

# VICIOUS CYCLE AND COMPOSITE ECONOMIC CRISIS IN THAILAND: A COMPARISON WITH JAPAN

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## INTRODUCTION

In September 1997 my seminar students and I conducted a study tour in Thailand. We visited Thammasat University, Japanese-affiliated companies in Thailand (MINEBEA, SIAM TOYOTA, TTL INDUSTRIES, TANIN ELNA etc.), JICA, and Pathumwan Technical College. At Thammasat University, the Economics Department held a seminar on Thai economy for us. During our visits, we had many chances to have interesting discussions with academics, managers, and Thai workers. The information of my own gathering constitutes the basis of this essay.

I attended several seminars and meetings on the Thai economy prior and subsequent to the study tour. For example, JETRO and the Institute of Developing Economies, Tokyo, held a seminar on Thailand and Southeast Asia in September 1997. The Thai Embassy, Tokyo, and some Japanese organizations held another seminar on Thailand in August 1997, where officials from THAI TOYOTA revealed insider experiences on their Thai operations. The Japan Society of International Economics held its annual meeting on October 10-12, 1997 and also touched on Thai issues.

These seminars and meetings which complement my firsthand information in Thailand have benefited me in preparing this essay. This paper focuses on inherent, underlying and long-term aspects of the Thai economy rather than short term ones, thus revealing some characteristics of the Thai economic crisis. Comparison with things Japanese is made as much as possible. Acknowledgements go to all those who have assisted me. All shortcomings and possible mistakes are my own.

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### I. CURRENT CRISIS: Any warnings?

Thailand shifted to the managed float system on July 2, 1997, an important event symbolic of needed but belated structural adjustments. The shift has triggered a crisis in Thailand. The baht crisis continues. The financial crisis is still serious in 1998. The political crisis remains. Some companies have stopped production. Many companies have been bankrupt. Jobless people are on the rise. Thus the Thai economy is suffering from a worst crisis. Were there any previous warnings on the Thai economic crisis? Yes, there were. Here are some examples:

(1) Paul Krugman's 1994 paper pointed out "Asian growth, like that of the Soviet Union in its high growth era, seems to be driven by extraordinary growth in inputs like labor and capital rather than by gains in efficiency. There is no sign at all of increased efficiency." Southeast Asian countries including Thailand ignored his warning.

(2) In 1995 there were initial baht-selling pressures.

(3) London's ECONOMIST issued warnings repeatedly in recent years.

(4) In June 1996, IMF had already pointed out the vulnerability of the Thai economy.

(5) The Institute of Developing Economies, Tokyo, issued an early warning in 1996 and made public the following table 1:

**Table 1 : Fundamentals of Four ASEAN Countries**

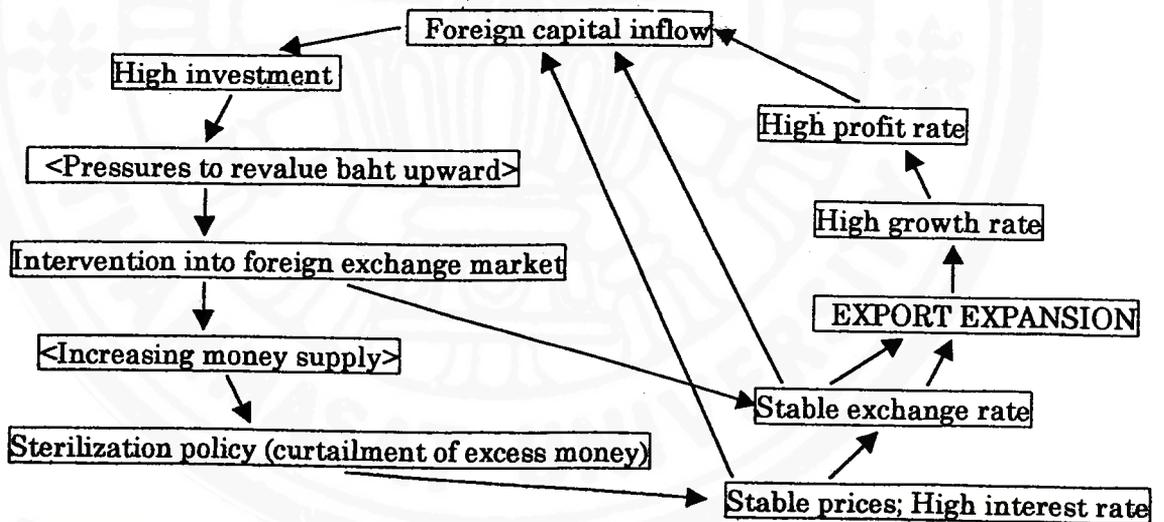
			Thailand	Malaysia	Indonesia	Philippines
1	Debt/GDP (1996)		<u>46%</u>	39%	<u>48%</u>	<u>48%</u>
2	Debt Increase (annual av. of recent 5 years)		<u>+18.8%</u>	+10.4%	+8.7%	+5.1%
3	Current Account Deficit Relative To GDP	1996	<u>8.1%</u>	6.3%	4.1%	4.1%
		1997	<u>7.3%</u>	4.7%	4.0%	4.5%
		1998	<u>7.4%</u>	4.2%	4.2%	4.5%

