Research Article

Economic Development of Japan and Thailand: an Historical Perspective

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Abstract

Two isolated and underdeveloped Asian countries, Siam (Thailand) and Japan, have diverged in development courses and outcomes. Both were forced to open their economy to Western contacts via trade in mid-nineteenth century. The era of modernization began in Siam under King Chulalongkorn (r. 1868-1910) and in Japan under the Meiji Restoration period (1868-1912). However, the development outcomes were different. In the 1960s, Japan became the first Asian developed country while Thailand struggled to evolve from developing country status. This paper has two aims. The first aim is to compare the initial conditions and the institutional and socioeconomic policy changes in the 19^{th} century between Japan and Thailand by revisiting Japan's experiences. The second aim is to find how the development courses have been made on two issues, namely, the lack of entrepreneurship and the financial development.

Keyword: Economic History, Economic Development, Finance and Entrepreneur Development

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Introduction

Between Siam (Thailand) and Japan before 1868, the development phase initially shared the similarities as they were isolation Asia nations from western developed countries contact. Both, Siam in 1855 and Japan in 1858 according to selected chronology in table 2, were more or less forced to open its economy to western contact via trade and started the era of modernization since then. Coincidentally or not, Siam took the modernization at the same time under King Chulalongkorn period (1868-1910) and also Japan under the Emperor Meiji period (1868-1912). However, the development outcomes were quite different. Japan has become the first developed country in Asia after the World War II in 1960s while Thailand still struggled to come out of developing countries status.

It has been argued frequently based on Yasuba and Dhiravegin (1985) that economic development and industrialization were the main trends in Japan while de-industrialization and specialization in some primary commodities, particularly rice, were the major tendencies in Thailand after the end of isolation. What caused these divergent in economic development courses?

In historical perspective, this paper has two aims. First, to revisit and compare the initial conditions, and the institutional and socioeconomic policy changes in the 19th century in Japan and Thailand which will give the possible causes of divergent between these two countries by using Japan's experiences as a bench mark. Secondly aim is to find out how the divergent in development courses are made on two particular factors, namely, entrepreneur and financial development.

The methodology and also the organization of this paper start with the investigation in theoretical framework in the second section. Review of the related literatures are in the third section. Initial conditions, institutions and socioeconomic policies that both countries have at that time with respect to each country's endowments and related policies, which might be affected, were revisit and also reinterpreted in the fourth section to study the important of economic development pattern between countries. In the fifth section, the new explanations from the revisited which might explain the divergent in development courses, as far as the author could explore, are presented. Conclusion is introduced in the last section. Since Thais usually did not written much about facts and figures of their own economy, especially before 1900, the available of information and data that will be used here came mostly from the sources which bias and accuracy were highly involved.

Theoritical Framework

In term of rich and poor nation, the conventional difference in economic analysis is in the quantity in factor of production either in capital and also labor. In the rich nation, the more capital, the greater specialization and division of labor are applied in production than the poor. However, certain parameters such as tastes, technology and institutions both economic and noneconomic are given and fixed. In economic development perspective these parameters become the variables and effect the upper limits of economic achievements. To study development in economic historical perspective is more than counting endowment in quantity that each country had. The process of economic development not only involves the using of capital and labor, but the interactions among these parameters, which in historically aspect, are not given and fixed anymore. Essence of economic development, therefore, is the change in technology and social institutions, the change that permits those the upper limits to be expanded.

To study as a revisit in comparative analysis, the initial conditions, and the institutional and socioeconomic policy changes in the 19th century in Japan and Thailand will give the possible causes of divergent between these two countries.

The key agents, entrepreneurship and financial development[1], will be studied in detail as factor in promoting and facilitating the institutional changes. In terms of theoretical framework, entrepreneurship and financial development are among the many institutions that impinge the economy and effect its performance either for better or worse. The transformation from nonmonetary

[1] Entrepreneurs are risk-taking and management while entrepreneurship means broadly the ability to recognize and exploit economic opportunity. Financial system is more than banking system. It includes also the payment system and also the money creation.

(self-sustain economy) to monetary (market economy) system in both countries are good examples for the financial development since it bridges or mobilizes the savings to investment. Furthermore, the provision of entrepreneurship also acts as demand for and also supply of financial services. Therefore, the divergent causes between underdevelopment and development economies more or less rely on the degree these institutions changes either as financial intermediaries, as creators and providers of the means of payment and/or as potential entrepreneur success.

There are so many volume of research in the post World War II era on the cause of successful growth of Japan but the foundation for that growth should be laid somewhere before. Time frame for study lays on the period between early of 19th century till the start of the World War I which includes the period after industrial revolution in Europe.

