation Projects also decreased gradually. The number of workers involved in these projects decreased from four million in 1981 to two million in 1983.[6] Due to the government's tight expenditure policy and unfavorable commodity prices, the Thai economy went downwards on the medium-term trade cycle until 1985. In 1985 manufacturing production was stagnant and agriculture much worse. In nominal terms the share of manufacturing in GDP remained unchanged at around 22 per cent but that of agriculture decreased from 18.0 per cent to 16.7 per cent. This is mainly due to the decrease in agricultural prices. This severely hit the agricultural sector and increased income inequality between rural and urban areas.

In 1986 the Thai economy recovered gradually, this being directly and indirectly due to the global adjustment that occurred after the Plaza Agreement of 1985. In 1986 exports to Japan and the Asian NIES began to increase. In 1987 exports to the United States increased and private investment recovered. At the same time foreign direct investment began to increase. In 1988 the GDP growth rate exceeded 10 per cent. Now the per capita GDP of Thailand exceeds US$1,000, and it is often argued that in the very near future Thailand will become the fifth NIES in Asia. Even though this rapid growth caused problems in many aspects of the Thai economy, the preliminary result of the *Socio-Economic Survey of 1988* indicates that the income inequality decreased in 1988.