

## DEVELOPMENT AND TRADE: AN APPRAISAL OF THAILAND'S RECENT EXPERIENCE

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SINCE THAILAND IS BY NO MEANS A CLOSED ECONOMY, IT can naturally be expected that serious attempts made at developing the country will make themselves felt on her external trade and that, at the same time, whatever changes brought about in her external trade will have repercussions on the domestic economy. This paper is a modest attempt to assess the impact of Thailand's first National Economic Development Plan (1961-1966) on her foreign trade and payments position and to analyze the long-run prospects of the economy in the light of recent trends in her external trade.

In 1951, the first year for which a reliable estimate of Thailand's national income is available,<sup>1</sup> her exports amounted to 4,413 million baht while her national income stood at 25,340 million baht. Exports thus constituted about 17.4% of national income. The relationship between exports and national income in more recent years is shown in the following table:

Table 1. Thailand's Exports and National Income  
1955-1963

Year	Exports (million baht)	National Income (million baht)	Exports (expressed as percentage of National Income)
1955	7,121	34,828	20.4
1956	6,923	36,457	19.0
1957	7,540	36,838	20.5
1958	6,447	38,270	16.8
1959	7,560	41,893	18.1
1960	8,614	47,683	17.8
1961	9,997	50,068	19.9
1962	9,529	54,536	17.5
1963	9,676	57,863 *	15.7
1964	12,339		

\* Preliminary

Sources: Department of Customs, *Annual Statement of Foreign Trade of Thailand*, 1964 and Office of National Economic Development Board, *op. cit.*

It appears from the figures that between 1951 and 1963, despite some fluctuations, the relative importance of exports has changed very little. If anything, it may even have declined, though it must be noted that the national

<sup>1</sup> Office of the National Economic Development Board, *National Income Statistics of Thailand*, 1964 edition.

income figure for 1963 is only preliminary. In other words, it is roughly correct to say that Thailand at present is as dependent on exports as she was in 1951.

Though the target was not set at first, in the Second Phase of the National Economic Development Plan (1964-1966), it is envisaged that the value of exports will increase at the rate of 4% per annum. It is against the background of this general objective that recent performance of exports must be viewed.

It is clear that from 1955 to 1960, export value grew at an average rate of about 4% per annum, despite the setback of 1958 when a combination of circumstances, largely beyond Thailand's control, reduced her export value by as much as 4%. On the other hand, during the Plan period, for which complete data are available only up to 1964, export value has grown at an average rate of about 7% per annum, the small setback of 1962 being more than made up for by the substantial gain of 28% in 1964. In view of this, the target set by the plan for the annual rate of increase in export earnings of 4% is unnecessarily modest.

Of course, it would be rash to attribute better over-all performance in export earnings (during the Plan period) to deliberate planning efforts alone, since this depends on demand and supply conditions both at home and abroad. In a sense, supply conditions for exportable agricultural products at home are as difficult to control as their demand and supply situation abroad. Moreover, a careful scrutiny of the figures reveals that export value recovered substantially, even before the Plan period, as is borne out by the performance of 1959 and 1960. It may well be that the Plan period has gained simply from the momentum of the recovery from the 1958 "dip" as the figure for 1961 suggests. When viewed in this light, the Plan period so far, has had nothing to show for except 1964, when the rate of growth of export value exceeded that for any other year since 1955. When it is also remembered that development efforts will take time to make their impact felt on export performance; 1964 is a rosy indicator for the future. Indeed, figures available for the first seven months of 1965 compare favorably with the corresponding ones of 1964. A final judgment on this will, however, have to be reserved until a clear trend emerges over a number of years.

Underlying the export performance is the gradual diversification of Thailand's export base, which normally insures that losses sustained in some export commodities are compensated for by gains in others. Table 2, which follows, gives the relative importance of major export commodities over the period extending from 1955 to 1964.