Literature Review

There are two specific issues to review so that they should shed light to further comparative study. First, the attention will be paid on the study, as a revisit, of the initial conditions and socioeconomic changes in 19th century in Japan and Thailand. It has been heavily influenced and argued long time ago by Yasuba & Dhiravegin (1985) that economic development and industrialization were the main trends and one of the main causes of success for Japan's development while de-industrialization and specialization in some primary commodities, particularly rice, were the major tendencies and causes of failure for Thailand's development after the end of isolation in mid of 19th century. So the abundant of labor or the shortage of land might be the initial conditions for the causes of divergent, but the preparedness "well" in institutions and policies were the main and given more weight explanations for the subsequent contrasts in development of both countries. Family system (bilateral or unilateral), social class (samurai and corvee) or education system (*teragoya* and *wat*) and related policies are among the major socioeconomic institutions and policies had demonstrated as advantage/disadvantage causes for capital accumulation. The other ideas such as the center-periphery thesis (Wallerstein (1979)), or the staple theory (Watkins (1963)) as sub-class to this thesis, state that some regions, nations or classes are economically central to the system, whereas the others are peripheral. Therefore, the western countries are the central which had economic relationship as major buyers with peripheral, Thailand and Japan as sellers, through the international trade in their specific primary products.

Second issue to review is the entrepreneurship and financial development. Most of studies in this issue were done on the role of banking in the historical process of industrialization. Cameron (1967) and Cameron (1972) made a comparative study of the several European nations that achieved substantial industrialization as well as the "latecomers" such as Russia, United States and Japan. Main theme on this issue is whether the banking system makes positive and substantial contributions to economic development process. The banking's contributions not only depend on quantity and quality of banking system, but the structural characteristics of the system which were shaped up by various government policies through laws and regulations that govern their behavior. The Gerschenkron hypothesis (Gerschenkron (1962)) is one of the most discussed explanations for the role of banking and the different development of industrialization patterns in various Europe nations. If the industrialization is treated as a process that spread from the birth place in England to the backward countries, then the backwardness should depend directly on the distance from the birth place and among the backwardness measures in consideration are capital and entrepreneurs. According to his idea, England began to industrialize with relatively small-scale enterprises and little capital from entrepreneur own savings. Growth took place by reinvestment profits which gained from entrepreneur's specialization. Hence, internal finance is enough because enterprise is the sources of both entrepreneurship and capital. On the contrary, the birth of industrialization pattern is difference in case of German. Since German, by Gerschenkron hypothesis, was relatively more backward, had fewer potential entrepreneurs and less capital, as a result, the external finance by large scale banking system was more required and became the prime source of both capital and entrepreneurship. In Russia, which is more backward than German or England by Gerschenkron hypothesis, the economic development needs more help in the eve of industrialization. The banking system alone is not adequate to the task of providing external finance and entrepreneurship, but need more intervention from other sources such as government in initiate large scale capital intensive industries.

Inital Conditions, Institutions and Socioeconomic Policies

Modernization between Japan and Thailand that shaped up their present economy has been said frequently to start in the reign of Meiji and Chulalongkorn somewhere between late 1860s till 1990s. Chulalongkorn was one of the kings in Chakkri dynasty which were given the title of “Rama”. For the background of story, the successive of reigns of Chakkri dynasty are presented here as follow:

Table 1 Chakkri dynasty

King	*known as*	*period of reign*
Rama I	Yodfah	1782–1809
Rama II	Lertlah	1809–1824
Rama III	Nang Klao	1824–1851
Rama IV	Mongkut	1851–1868
Rama V	Chulalongkorn	1868–1910
Rama VI	Vajiravuhd	1910–1925
Rama VII	Prajadipok	1925–1935
Rama VIII	Ananda-Mahidon	1935–1946
Rama IX	Phumiphon-Aduldet	1946–present

Source: Author.

Industrial Revolution in the West and Foreign Trade Openness in the East

The doctrine of open rather than close in international trade has major implication for production and trade structure. Before the start in the reign of Meiji and Chulalongkorn, the existing trade pattern at that time was conduct under the Canton System which the (Chinese) authority monopolized trade with foreign via government agents and also restricted to trade in authorized/restricted area and/or certain articles. Therefore, trade was restricted to certain items and monopolized by the king or denied to trade if the king had as much as he wanted. The king engaged with foreigners as a state trade. If the profit from trade was difficult to make, then the king might gave more freedom to traders but established an inland tax to compensate for the decreasing in profits. Under this conduct, both Thailand between Rama I–III and Japan in Tokukawa period are said to live in isolation from the 17th –19th century.

