

## The Thai Economy in 1990: Problems and Prospects in the External Sector\*

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***Mr. Prime Minister, Mr. President of the Thammasat Economic Association, Ladies and Gentlemen:***

I have been asked to speak on the policy dimension arising from the relationship between the domestic economy and the rest-of-the-world sector. It is therefore necessary to have a longer time frame than just one year. In fact, what I shall be presenting this morning will be based on the research work being carried out at the Thailand Development Research Institute, which is aimed at an exploration of this problem up to The Year 2000.

Obviously, the substantive areas subsumed under the topic are very extensive and complex. TDRI will be presenting some of the research results at our annual Year-End Conference at Jomtien, in the middle of the month. We have also invited a number of leading economists from abroad to speak on the world economy and the prospects for the Thai economy. Because of the very limited time available, I should like to show you, if I may, a "trailer" of the real presentation. For those who are interested, you can see the whole movie, so to speak, at Jomtien on December 16 and 17. For now, I hope to be able to explore very quickly three interrelated issues: firstly, the world economy; secondly, its impact on the Thai economy; and thirdly, policy implications.

With regard to the world economy, I should like to raise two issues only for your consideration. The first is the issue of the prospect for growth of the world economy, which has already been admirably dealt with by the previous speaker, Dr. Amnuay. There is no point in repeating what was said, except to point out that our own studies yield essentially the same results, indicating a slowing down of the global economy. This is because of several problems—including the imbalance among major economies, leading to the need for adjustments, especially in the U.S. economy, and the debt problem, which has not been tackled in a systematic and effective manner since its inception in 1982. Our main concern is to assess the overall impact of such a slowdown on the Thai economy in 1990 and beyond. I am happy to report that our studies indicate this slowdown will not have much impact on the growth of the Thai economy because, although Thai exports have been rapidly growing over recent years, they constitute only one-half of one percent of world imports. Thai exports are not very elastic in relation to the income of our trading partners but are much more dependent on our ability to compete and to expand or at least maintain our market shares. If this conclusion is correct, what does it imply in terms of appropriate policies which should be pursued? It should be fairly obvious that one of the most important policy considerations would be the maintenance of our competitive position in the world market. If we allow this position to be eroded, we shall not be able to maintain the level of exports necessary for a satisfactory future growth of our economy. The question of our ability to compete will thus remain the central policy consideration for the foreseeable future.

If that is the case, we should then go on to briefly explore some of the major factors affecting our ability to compete. The first factor I should like to touch upon is the foreign exchange rates. Let me just say in conclusion that our studies indicate there is a tendency for the values of the currencies of most of our major trading partners and competitors to appreciate vis-a-vis the baht. The value of the baht should therefore continue to be a positive factor, unless we do something drastically wrong in our overall monetary policy. The second factor concerns inflation. I really do not wish to say anything about this

matter, but there is no way to avoid it, because inflation affects not only the consumers but also the competitiveness of our goods and services. If we allow domestic inflation rates to exceed those of our major trading partners and competitors on a sustained basis over time, our competitive position will be continually eroded to the point where we shall not be able to maintain the necessary level of exports. So, however distasteful this problem might be for some politicians, it is necessary to tackle it because it lies at the heart of our future competitiveness. The third important variable is the one about international capital movements and foreign direct investment. Our analysis indicates that we should be able to maintain our relatively favorable position provided that we are able to maintain the high level of economic, financial, and political stability which have been achieved in recent years.

On the other hand, there are also factors which are not favorable in terms of maintaining our competitive position. The first is the lack of an indigenous scientific and technological base of our own. Up to now, our development has been based almost entirely on imported technological know-how, without much attempt at building up our own capabilities. This weakness will become an increasingly important handicap in our attempt to compete in the world market. A second obstacle is the shortage of a skilled and semi-skilled labor force, which, in turn, is a result of our education system. This situation must be rectified as soon as possible; otherwise, we shall not have a sufficient trained labor force for sustained development and for maintaining our competitive position. Another deficiency is the infrastructure constraint in such areas as sea ports, transportation, telecommunications, and public utilities, which seriously affects our capability in production and trade.