The Thai economy in 1996 was already the worst among the four countries, as shown above, although some disagree, saying that they are, roughly speaking, all in the same boat. The worst condition did not remain unnoticed by money-conscious fund managers overseas.

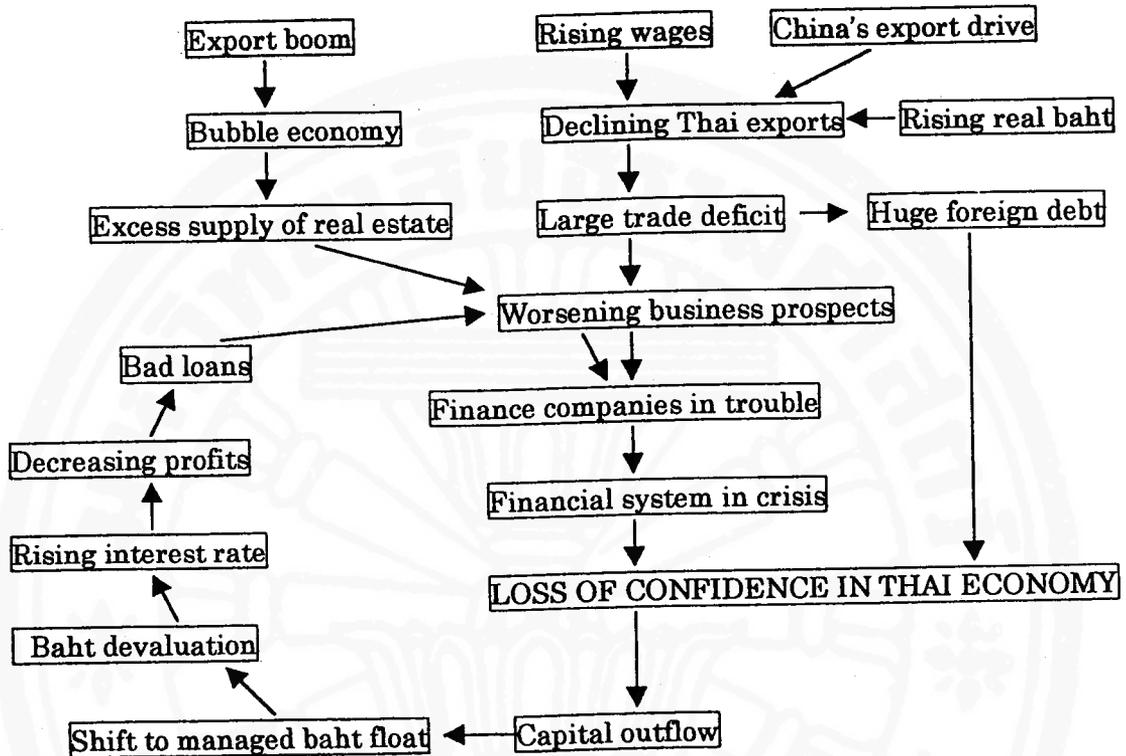
## II. SHIFT FROM EXPORT-LED TO BAD-LOANS-RIDDEN ECONOMY

The shift from the basket currency system to the managed float system on July 2, 1997 symbolized, in a nutshell, a shift of Thai economy from an export-led growth pattern (virtuous cycle) in Diagram 1 to a bad-loans-ridden economy (a post-bubble economic crisis, a vicious cycle) in Diagram 2:

**Diagram 1: THAILAND'S EXPORT-LED GROWTH (late 1980s, early 1990s)**



**Diagram 2: BAD-LOANS-RIDDEN ECONOMY (post-bubble economic crisis) (1996,1997,1998)**



### III. TEN UNDERLYING PROBLEMS

There appear to be at least ten underlying problems in Thailand. These problems are rather inherent, structural and long-term. Some are even cultural. Although these ten problems are interconnected, let me handle them one by one.