The incoming of western nations to East Asia after the industrial revolution in Europe during the first half of 19th century was carried on under the name of trade liberalization. China has become the prime target to open free in trade due to the huge import of Chinese products which the western needed. With modernization these nations had from industrial revolution, the chronic trade deficit between Britain and China was solved with opium as a mean of payment instead of gold or silver. Therefore, the first opium war was unavoidable situation as a consequence of chronic trade deficit and also superior military power from modernization. Thailand and also Japan, more or less, have learned from the experiences of the fall of China to the western industrial revolution power. Reactions of both countries are quite similar, open instead of close local market to international trade as a de–isolation policy they did as a necessary condition to save country from colonization.

Foreign trade openness is the undeniable point of change in Thailand from self–sustain nonmonetary economy to an exchange monetary economy. Before the Bowring Treaty in 1855, the conduct of foreign trade was monopolized either by the king and his court or by individuals to whom monopolies were sold such as nobles and designated Chinese while profit from this trade was usually used as a main source of government revenues.

The arrival of John Bowring in 1855 was not by chance but the vision and desired of new monarch, king Mongut, to change the isolation policy. The fourth king in Chakkri dynasty came to the throne at the age of 47 after spent 27 years in a Buddhist priest to give a way to the throne to his half-brother king Nang Klao. During his priest period was not in vain, he has learned English and was a scholar of ability to see and learn what were happened and going on in China. He saw in opposite with king Nang Klao about the isolation policy and convinced that Thailand would benefit from culture and commercial contact with the western nations. Instead of introduced 40 new taxes to compensate the reduction in revenue from state trade as previous king Nang Klao did, an increasing in income from more rice selling abroad will expand cultivated area for more production and also collected more export tax as a revenue to the nation. Hence, the doctrine of open rather than close in international trade will benefit more to majority Thais instead of restricted in trade which will benefit only to the minority either Chinese traders or smugglers.[2] This suggested that he had planned to abolish state trading that conduct by the former kings and designated individuals as authorized tax collectors as a main source of revenue to nation.

[2] Lailak, S. (1933-56). "Declaration Using Tax Payment to Restore Capital 1857", Collected Laws No. 5 (in Thai) pp. 283-285 said that the high price due to more rice export was legitimate since it help the rice growers and the citizen who had to bought at higher price should not worry because the collected rice export tax would be proceeded to buy construction materials to restore roads and bridges in the capital.

Table 2 Selected Chronology of Western Influences in East Asia

Year	*Events*	*Consequences*
1840	First Opium War between Britain and China	Nanjing Treaty 1842
1853	U.S. first arrived in Japan	U.S.-Japan Treaty of Peace and Amity 1854
1855	John Bowring arrived in Thailand	Treaty of Friendship and Commerce between Siam and Great Britain 1856
1856	Second Opium War between British and China	Tianjin Treaty 1858
1858	U.S. second arrived in Japan	U.S.-Japan Treaty of Amity and Commerce 1858
1868	Meiji and Chulalongkorn took reign	started of Meiji Restoration (1868-1912) and Chakkri Reformation (1868-1910)

Source: Author.

The Bowring Treaty has brought growth of rice export due to trade liberalization and transformed Thai economy to an exchange economy. According to Table 3 below, planted area of rice had been increased from period of king Mongut till the end of king Chulalongkorn in 1910 almost twice. Malloch (1852) also said the rice export of Thailand before king Mongut was around 200,000 picul in amount of 150,000 baht and it had been increased to 2.57 million picul or almost 10 times in 1870 as said in Siam Repository (1871). The increasing in supply came in response to foreign demand since prior to the Bowring Treaty there was no regular foreign demand due to the isolation policy.

Table 3 Planted Area and Output of Rice from Rama IV-V

year	*Planted Area (million rai)*	*Output (million picul)*	*source*
1850	5.8	-	Ingram (1971)
1910	9.0	46	Statistical Year Book (1927)

Note: 1 rai = 1.6 acre or 0.64 hectare, approximately 60 k.g. for 1 picul

Source: Author.

Implication for Production and Trade Structure

Marketing and trade channel of the commodity such as rice is a good example of the basic characteristic of production and trade structure in Thailand which has been retained for a long time without any substantive changes even today. Rice grower and miller are separated completely with middlemen. Both did not perform the marketing function of moving paddy from producing area to mills or vice versa. Chinese acted as middlemen/entrepreneur and performed this function instead. They went into the rural area to buy paddy directly from grower and ship to sale to millers which located mostly along the Chao Phraya river. It was the Chinese that performed role of an exporter by buying rice from miller for export. Even today this marketing and trade channel has not been changed from the recent past. Acted as grower only, majority of Thais lack of knowledge and experience in markets, prices and business methods and also lack of fund. This meant that a rather large share of value added or profits from trade/export proceeds of rice are belonged to Chinese middlemen/entrepreneurs instead of them, even today.