In short, we may conclude that we should be able to maintain our competitive position if we do not commit too grave an error in our management of the economy. I should like to add, if I may, that this is a primary responsibility of the government and that it is a complex matter which would require careful analysis and rational decision making rather than emotional reactions.

Let me proceed quickly to the second aspect of developments in the world economy, namely, the problem of protectionism. Because of the time constraint, I should like to deal briefly with two related issues, i.e., regional groupings and unilateral action by trading partners. Some mention has already been made this morning of the problem of regional groupings. I should like to raise the issue of Europe 1992 for your particular attention. In spite of what might have been said about the absence of any intention to create more protectionism, the creation of the single market will entail a substantial potential danger of increased protectionism. Large and powerful economies can protect themselves and cushion the impact of such an increase if and when it occurs. Already the United States and Japan are making heavy investments in Europe so that, no matter what happens, their national interest and competitive position will be safeguarded. As a small country, Thailand is not in a position to adopt the same protective measures. What we can do is much more limited and will consist of a two-pronged approach. The first is to find allies wherever we can find them, such as in the case of ASEAN, which unfortunately does not have much economic muscle. A potentially more powerful grouping such as the APEC (Asia Pacific Economic Cooperation) group is still very much in the inception stage, and there is no clear indication of future direction and what might be accomplished by such a grouping. The key policy consideration in this connection is the need to keep all options open and to adopt a flexible attitude in our own management of future relations with major trading partners and competitors. A second strategy is the diversification of trade and investment activities so as to lessen our dependence on major markets and investment sources. The initiative of the Prime Minister in trying to change Indochina from a war zone to a trade zone is a case in point.

Another major problem is the tendency of trading partners to take unilateral action, often based on domestic political expediency rather than on rational trading considerations. In addition to the Rice Title in the Farm Act, which has had a serious adverse impact on our own rice exports, the United States is increasingly making use of the super-301 clause in its Trade Act to force further trade concessions from Thailand. The European Community has also had a considerable impact on our export of agricultural commodities through its implementation of the CAP (Common Agricultural Policy). In addition, there has been a proliferation of such measures as countervailing duties, anti-dumping measures and a host of non-tariff barriers (NTBs) which constitute an increasing impediment to world trade. The main policy implication

of these developments is the need—as a matter of utmost urgency—for us to enhance our capability in trade negotiations. Otherwise, it is hard to see how we are going to survive the next round of rising protectionism and unilateral action. And in this connection, I have to submit respectfully that this is the direct responsibility of the government. Our trading partners are making more and more use of their sovereign power to control trade and intervene in trading matters. In response, we shall have to employ, as far as we are in a position to do so, our own sovereign power to counteract some of the unfavorable impacts. We cannot leave it to the private sector to deal with the problem by its own devices because only the government has the sovereign power to act.

In the case of Thailand, let me just single out the question of managed trade for further consideration. We have found from our studies that managed trade has become a major characteristic of our international trade and that its importance is rapidly rising. In 1988 managed trade accounted for as much as 18 percent of our total trade. And if we limit ourselves to our three major markets, namely, the European Community, the United States, and Japan, the proportion rises to one-third—with the European Community the clear leader at 53 percent, followed by the United States and Japan at 25 percent and 14 percent, respectively. The affected goods are either major export items or items with good growth potentials. They include such items as textiles and garments, tapioca, steel pipes, ball bearings, canned fruit, canned seafood, sugar, tin, rice, coffee, frozen seafood, frozen chicken, and seasoning powder (monosodium glutamate). Managed trade has thus clearly become a major concern which needs to be handled effectively by both the government and the private sector.

If our analysis is not entirely wrong, it should be clear that we must seek to maintain two basic elements of our economic policy and management, namely, our ability to compete in the world market and a high level of economic and political stability. And in order to achieve these twin objectives, we should steadfastly pursue two basic policies—our economy should stand, in a manner of speaking, on two pillars. The first is fiscal and monetary discipline; the second is liberal trade and investment policies. I should like to devote the rest of the time available this morning to a discussion of these two fundamental policies.