Table 2. Major Export Commodities, 1955-1964.  
(Expressed as percentages of total export value)

Year	Rice	Rubber	Tin	Maize	Tapioca Products	Teak	Jute & Kenaf	Sugar	Others
1955	44.0	25.6	6.1	1.1	0.7*	3.7	...	...	18.8
1956	41.2	22.0	7.4	1.4	1.3*	4.4	...	...	22.3
1957	48.0	18.7	7.0	1.0	1.8	3.4	...	...	20.1

\* flour only

1958	46.0	20.5	3.9	2.8	3.0	3.7	1.0	...	19.1
1959	36.5	31.0	5.7	3.3	2.9	3.2	1.1	...	16.3
1960	29.8	30.0	6.2	6.4	3.4	4.1	2.6	...	17.5
1961	36.0	21.4	6.2	6.0	4.5	2.5	6.3	...	17.1
1962	34.0	22.1	7.2	5.3	4.4	1.8	6.1	...	19.1
1963	35.4	19.7	7.7	8.5	4.5	1.4	3.7	1.2	17.9
1964	35.5	16.7	7.8	10.5	5.3	1.5	4.0	1.7	17.0

... negligible

Source: Department of Customs.

Traditional major export commodities are (in descending order of importance): rice, rubber, tin and teak. The relative importance of rice, rubber and teak has declined markedly over the years, while tin has more or less retained its former position. The rise of maize to the fourth rank in 1959 and the third in 1960 and, as from 1963 onwards, deserves particular notice. Similarly, the greater relative importance of tapioca products and jute and kenaf, as compared to teak, as from 1961 onwards, indicates a clear trend towards diversification of Thailand's export base. A newcomer which has appeared on the scene only recently is sugar, whose long-term prospects are still uncertain.

Percentages should not, however, blind us to the reality of the absolute figures. Despite the reduced relative importance of rice, export earnings from it reached in 1964 a new post-war peak which was even higher than that of 1953. Similarly, earnings from tin export in 1964 was a post-war record. It is true, of course, that the export value of rubber and teak has, so far, failed to reach their peak of 1960.

Obviously, there must have been changes in the domestic economy responsible for the gradual diversification of Thailand's export base. In this connection, it is worthy of note that Thailand still remains essentially an agricultural country; for, while the contribution of agriculture to gross national product was 35.1% in 1963 as compared to 50.1% in 1951, the relative share of manufacturing industry in 1963 was 11.7% as against 10.3% in 1951. A significant gain in transport and communication has been recorded, its share in gross national product being 8.5% in 1963 as compared to 3.1% in 1951. This is understandable in view of the stimulus given by development efforts and export expansion to transport service in particular. Development efforts themselves have partly assisted in the process of agricultural diversification, since remote areas of cultivation have been linked up with market areas, especially Bangkok—the exporting center—by means of newly constructed roads and highways.

It is clear from Table 3 that a gradual process of agricultural diversification has taken place in the Thai economy during the past fourteen years or so. Rubber, chilli, vegetables and, to a less extent, fruits, have declined in relative importance, while paddy, coconut, sugar cane, maize, groundnut, tapioca, kenaf and kapok (most of which are the sources of fairly new export commodities) have gained in relative terms. Among those that have declined in relative importance, only rubber is significant—from the point of view of exports—and it is worthy to note that, in absolute terms, the value of

Table 3. Composition of Gross Domestic Product Originating from Agricultural Crops, 1951-1963.

(Expressed as percentages of total value of gross domestic product)

Year	Paddy	Rubber	Coco- nut	Sugar cane	Maize	Ground nut	Tapioca	Kenaf	Kapok	Chilli	Vege- table	Fruits	Others
1951	45.0	19.4	5.3	1.1	...	1.3	...	...	—	3.9	5.9	15.9	2.2
1952	49.6	13.2	6.1	1.4	...	1.7	...	...	—	3.5	4.8	16.6	3.1
1953	50.4	8.3	5.8	1.6	...	2.5	...	...	—	2.8	5.5	19.3	3.8
1954	39.2	11.2	7.6	2.5	...	3.0	...	...	—	2.9	6.3	22.5	4.8
1955	43.3	14.5	7.9	2.4	...	2.2	...	...	—	1.4	5.3	18.6	4.4
1956	45.0	11.6	8.3	3.3	1.0	1.9	...	...	—	1.2	5.3	18.7	3.7
1957	33.1	11.7	10.3	3.6	1.0	3.3	...	...	3.6	2.1	5.9	20.7	5.0
1958	38.7	8.5	7.7	3.0	1.2	2.7	...	...	3.6	...	6.2	21.9	6.5
1959	35.2	12.7	9.1	3.4	1.6	2.4	1.2	...	2.4	1.1	5.6	19.7	5.6
1960	35.0	11.3	7.2	2.9	2.8	3.3	1.4	2.9	3.8	2.1	4.9	17.2	5.2
1961	38.5	8.9	5.1	2.2	3.3	1.8	2.3	6.1	2.0	2.1	4.9	17.3	5.5
1962	46.8	7.3	4.2	1.7	3.0	1.8	4.1	1.4	1.1	2.1	4.8	15.9	5.7
1963	47.6	6.9	5.9	2.1	4.2	1.6	2.5	1.7	1.2	2.7	4.5	15.4	3.7