In the aspect of growth, the Bowring Treaty had increased aggregate demand by bring foreign demand into Thai economy which was in state of under-full employment as plenty of land and labor were not utilized. Even the evidence of growth such as GDP data were not collected at that time, but the evidence from the expansion in quantity and widely used of money from an expansion of international trade due to the Bowring Treaty strongly supported. Immediately after the Bowring Treaty had been concluded and put in to effect, the incoming of foreign commercial ships in the following years[3] were increasing to 103 ships while the outgoing were 37 ships.

International trade brought by these ships required money as a mean of payment and there was a lack of local money while there was a plenty of foreign money. As an emergency solution, there was a proclamation decree[4] to allowed foreign money to be used as a mean of payment under the fixed exchange rate. As shown in picture 1-2 below, most of foreign money at that time was in form of silver Spanish flat coin marked with eagle that had been used in Mexico while Thai local money was bullet shaped silver Poet Duang. Both were not specified their price, but by size and weight. According to that decree, a stamp from Thai government to authentic for local used as shown by marks of the official seal U-nalom (left) and Kongjak (right) on the surface of coin. Poet Duangs picture shown here were also mark with U-nalom seal.

As a result from foreign trade pattern, the modern monetary mechanism after the Bowring treaty was set naturally without government responsibility or control. When export was made, foreign silver coin was sold to the local treasurer in exchange for baht to pay for merchan-dises and vice versa for import. So the monetary system of Thailand had been started to develop according to this trade characteristics. During most of the period from 1850s to the end of reign of king Mongkut, net inflow of silver from current account surplus was sold to the mint and baht coins were paid out in exchange to represent simple but work effectively the domestic monetary circulation. The Bowring treaty also provided the unrestricted or tariff should be placed on import and

[3] between 1859-1860 according to Chulalongkorn's hand writing notes

[4] Lailak, S. (1933-56). "Declaration to Use Foreign Money 1856" pp. 229-233. The exchange rate was specified at 3 Spanish coins for 5 bahts. Foreign coins were gradually withdrawn from circulation as a modern mint was established to make a flat round coins and became capable to meet the needs from trade.

export of gold and silver. Therefore, free flow of capital should support the monetary system to work automatically.

Economic Aspect of the Abolish of Slavery and Corvee system

The transformation from self-sustain to exchange economy would never been achieved if the slavery and corvee system were not abolished. In brief, corvee or so-called Prai (in Thai) is an unpaid labor system imposed by state on all ordinary male Thais mainly from 15-70 years of age except salve. It is the only and truly an indicator of feudal status in Thailand which reflects on the number of corvee not by the land area in possession according to title as in other countries. Therefore, all male Thais before the reign of king Chulalongkorn were not free man. If they were not slave they have to be an unpaid labor directly to the state agencies (*Prai Luang*) or indirectly via bureaucrat affiliation (*Prai Som-Kumlang*) for a certain period of time in each year.[5] The unpaid labor service period can be substituted with money in lieu of personal service (*Prai Suai*) either in tax in amount of 18 baht per year or in kind of specified commodities.

In economic aspect, this system was the main reason why Chinese were not like to be an *insider* as ordinary Thais at that time. Most of Chinese were immigrants from China on the journey to find a chance of good life. As a status as of an *outsider*, the most suitable job available was to be a merchant or middleman which did not subject to either land tax as a grower or in kind of tax as a corvee. Since *Prai* status is a subordinate to the head of state agencies or bureaucrats which conducted and monopolized trade, ordinary Thais do not wish to do an occupation such as trader that might create a conflict of interest with their superiors. The slavery and corvee system were abolished gradually by various measures starting from introduction of money-paid for government services to the introduction of the military draft act in 1905 which completely abolished the unpaid services from all Thais. Hence, they are free to work with their profits/self-interests. This is the basic condition to transform to monetary exchange economy with division of labor or specialized in production which characterized by separated what they produce from what they consume instead of self-

[5] For example, Rama I imposed 4 month-a-year consecutively while the later Ramas reduced to 3 month-a-year and non-consecutively unpaid labor service period.

sustain economy which produced all necessaries for their own consume. Free to choose is the way to entrepreneur. As one of the provision in the Bowring Treaty said that British merchants were to be allowed to buy and sell directly with individual Thais without interference from any third party. Without the abolished of corvee, supply of labor force is inelastic to wage and aggregate supply cannot catch up with demand from international trade.

In sum, the increasing in aggregate demand from the expansion of interna-tional trade is the source of growth which induced the aggregate supply to follow since there are a lot of idle resources either by land or labor.

Picture 1 Foreign Money, silver Spanish Coin with Thai Government Seal

Source: Bank of Thailand

Picture 2 Thai Local Money, Poet Duang at various prices (1 baht price is the third from left)

Source: Bank of Thailand

Revisit and Discussion

The modernization (or westernization)[6] period between 1850-1912 had sparked economic development and industrialization trend in Japan but not in Thailand. The trend in Thailand was said in the opposite where de-industrialization and specialization in primary commodities were the main trend.[7] In this section, the selected major initial conditions in Thailand and Japan will be revisited and reinterpreted in order to answer what are the differences that caused these divergent courses.