Starting from the problem of fiscal discipline, all I should like to say is that I have discussed this issue extensively elsewhere. The only thing I should like to add this morning is to stress the need for a careful consideration of the expenditures of SOEs (State-owned enterprises), as these are going to be very substantial in the near future. The issues we need to consider are twofold—project feasibility and appropriate financing. Assuming that careful project screening will continue and only worthwhile projects will be adopted, then the problem of financial planning will be of critical importance. It is not enough to pay attention only to the central government budget, because we shall miss the problem entirely. As for monetary discipline, we shall have to spend a little more time on this matter, as we do have some severe problems.

When the economy is rapidly expanding, there will be pressure on prices. Whether the inflationary pressure can be contained depends on several variables, chief among which is the monetary factor. Thus, the key issue in this connection is the management of our monetary policy, which remains problematic because of problems in the use and control of monetary instruments. Let me put it this way: Guiding the monetary system in the right direction and maintaining appropriate balances are delicate matters requiring a high degree of expertise. At the same time, monetary measures are rather "blunt" instruments which tend to have serious repercussions on all aspects of the economy. Therefore, the user of these instruments will have to take political implications into serious consideration. For this reason, it is customary for most countries to seek and maintain an "appropriate" balance between the technical and political arms of the government. We cannot leave it purely to the technicians nor to the politicians. In our case, we have been pursuing this approach in the past by relying on the basic premise that all parties involved in implementing the policy were well versed in the problems involved and were thus able to honor the traditional practice of checks and balances. That is no longer the case. And if we cannot rely on traditional practices, then the only safeguard possible is to rely on the law. For this reason, we shall have to amend the laws governing the operations of the Bank of Thailand as soon as possible. This is a matter of great urgency, as we cannot allow such an institution as the central bank to deteriorate any further. If we let it decline to a certain low level, it may be extremely difficult to revive it as the main instrument for the proper management of the

monetary system. Such a development would pose a serious threat to the maintenance of future economic stability and to the whole process of development. Thus, we shall have to amend the laws to ensure that the operations of the central bank will be based more on sound practices rather than on personalities. Let me stress that I am not bringing up this matter because of particular personalities involved, but as a matter of principle which concerns the welfare of the country a whole.

Let us now turn to the second set of policies, namely, a liberal trade and investment policy. By this I do not mean a "free-for-all," where everyone is free to do whatever he wants. What I mean is that in the domestic market, the government will have to establish clear and explicit "rules of the game" and then let the private sector compete freely within the framework of those rules. Competition is the key and the indispensable ingredient for increased efficiency, and efficiency is, in turn, the key to ensure our ability to compete in the world market. We must not do anything to jeopardize free competition in our economy by creating oligopolistic or monopolistic situations, especially through the use of political power. "Cronyism" is thus a serious and basic threat to the continued well being of our economy and the prospect for future growth and development. Internationally, we shall have to learn to make better use of our sovereign power to protect our legitimate trading interests. It is time that we reopen the issue of how best to enhance our collective ability in trade negotiations. Both the bureaucracy and the political parties should stop being concerned about gaining or losing authority and perceived advantages. If the country cannot survive, then neither the bureaucracy nor the political parties can survive either. We simply have to learn to protect ourselves more effectively in trading conflicts which are becoming ever more intense. As the Prime Minister is present, I should like to respectfully submit that it would be worthwhile to take another look at the issue of the creation of a trade representative office. As for investment, I shall have the time only to say that we have been pursuing a certain line of investment promotion for almost thirty years. There are several serious problems in the approach, and the situation has changed drastically in recent years. There is, therefore, an urgent need to reconsider the whole approach and a set of policies to ensure that we can reap more benefit from the investment promotion activities, both for the majority of the people and for the country as a whole. Time does not permit any further discussion, so let me just say that the government has already set up a high-level committee to consider the matter, and we shall have to await the results of its deliberation.

As I said at the beginning, this is only a trailer of the real movie, and we are looking forward to seeing you at Jomtien on the sixteenth and seventeenth of this month. Thank you very much for your time and attention.

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