Source: Office of National Economics Development Board, *op. cit.*

... = Negligible

rubber produced, though not its quantity, has declined. Indeed, the acreage planted to rubber as well as the area which can be tapped has increased significantly in recent years, but its average value has so declined that the value of output has not reached the 1951 figure.<sup>2</sup> Among those that have gained in relative importance, the case of paddy is curious, since its share was on a downward trend up to 1957 and then made a surprising recovery. In absolute terms, both its harvested area and total output have, in recent years, increased along with productivity per acre, and thus, its falling share in total export value (noted above) can only be attributed to relative difficulties in selling to world markets and to pressure of domestic demands. In the same category as rice, the production of maize, tapioca and kenaf has responded to export demands, especially since 1960, though the stimulus given to domestic production of agricultural crops has not necessarily originated from export markets alone. Sugar cane, for instance, was grown to feed sugar mills designed originally for domestic needs; it was not until 1962 that fairly substantial amounts of sugar were exported. Included in the "others" column is cotton which has also gained in relative importance owing to the efforts the country has been making in developing its textile industry.

Export performance has been due, not only to gradual diversification of its base, but also to favorable terms of trade prevailing in recent years. Table 4 gives the relevant data pertaining to this.

Table 4. Thailand's Terms of Trade, 1956-1964 (1958 = 100)

Year	Unit Value of Export	Unit Value of Imports	Quantity of Exports	Net Barter terms of Trade	Income of Trade*
1956	98.16	100.68	109.27	97.49	106
1957	97.52	103.34	119.78	94.37	112
1958	100.00	100.00	100.00	100.00	100
1959	105.85	98.72	110.86	107.22	119
1960	109.08	100.40	122.58	108.65	133
1961	106.07	101.70	146.30	104.30	153
1962	104.31	95.54	141.80	109.18	154
1963	102.59	94.47	146.41	108.59	158
1964	103.43	94.63	185.18	109.30	201

\* Calculated from official figures contained in this table.

Source: Bank of Thailand.

It is clear from Table 4 that the net barter terms of trade—a measure of relative export and import unit values—have been favorable to Thailand in recent years, simply because export prices have, on the average, risen faster than those of import. As far as export unit value is concerned, it must be noted that its favorable movement is not a separate phenomenon from, but is a manifestation of, the gradual process of diversification of Thailand's export base to the extent that this affects the supply side of world commodity

<sup>2</sup> Both the export value and quantity of rubber, nonetheless, increased between 1951 and 1963. While rubber output is meant almost entirely for export, the decline in value of total output between 1951 and 1963 must be due partly to the fact that exports are from stock as well as from current production and partly to the possibility that the GDP figures are based on domestic prices rather than f.o.b. export prices.

markets. No attempt has, of course, been made here to systematically trace movements of the net barter terms of trade up to 1951. It can, however, easily be seen that, by relating this more recent series of data (1958=100) to those of earlier years (1953=100), 1964 was a great improvement on the Korean War peak year of 1951, 106 being derived as the net barter terms of trade for 1964 as compared with the figure of 82 (1953=100) for 1951. The same holds true for the index of quantity of exports, 212 being the figure derived for 1964 as compared with that of 106 for 1951 (1953=100). Of course, all these assume that the construction of the two indices with two different base years is such as to allow a simple adjustment to a common base year.

