



Summary of Proceedings

THE 1989 TDRI YEAR-END CONFERENCE

"Thailand in the International Economic Community"

In recognition of the recent economic boom being experienced by Thailand, as well as public- and private-sector concerns about the significant challenges this rapid economic growth poses to the country's future development, TDRI's Sixth Year-End Conference focused on economic issues. Particular emphasis was placed on Thailand's future role in the international economic community in a changing climate of world economic policies.

More than 550 participants attended this year's conference, which was held at the Ambassador City, Jomtien, Chonburi on December 16-17. Through the services of IBM, (Thailand) Co. Ltd., conference participants were provided with wide-screen visuals as an aid in following conference seminars and presentations. Simultaneous translation was provided as well. The aims of this year's conference were:

- To disseminate information about near- and medium-term Thai economic prospects as they relate to changing economic policies and the world economy.
- To provide a forum for discussing how various economic sectors maintain a competitive edge in trade and how to attract foreign investment.
- To set guidelines on how to manage the external sector in response to changing world trading systems.

Following is a summary of the proceedings at the conference.

INTRODUCTORY REMARKS

The conference began with an opening address by Dr. Snoh Unakul, Chairman of the Council and the Board of TDRI. In lieu of the traditional president's speech, Dr. Phaichitr Uathavikul, President of TDRI, introduced the slide/video, "TDRI: Five Years Later," which highlights the Institute's history, objectives, accomplishments and plans for the future.

TDRI'S ECONOMIC FORECAST, 1990 - 1994

Chairperson: *Dr. Phaichitr Uathavikul*
President, TDRI

Presenter: *Dr. Virabongsa Ramangkura*
Director
Macroeconomic Policy Program

TDRI

Dr. Virabongsa presented TDRI's forecast about the outlook for the Thai macroeconomy in the next decade. TDRI researchers concluded from their findings that Thailand is presently being transformed into a country experiencing rapid industrialization and an increasingly unstable external environment. The Thai economy's impressive growth during the late 1980s will continue through the early 1990s, albeit at lower rates than in 1988. Although the outlook for the world economy is not optimistic due to a disruption of

world trade by a climate of increasing trade protectionism and retaliation, the resulting adverse effects on Thailand's economic performance will be only moderate. While deficits in trade and current accounts will be large, they will be slowing down in the near future. During the early 1990s, huge capital inflows will continue, resulting in a large surplus in the balance of payments and international reserves. In addition, the relatively high inflation experienced in 1989 will continue in 1990 but will decrease in 1991 and 1992.

INTERNATIONAL PANEL DISCUSSION ON PROSPECTS FOR THE FUTURE OF THE THAI ECONOMY

Chairperson: *Dr. Snoh Unakul*

Chairman of the Board and Council
TDRi

Participants: *Professor Staffan Linder*

President
Stockholm School of Economics
Sweden

Professor Seiji Naya
Vice President, East-West Center
University of Hawaii, U.S.A.

Dr. Sylvia Ostry
Special Adviser to the Secretary of State for External Affairs, Canada

Following the TDRi forecast, foreign experts provided their views through a panel discussion on future economic conditions in the world and in Thailand. The panelists agreed that there would be increasing uncertainty about the world trading system. The trade policies of major Thai trading partners such as the United States will deviate from the free trade system to a multitrack policy that will combine multilateralism, bilateralism, and unilateralism. These countries have defended their actions by claiming that retaliation was necessary for maintaining fair competitiveness in a climate where various forms of trade barriers existed in countries that were trading partners. For example, the European Community (EC) countries will soon combine into a single market, which will result in increasing trade barriers against nonmember countries. However, Professor Linder viewed that the EC single market's impact might be less harmful than expected because trade negotiations with EC countries would be conducted through a single, integrated group of countries rather than by separate negotiations with different countries. Additionally, the EC integration into a single market might create a trade expansion effect with a magnitude that is greater than the trade diversion effect. As a result, not only would trading procedures with EC countries possibly be simplified, but there might also be net welfare gains from the EC unification. Nevertheless, the panelists agreed that the trading system for all countries will increasingly evolve into managed trade. Therefore, all developing countries should seek to have industrialized countries adhere to multilateral trade negotiations so that they will trade in a way that follows the GATT rules.