Firstly, the center-periphery thesis which asserts the center (the western industrial nations) will exploit the periphery by exercising either monopoly

[6] since the new import products or non-products from western countries such as western dressing or constitution are believed as modern or advance norm in Thai society even today

[7] Yasuba & Dhiravegin (1985)

and/or monopsony powers seems to explain well under Thailand condition but not in Japan. Production and trade pattern in primary products had been abruptly changed to rice, tin, teak and rubber[8] for money and for export due to foreign demand. International division of labor assigned Thailand to periphery to produce the most advantages products and export for international used was the production and trade pattern determined solely by monopoly and/or monopsony powers of centered foreigners. Considering on these four major export commodities, know-how and capital can be said that they are not belonged to Thais. Except for rice which related industry such as rice milled is done in Thailand, tin teak and rubber are usually bought and sold by foreigners as a primary product and for export only. They were rarely used as an input or could not be locally processed into industrial product either by vertical or horizontal industry. Thai's role in production and trade structure is limited to grower or labor supply only. The entrepreneurship is in hand of foreigners especially Chinese. This production and trade structure is still dominated Thai economy until present day.

Secondly, although the structure has been changed from self-sufficient to monetary exchange economy due to the open trade under the Bowring Treaty, but will these selected socioeconomic differences as argued by Yasuba & Dhiravegin (1985) to be the divergent causes?

(1) Family system

Even the bilateral family system, that does not distinguish between male and female children, or birth order, in distributing inheritances, is a typical throughout Southeast Asia nations, and claims to be inferior to unilateral family system in aspect of capital accumulation, but China is also the unilateral family nation and does not do well in capital accumulation as in Japan. The accumulated wealth by Chinese in Thailand was not from the unilateral family system alone, even most of Chinese typically came to Thailand alone, but mainly from the entrepreneur's role they performed which opened wide opportunity to gain more as

[8] rice, rubber, tin and teak export accounted more than 80 percent of export, among them rice dominated a large part of export during 1890-1951 see Ingram (1971) pp. 94

middlemen/entrepreneur rather than Thais as solely producer.

(2) Samurai as a middleclass

If samurais were treated as a new middleclass in Japanese society, at first they did not tend to perform the role of entrepreneurship. Since most of them have to depend or subject to their own master, they actually are not as a free man as male Thais under the corvee system either. With the maintained long peace period and their well educated in Tokukawa era (1603-1868), samurai families especially the low rank samurais gradually have become the foundation of modern business/entrepreneur class after the start of Meiji era rather than military figures. However, the wealth and rank of samurai usually do not coexist in Tokukawa society as the rise of monetary economy era. Therefore, in feudal aristocracy as in Tokukawa, low rank samurais' stipends, which are fixed by in-kind amount of rice rather than income, tend to lag behind merchants and farmers even their social status is superior. Economic liberalization policies in Meiji were the favorable to the rise of modern entrepreneurship to free the economic activities from the feudal restrictions that Thai's economy did not have.[9] When Thailand and Japan ports had been opened to foreign trade, the implications were not the followed the similar pattern.

(3) Education system

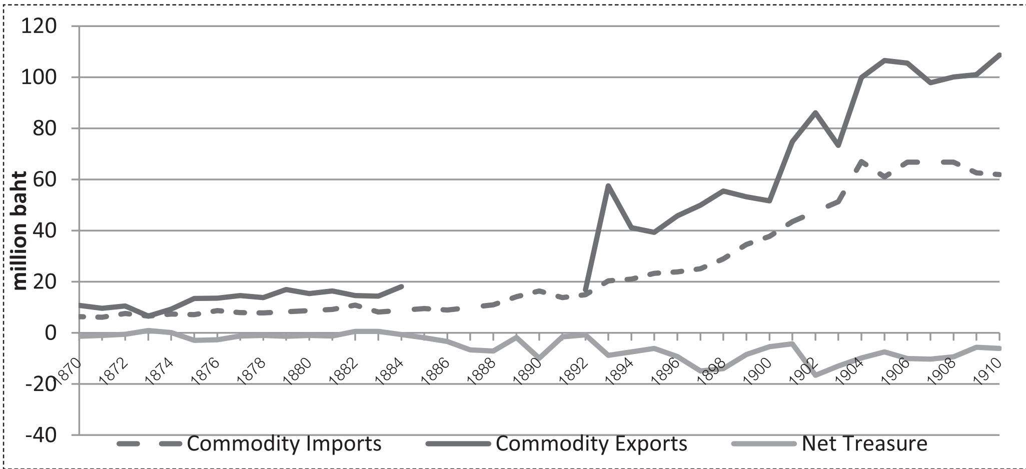
The late introduction in formal education system in Thailand is surely a cause of divergent, but the comparison in informal (temple school) education system between *teragoya* and *wat* is not appropriated to conclude to be the same in education provider. The wat or temple is a religious institution that provides a Buddhism education for male Thais as monks only. Therefore, the ability to read and write in Thai and in particular *Pali* language is basic requirement in order to study Buddhism and *wat* does not provide and prohibits, even today, for the general education to monks. Therefore, early education system by informal school such as *teragoya* in Japan and wat in Thailand are totally different and unable to be a cause of divergent in general education