Even more substantial gain is seen when the "income terms of trade," which also take into account movements in the quantity of exports, are examined. This is due to the fact that the quantity of exports has increased much faster than their unit value, thereby expanding the "capacity to import." In a sense, to regard the income terms of trade as a measure of the capacity to import may be sound practice, provided that there is no inflow of grants and capital. In the case of Thailand in recent years, however, the income terms of trade alone do not give a fair indication of her "capacity to import" largely because there has been a substantial inflow of grants and capital not to mention additional invisible earnings.

Table 5. Thailand's Balance of Payments, 1956-1964 \*  
(millions of baht).

A. Goods, Services & Private Transfer Payments	1956	1957	1958	1959	1960	1961	1962	1963	1964
	-512	-968	-1,672	-1,358	-729	149	-1,348	-2,286	-1,104
B. Private Capital Movements	66	54	99	233	228	756	1,506	1,614	1,505
C. Official Capital Movements and Transfer Payments	798	1,142	719	1,033	902	545	795	1,025	785
D. Net Errors and Omissions	-54	-69	452	219	618	196	342	596	1,251
E. Total	298	159	-402	132	1,019	1,646	1,295	949	1,437

\* Rearranged and adjusted.  
Source: Bank of Thailand.

From 1951 to 1964 (detailed figures are not shown in Table 4 for the years preceding 1956), Thailand's balance payments on current account was almost always in deficit, though when official grants and capital movements are taken into account, the total balance of payments was almost always favorable, the exceptions being 1953, 1954 and 1958.<sup>3</sup>

It is clear from an analysis of the balance of payments that Thailand has been assisted largely by official capital movements, official transfer pay-

<sup>3</sup> Actually, the balance of payments in 1959 is seen to be passive only when the quota contribution to the I.M.F. (171 million baht) is taken into account. However, if this is left out of the picture, there appears a favorable balance of 132 million baht.

ments and an inflow of private capital. Official capital has consisted largely of grants whose magnitude seems to have shown an unsteady trend. Private capital inflow, on the other hand, has been on a rising trend and since 1961, has been quantitatively much more important than official capital. Indeed, Thailand claims to be one of the very few countries in South East Asia which is able to attract more and more foreign private capital. It is not often realized that Thailand can be independent of foreign aid, if the present trend of such capital inflow should persist, even though she continues to import goods which are now donated. Of course, the long-run effect of repatriation of capital, interest, and profits on the balance of payments is quite another matter.

The need for compensating capital movements arises out of the basic problem of trade imbalance. Between 1951 and 1964, export value rose at the average annual rate of about 8% while import value rose at a higher average annual rate of 11%. Thus, even though there was a small positive balance of about 700 million baht in 1951, there emerged a trade gap as time went on. Part of increasing imports was, of course, connected with the efforts of the government to engender economic development, as is clear from the changing import structure revealed by the following table.

Table 6. Composition of Thailand's Imports, 1951-1963.  
(Percentage distribution of total value)

Year	Consumption Food	Goods Others	Materials Chiefly for Consumption Goods	Materials Chiefly for Capital Goods	Capital Goods
1951	13.6	45.4	9.4	6.5	25.1
1952	13.1	39.6	8.8	7.9	30.6
1953	10.5	38.0	9.1	8.0	34.3
1954	9.6	38.3	10.1	8.6	33.4
1955	8.5	40.3	11.3	9.2	30.7
1956	8.7	47.7	12.0	8.9	32.7
1957	8.2	33.5	12.2	10.6	35.5
1958	9.6	31.5	12.3	10.6	36.0
1959	8.2	33.0	12.6	9.8	36.4
1960	8.2	31.0	12.1	11.1	37.6
1961	7.6	31.7	13.9	10.1	36.7
1962	6.6	29.4	13.8	10.4	39.8
1963	6.4	25.6	14.3	10.1	44.2

Sources: *United Nations, Economic Survey of Asia and the Far East*, 1963 and 1964.

Owing to the tremendous amount of work involved in calculating the percentage distribution of import value over the last 13 years or so directly from trade returns, resort has to be made to ECAFE statistics in Table 6. They show that, over the years, materials chiefly for capital goods, and capital goods taken together increased their share from almost one-third to over half of the total import value with the result that the combined share of consumption goods and materials chiefly for consumption goods, declined

substantially. The share of materials chiefly for consumption goods alone, however, rose largely because of the fact that as the process of import substitution and industrialization gathered momentum, more and more intermediate products were required for domestic production of consumption goods.