Regarding Thailand's future growth prospects, Professor Naya expressed the view that Thailand will not become a NIC in the same form as Korea or Taiwan because it is richer in natural resources and because its per capita income is still far too low to be able to approach that of the current NICs. However, Thailand does show a very strong growth potential, and all indications are that the Thai economy will be able to grow at a very high rate in the future. Additionally, Thailand has the advantage of an existing, hard-working, highly motivated labor force. Moreover, because the Thai bureaucracy is still relatively small compared with other LDCs, appropriate public policy has been consistently implemented despite frequent changes of government over the last decade. However, there are hindrances to the Thai economy's future growth that need to be addressed:

- Thai economic policy formulation and implementation might encounter political problems that will erode the independence and efficiency of the bureaucratic system.
- Thailand's shortage of technologically trained workers will become more acute as the production process shifts from a labor-intensive system to one that employs more capital- and technology-

intensive methods.

- Finally, there might be supply-side adjustment problems. Some government trade and industrialization incentive policies can create domestic price distortions and are discriminatory toward certain industries. These distortions must be corrected, more liberal policies adapted, and a uniform standard applied across all industries.

THE DYNAMICS OF THAILAND'S EXTERNAL ECONOMY

Chairperson: *Dr. Phisit Pakkasem*
Secretary-General, NESDB

Presenters: *Dr. Ammar Siamwalla*
Program Director, Agriculture and
Rural Development Program, TDRI
Dr. Somchai Phakaphasvivat
Former Adviser
The Securities Exchange of Thailand

Discussants: *M.R. Pridiyathorn Devakula*
Director and Executive Vice President

Thai Farmers' Bank
Dr. Chaiyawat Wibulswasdi
Director, Department of
Bank Supervision and Examination
The Bank of Thailand

This session specifically addressed how rising interest rates, the 1979 oil price hike, and the drop in prices of agricultural commodities all adversely affected Thailand's economy in the early 1980s. These factors had a very strong impact on foreign trade deficits, the repayment of foreign debts, and domestic inflation. Initially, government policy in 1981 involved devaluation of the baht and controlling existing credit systems. Later, a more flexible system of foreign exchange and currency conversion was initiated. These policy measures strongly aided the expansion of the Thai economy, and all economic sectors—namely, agriculture, industry, and services—grew at balanced rates.

In 1985 global economic conditions—such as lower interest rates, reduced oil prices, exchange rate realignment, and DC recovery—favorably affected the Thai economy. This resulted in the Thai economy's rapid expansion and structural change in the late 1980s. Both the industrial and the service sectors grew rapidly, and external debts were sizably reduced.

Thus, observations show that the development of Thailand's economy was strongly influenced by improved world economic conditions in the late 1980s. Trade of manufactured goods and services—particularly, exported products and tourism—expanded rapidly. The share of Thai exports to the United States and Japan increased, although the share of exports to the EC dropped. During this period, imports from Japan increased, but imports from the United States declined. Discussants agreed that while it is dependent upon these three major markets, Thailand should endeavor to expand to other markets as well.

Participants shared the views that in addition to favorable world economic conditions, the competitive quality of Thai products in the international marketplace also contributed to the increase in Thai exports. In fact, policy makers should consider several additional factors and issues for promoting industrial and service development:

- Private enterprise, though traditionally able to penetrate markets, will require government support in the areas of international trade negotiations and diplomacy.
- A special advisory committee for consultation in matters of export and international trade should be established. This committee could also provide encouragement and advice to investors and should

report directly to the Parliament.

- Tourism to all provinces should be promoted in order to assure uniform development across the country.
- Investments should be made in the development of raw materials that are presently being imported in order to further reduce the trade deficits.
- The service industry could make a large contribution toward a reduction in the trade deficit, while also continuing to improve and expand. Certain questions should be addressed, namely: (1) How can we help protect or promote the service industries? and (2) To what degree should the service industries be open to international competition?

THE EXTERNAL SECTOR AND DOMESTIC ECONOMIC DEVELOPMENT

Chairperson: *Mr. Kosit Panpiemras*
Deputy Secretary-General, NESDB

Presenters: *Dr. Atchana Wattananukit*
Associate Professor
Faculty of Economics
Thammasat University
Dr. Narongchai Akrasanee
Executive Vice President, TDRI

Discussants: *Dr. Supachai Panitchpakdi*
Director and Executive Adviser
The Thai Military Bank
Dr. Olarn Chaipravat
Executive Vice President
The Siam Commercial Bank

The discussants agreed that foreign capital inflows (including direct investment, portfolio investment, and loans) have helped the Thai economy to fill in the savings gap. However, both the role and the pattern of net foreign capital flows into Thailand have changed in the 1980s. The significance of foreign loans declined and was replaced by direct and portfolio investments. The manufacturing sector attracted the largest share of direct foreign investments. Portfolio investment—mostly from the United Kingdom, the United States and Japan—was in services, construction materials, and textiles. The pattern of foreign loans has changed—from public-sector to private-sector predominance.