[9] According to Jacobs (1971), Thailand is Patrimonial which is a subclass of Bureaucratic Polity and tend to be centralized rather than decentralized society as feudal aristocracy in Japan. Therefore, entrepreneurship normally is better supported in the decentralized society rather than centralized one.

provider aspect.

Thirdly, imbalance in foreign trade statistics after trade liberalization till the World War I illustrates difference implications. According to figure 1 and 2 Thailand was in favorable situation to reallocate and change course of production from primary to more value added such as secondary products. Free trade with new land was available with either low or without tax means Thais comparatively still work in rice cultivation since it was relatively more productive than in trade which rent opportunities elsewhere were limited by the low tariff and unrestricted on import foreign goods by foreign treaty. The unrestricted immigrant Chinese relieved the wage pressure from either as labor or relatively more comparative advantage as middleman/entrepreneur role. Therefore, no forces of change in these basic conditions appear in sight. Thailand at that time could surpass Japan in economic development because of more favorable factors either from trade openness or trade surplus. As a consequence and sharp contrast situation, the Japan had no choices but took industrialization as a path of development in order to create more value added products to solve trade deficit. In order to do so, financial development to bring in capital and entrepreneurship for new business or new technology were the necessary conditions. Thailand economic changes in late 19th century were in volume either in inputs or outputs rather than in their production methods due to the change in technology. Japan's trade deficit at first yield better results in development later since there were forces of changes from the changes in capital and knowhow from import goods. Trade imbalance in both countries at the same time gave different result.

Figure 1 Thailand Foreign Trades and Net Treasures

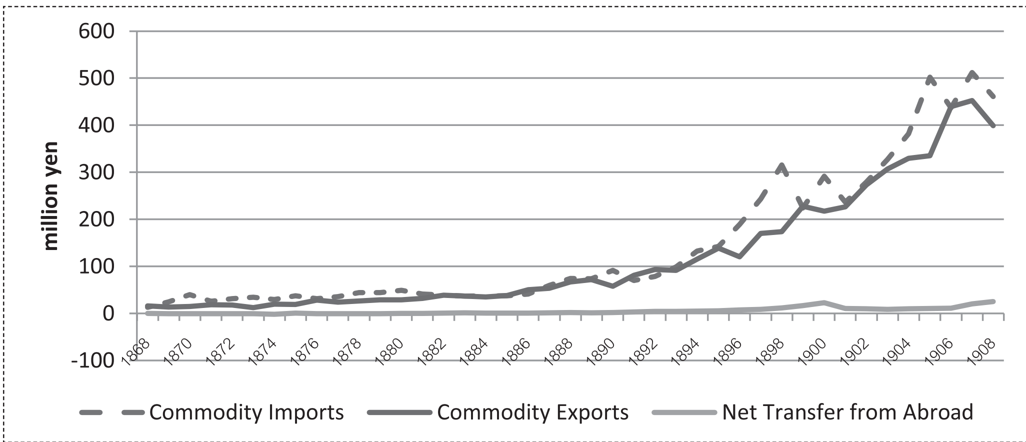


Source: selected and rearranged from Ingram (1971) appendix C, statistics of foreign trade.

Note: 1. Treasure exports between 1865–6, 1885–94, and 1942–9 were included in total export, therefore net treasure in those year were net of treasure from imports only. Treasure here includes precious metal such as coin, bullion and gold leaf which can be used as a mean of international payments to settle monetary debts.

2. Prior to 1920, the figures refer to the port of Bangkok only. The largest omission was the trade of tin exports and consumer-goods imports in the southern Thailand.

Figure 2 Japan Foreign Trades and Net Transfer from Abroad



Source: selected and rearranged from Ohkawa (1979) table A31.

What Went Wrong?

The surplus in balance of payment suggests the undeniable fact that Thailand had savings from trade. But why such a long period of these savings accumulation could not be used to transform economy to change by improving in technology progress or forward/backward linkages in either or both industry and agriculture sector as Japan did. The divergent course of development between Thailand and Japan might come from the following factors as alternative explanations.