With due respect paid to the utility of ECAFE's activity in collating and disseminating such statistics, the inherent difficulty involved in practical assortment of import items into consumption and capital goods, must not be lost sight of. Take the case of "transport equipment": it is not easy, merely by looking at the figures alone, to segregate vehicles destined primarily for consumption from those meant to be used chiefly as an aid to production. The Office of the NEDB in its *National Income Statistics* (1964 edition) publishes data related to the *net* imports of capital goods at current prices, which appear to show that, while such imports have increased its relative importance, their share was much smaller than ECAFE figures suggest. For instance, the share for 1963 appears to have been only 37%. It must be pointed out that the discrepancy is due, not so much to the fact that Thailand may export some capital goods, but to differences in practical classification of consumption and capital goods.

What is worthy of note is that, as imports changed its structure, the average propensity to import also increased from about 15% in 1961 to about 22% in 1963. It can safely be inferred that the marginal propensity to import has also been rising, since the average figure cannot rise unless the marginal one does so. Herein lies the long-run danger to the balance of payments of Thailand; for if development efforts succeed in raising national income, this may push up the marginal propensity to import further. This is probable, particularly because additional income generated may not be able to find its outlets merely in domestic products, especially if development works in the direction of making income distribution more unequal and additional income is spent on luxury or semi-luxury goods not produced at home. It will be unfortunate if economic development brings about difficulties in the balance of payments, especially if the inflow of private and official capital drops from the level obtaining in recent years. It may well be true, of course, that should foreign aid cease or decline significantly, both the marginal and average propensity to import may drop, owing to the forced curtailment of imports of capital goods. In other words, it may well be argued that, should the favorable trend in the capital account be reversed, Thailand can simply accept the necessity of development at a slower rate and thereby avoid balance of payments crises. Whether this is politically wise is quite another matter.

The author's own feeling is that, in such an event, the pressure on the balance of payments may force the Government to change its exchange rate to facilitate the process of adjustment. It is not clear whether a search for an "equilibrium" rate is meaningful in the dynamic circumstances of international trade. Before the Second World War, the rate of exchange was 11 baht to 1 pound sterling; after it, this was fixed at 60 baht to 1 pound sterling. Yang<sup>4</sup> attempts to work out an "equilibrium" rate of exchange which

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<sup>4</sup> *A Multiple Exchange Rate System — An Appraisal of Thailand's Experience, 1946-1955*, 28-29.

a formula derived from the purchasing power parity theory and arrives at the rate of 60 baht to 1 pound sterling, which is very close to the actual rate set by the government in 1945.<sup>5</sup> More recently, after having joined the I.M.F. in 1949, Thailand decided in 1963 to meet her obligation, under IV.1 of the Articles of Agreement, by setting the par value of the baht at 0.0427245 grams of fine gold or US\$0.4808. In other words, 20.80 baht would officially be equal to US\$1 as from 20 October 1963, a few days after the date of declaration of the par value. The reasons why Thailand had delayed for so long in meeting this obligations to the I.M.F. and in choosing that particular date as the right moment, are clear from the government communique:

Thailand has been a member of this organization [I.M.F.] since 1949... but has not so far fixed an initial par value for the baht, seeing that monetary conditions since the end of Second World War has not yet returned to normal. Thailand employed a multiple exchange rate system from 1947 to 1955, when the exchange rate was unified and since then only the free market rate has been in use. During the past five years, the internal monetary situation has been satisfactory... . The exchange rate during this period has enjoyed a great degree of stability... .

In fact, declaration of the par value was a formal recognition of what had persisted *de jure* for several years. The point that the present author wishes to emphasize is that there is no guarantee that this rate of exchange is the "equilibrium" one, whatever is meant by the term, and that should there be unfavorable changes in the level of inflow of private capital and official grants, pressure will develop for the devaluation of the baht from its present official rate of exchange. Of, course, this will, among other things, have serious repercussions on the Thai level of living and welfare, at any rate, in the short run.

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<sup>5</sup> The price indices for the United Kingdom and Thailand in 1945 (1938=100) were respectively 152 and 905. The formula used is thus:

$$1 \text{ pound sterling} = \frac{11 \times 905}{1 \times 152} = 66 \text{ baht.}$$