Regarding the factors affecting foreign capital flows, it was agreed that all foreign investment was attracted by the Thai economy's good prospects and anticipated high rates of return. Direct foreign investment, in particular, was found to have been invested primarily on the basis of the life-cycle hypothesis—that is, to maintain the original cost competitiveness by investing in low-cost production sites and exporting the products elsewhere.

The discussants noted that although foreign capital inflows have generally contributed positively to the Thai economy, caution must be taken regarding the pattern of the inflows. Investment fluctuations should be minimized, and long-term investment should be encouraged. Steps must be taken to assure that direct foreign investment impacts on the ownership structure and that technology transfer—including marketing networking—is favorable to the Thai economy. A more efficient stock listing system should be encouraged. Finally, private loans should be monitored to ensure that the loans are not diverted into speculative or nonproductive areas.

STRATEGIC ECONOMIC MANAGEMENT FOR THAILAND'S EXTERNAL ECONOMY IN THE 1990s

Chairperson: *Dr. Anat Arbhabharama*
Governor
Petroleum Authority of Thailand

Presenter: *Dr. Narongchai Akrasanee*
Executive Vice President, TDRI

Discussants: *Mr. Staporn Kavitanon*
Deputy Secretary-General
Office of the Board of Investment
Dr. Chaianan Samudavanija
Professor, Faculty of Political Science

Chulalongkorn University

The fourth and final session dealt with the implications of opening up the Thai economy and their effect on policy formulation. The discussion opened with the view that the Thai economy's rapid growth in recent years is a result of the formulation of a policy of export and foreign investment promotion. There were uses of macroeconomic policy affecting exchange rates, interest rates, prices, and other policies directly affecting individual sectors. Following this discussion, there was a presentation on the impact of Thailand's external sector's growth on domestic performance. It was noted that during 1981-85, export expansion contributed 1.7 percentage points to the average growth of real GDP; the contribution increased to 4.4 percentage points during 1986-88. Additionally, a one percent increase in exports led to about a .32 percent increase in real GDP in the 1980s. However, export expansion did raise the economy's overall inflation rate. In terms of internal financial stability, export expansion increased government revenue at a faster rate than its expenditures, which in turn resulted in reducing government deficits and borrowings.

The impact of export growth on income distribution was less favorable. Although the export boom did increase the population's income at all income levels, the gains were proportionately greater for the top 20 percent income group than for the group at the bottom 20 percent of the income classes. The population in the nonagricultural sector gained more than the population in the agricultural sector. However, although export expansion did not appear to help improve income distribution, the actual culprit of worsening income distribution was determined to be fluctuating commodity prices rather than any other factors.

In addition to addressing the problems resulting from the adverse impact of fluctuating commodity prices on income distribution, conference participants also directed their attention toward the issues of wage adjustments, R&D investment, and the various aspects of productivity improvement that will help Thailand to move up the ladder of industrialization.

Another issue under discussion concerned the disadvantages of export expansion and foreign investment increases. Some participants complained that the boom has caused significant increases in land prices, a shortage of skilled workers such as engineers, and environmental problems. Moreover, there is the problem of local producers being crowded out in the domestic market and for obtaining local sources for materials.

The last session also dealt with policy and strategy options for the external sector. It was postulated that there will be changes in international capital flows and in the world trading system. Foreign capital flows will greatly expand, but the world trade volume might grow more slowly. As a result, while Thailand will continue to gain from increased foreign investment, exports will probably be adversely affected by the current trends of increasing managed trade. Thus, it was agreed that Thailand should continue with a conservative macroeconomic policy and a liberal trade and investment policy in order to maintain international competitiveness. In preparation for the increasing uncertainty of the world economic and trading environment, the Bank of Thailand should be given a more independent role in the formulation and management of the monetary policy. It was recommended that an office similar to the US Trade Representative's office be set up, with authority to conduct trade negotiations and to oversee trade policy and implementation. Finally, a multitrack trade strategy was recommended, in which action would be initiated at all policy and negotiation levels—unilateral, bilateral, regional, and multilateral—with the strongest emphasis placed on unilateral and multilateral actions.

After the fourth session, there was an open discussion, which was followed by Dr. Snoh Unakul's closing

remarks.

TDRI 1989 Year-End Conference papers (publication codes: Y89A-Y89I) are available through the TDRI Publications Office at a cost of 2,500 baht per set.

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