The Lack of Financial Intermediaries

As basic principal in a market oriented economy[10], a high rate of growth requires the development of primary securities market and financial intermediaries to go together. Primary securities comprise of debt and equity issue from non-financial spending units such as consumers, businesses, government agencies and foreign sector which issue primary securities in form of mortgages, government debt, corporate equity and bond, consumer debt, and variety of short term claims either for trade or business in order to produce or purchase current output as a direct finance. On the other way, financial intermediaries as indirect finance stand between ultimate borrowers and ultimate lenders to acquire the primary securities of the former and to provide indirect securities to the latter in form of currency, bank deposits, shares and even bonds. Output growth over the long run can take place only if the most promising spending opportunities are exploited and are not likely to be disturbed easily by current income. The financial development could be interpreted not only as development in financial institutions such as banking development, but as the development policies towards related institutions such as law to govern and legalize the issue of primary securities as financial assets. Otherwise, primary securities and financial assets could not transact, accumulate, and use to support real sector development.

[10] For the financial aspects and economic growth see Gurley & Shaw (1955 and 1956) and Ott (1961) for empirical evidence in case of Japan and U.S.

Without primary securities market and financial intermediaries, there were no financial instruments to exchange for and no place to make deposit or loan. Savings have to accumulate through tangible assets such as precious metal or commodities rather than financial assets. Money lenders were believed to exist but their capability in development were limited to provide loan on their capital base, not from deposits base as banks do. The lack of or late introduced financial intermediaries and related policies to support for economic development might be alternative explanations.

As empirical evidence, most of foreign trades were in hand of foreign merchants using foreign banks in support their business. The Central Bank of Western India was recorded as the first foreign bank in Japan that opened its branch in treaty port Yokohama in 1863 for buying and selling bill of exchange with foreign firms. Thailand also followed this pattern. In 1888 Hong Kong and Shanghai Bank was the first with other foreign banks which had set up branches in Bangkok. Since trade finance commonly conduct by foreign money at that time in form of silver/gold coins rather than baht (or yen) paper money, all foreign banking business such as buy and issue drafts, letters of credit and issue local paper money for their clients' payments were conduct independently from local savings. To establish the financial intermediaries to bridge between foreign money into domestic money or vice versa was the way to accumulate capital from trade for growth.

In case of Japan with trade deficit and low amount of specie as reserve for paper money conversion in early of Meiji restoration period, the local Yokohama Specie Bank[11] was set up in 1880 and designed for handling foreign trade

[11] At the outset of Meiji period, there was high risk of inflation from the existed in large number of government notes which effectively no potential of convertibility but constantly in circulation. Discrepancy between yen paper money and silver money had been getting larger as more paper money was added. To solve the problem of too much paper money in circulation, the local western American type bank was first introduced in 1873 as national bank with a given authorization to issue its own paper money as ratio to its own capital in order to lure the government bond holders such as former feudal lords and ex-samurais to use their bonds as capital to set up bank. As a consequence, number of bank had been increased from 2 banks in 1873 to 153 banks in 1879, using paid-in capital as source of funds to make loans instead of savings mobilization. Advances over deposits ratio was 1.17 in 1873 and rise-up to 3.16 in 1879 which mean advances was exceeded deposits about 17 percent in 1873 and grew to more than 3 hundred percent 6 years later without the lender of last resort facilities from central bank.

finance with either local or foreign firms and absorbed specie from abroad by engaging in transactions connected with financial instruments in form of foreign bill exchange business. In financing Japanese exports, YSB had advanced in local yen paper money by buying bill of exchange on the security of export goods as collateral from Japanese merchants who used to sell directly to foreigners, and then act as collector for payment from that bill of exchange. Under this procedure, YSB would be authorized foreign exchange business for promoting (major) exports such as silk yarn and tea and had become the important financial institution before the Bank of Japan started up its central bank functions through which government could gather the inflow specie as basis for currency issuing. Even trade position still in deficit, but net inflow of specie was the result for the first time in Meiji period after year 1881 and became the major source of foreign money to finance other industries development.[12] This consequence paved way for the establishment of national currency in the later year. On the contrary, Thailand could not reap the benefits from surplus in foreign trade due to the unpreparedness its own financial development either in numbers of financial intermediaries or their related development policies. The first local bank, which was late set up for almost 40 years after the Bowring treaty, did not engage to do business in foreign trade finance or used the net inflow of specie to develop other industries.

The Lack of Entrepreneur

Why entrepreneur role is so important and makes a divergent to course of development in both countries? During the first 10 years after 1868, both shared the same export primary and/or cottage industry products but the major different lied on imports and home market industries development. Because of financial intermediaries were underdeveloped, the Thai savers who usually assumed role as non-entrepreneur stored their wealth in unproductive items such as precious metal while left the entrepreneur role to foreigners mainly Chinese who employed their capital at first in trade and then in industries later. Rice is a good example.

[12] the accumulation of specie had remarkable effect on the development policies towards related institutions, such as it closed the discrepancy between value of yen paper money and silver money so that the two values entirely disappeared in 1886.

At first, Chinese act as middleman between foreign buyers and Thai farmers. Then with their own profits as internal finance, they act as entrepreneur in financing Thai farmers for all they need on one hand and on the other hand starting related industry such as rice milling and finally act as exporter for the rice they get. The need for savings was narrow down to the few foreign entrepreneurs since internal finance was not enough. Entrepreneurial activities and financial development came in form of the relationship between banks and industrial finance. Without organized sources of capital for industrial ventures such as no industrial banks, no private market for stock and bond to exchange or conservative role of government in such venture businesses, there was a weak in supporting local entrepreneurs in Thailand.

On the contrary, during the same period, Japanese banks had been set up by government initiative to provide funds for industrial development. The cotton industry is a good example. The cotton yarns became the main import inter-mediate product which indicated the existing of forward linkage weaving and other manufacture industries. With the help from government policy in set up bank for funds needed for expansion which might exceed the firm paid-in capital and internal reserves for the raw material (as working capital) and machinery (as fixed investment) import finance, there appeared an increasing in import and expansion of domestic industries. Even the cotton industry had to import raw material from abroad but could raise up productivity through the new technology from import machines as Japan did for industrial revolution. In contrast, Thailand also constantly import cotton yarns as input for domestic cloth industries but the production of cloth was slow and could not substitute import cotton manufactures as shown by increasing in import of cotton manufac-ture products in table 4.

Moreover, by Gerschenkron hypothesis, on the eve of industrialization in more backward countries, the banking system alone is not adequate to the task of providing external finance and entre-preneurship, but need more intervention from other sources such as government in initiate large scale capital intensive industries. Such intervention needs healthy public finance. Public revenues after the Bowring treaty were limited due to the low ceiling 3 percent import duty and inland taxes were mostly abolished. The prime concern in tariff policy of Thai government from the past can be said to be on revenue rather than instrument for industry protection. Thus, with the lost in tariff autonomy, government supporting industry activities had been limited to public securities related projects such as railways or military equipment rather than providing external finance and entrepreneurship initiative. At the same period Japan also lost tariff autonomy from the open treaty, but act in the opposition. The new explanation for divergent course in development path might lie on the different in nature of imports between both countries. For most parts of Thailand imports during 1859-1910 were on luxury goods rather than intermediate or capital goods[13] which comparatively could be adjusted rather easily and in almost the same degree when income from exports fall. In other words, imports of Thais determined the needs for their exports. Thus, the lost in tariff autonomy and the relatively small domestic markets for most of commodities home industries should not be the cause of the decline in industrial development in Thailand but the lack of entrepreneurship and supporting policies from government should be blamed for instead.

[13] The percentage of "fuel and raw materials" to total commodities imports were less than 10 percent during 1859-1910 while the rest were on finished and consumer products, Ingram (1971) p. 129

Table 4 Value of Cotton Imports in selected years

year	Japan Import (in million yen)		Thailand Import (in thousand baht)	
	Cotton manufactures	Raw	Cotton manufactures	Cotton yarns
1859			1,500	180
1864			1,660	270
1867	2.54	1.68		
1870			1,530	320
1872	4.89	5.42		
1877	0.81	4.50		
1880			2760	460
1882	4.23	7.03		
1887	3.39	9.15		
1892			3,600	510

Source: Okuma (1900) table 3 for Japan and Ingram (1971) table 11 for Thailand.

Conclusion

Firstly, the initial conditions were revisit and reinterpreted to answer what caused the divergent in development course between two countries. The similar is on the de-isolation policy. International division of labor to let Thailand produce the advantage products with the imported technology for export used only is the foreseeable outcome. Cause of growth mainly came from foreign demand in Thai's primary products. The dis-similar is on the trade surplus after the Bowring Treaty. Private domestic savings did not grow since surplus or income was mainly in hand of foreigners that took the entrepreneur's role. Due to the lack of savings, the attitude towards low investment either in human in form of education or in infrastructures/institutions from government initiatives is more or less unavoidable outcome.

Secondly, although Thailand had growth consecutively for almost 100 years without major disruption, but the phases of development did not change as expected. Primary products such as rice and rubber were still dominated export products since the Bowring Treaty in 1858 till the early of 1950s. There was no significant change into secondary product as the industrial development was not followed.

Thirdly, the long period of saving accumulation due to the trade surpluses after the Bowring Treaty could not be used to transform economy to change by improving technology as Japan did. The new explanations for the divergent course of development between Thailand and Japan came from (1) the lack of financial intermediaries and (2) the lack of entrepreneur. The first implies for the lack of appropriated channel to mobilize fund while the second implies for the lack of savings in the economy.

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