#### (1) Selfish Politicians

Many Thai economists say that the politicians are corrupt, proud, and unreliable. The proud politicians kept on ignoring the warnings of the impending Thai crisis which had already become apparent several years ago. Their excessive confidence on the export-led and investment-led development made them blind to the warnings of an impending crisis. Their blindness turned out to have grave implications. Why are Thai politicians driven by their selfish interests? Because they represent vested interests of leading businessmen who are conservative and demand the status quo. Politicians are not interested in long-term national interests. This continues to be the case even after the passage of a new Constitution in

September 1997. Haggings of political factions continue unabated. Politics lacks continuity and remains distrusted. Thailand is famous for the largest number of constitutional reforms. The new Constitution in September 1997 is the 16<sup>th</sup> since 1932. No other country has had so many constitution reforms. Even Japan, which is also beset with political haggings of political parties, has not had so many constitution reforms.

Political leaders could have seen the impending Chinese economic threat, the losing competitiveness of Thai exports, the rising domestic wages, the danger of keeping the baht pegged to the US dollar and the inherent risk of the foreign-capital-dependent industrialization. The politicians are backed by the understaffed bureaucracy who are not efficient.

Foreign business circles were shocked to hear the Thai Cabinet on October 20, 1997 trying to withdraw part of the economic reconstruction measure already decided upon in the previous week. Similar unwillingness had been shown in the raising of gasoline taxes referred to in the IMF remedy.

The economic reconstruction measures is a precondition of the IMF Medicine given following the baht crisis. Foreign exchange reserves were almost exhausted when it occurred in July 1997. Business leaders thought the Cabinet would have to obey the IMF medicine completely. The withdrawal would mean another loss of confidence in politics. Political mistrust continues. "Thailand's politicians have consistently been more preoccupied with their own interests than with sorting out the mess" (The ECONOMIST, London, November 8, 1997(p.34)).

It requires consistent, persistent and united political leadership to keep Thailand attractive as an investment destination for foreign investors. Political harmony must exist. Thailand needs to divert part of the public fund, however scanty, to the formation of social capital like school buildings. Thai infrastructure must further be developed and improved from inside. Deficiencies in the Thai infrastructure (transportation, communication, etc) are notorious. Roads in Thailand have been built by various organizations (state, city, and private) without any coordination among them, making the road system so inefficient and aggravating traffic congestion in Bangkok. The required infrastructure investment is public in nature and must be done by governmental funds, not by private funds. Poor planning of infrastructure is also criticized.

Following the managed float on July 2, 1997, some foreign companies already left or began leaving Thailand. Multinational companies are footloose and can locate anywhere lucrative. Unless politicians become wiser and can be trusted to keep Thai business conditions attractive, more footloose companies will leave the country. Mega competition makes Asian economies more and more borderless.

The terms of the new constitution which passed on September 27, 1997, need to be observed. This is necessary to improve the political profile both inside and outside Thailand. The country needs to have far-sighted, powerful and united politicians with the long-term national interest firmly in view. Harmony is a term cherished by Thai people and it should be realized and practiced in a political setting. There should be nationwide consensus or harmony about the country's economic goal. It is said that there is no one in Thailand, except the wise King Rama IX, who is really concerned about the national interest of Thailand. The King heads Thai-style "democracy", supported by the strong military team.

Thailand definitely needs a long-term industrial policy. Any structural adjustment policy takes much time and effort, before tangible effects come to the fore. Sacrifices must be made. Economic growth rates must decline for a while. It is a process Thailand cannot avoid, in order to return to new stable high economic growth. This view is shared by others such as the author of "Thailand's Boom".

## (2) Uncontrolled Financial Markets

Thailand introduced the BIBF (Bangkok International Banking Facility) in 1992. Initially it was an economically sound attempt that saved Thailand from being ridden by the current-account deficit and a shortage of investment funds. It provided the booming domestic market with necessary dollars. It meant also opening the way to world financial dealings and disorders. These dollars were borrowings, not gifts, however.

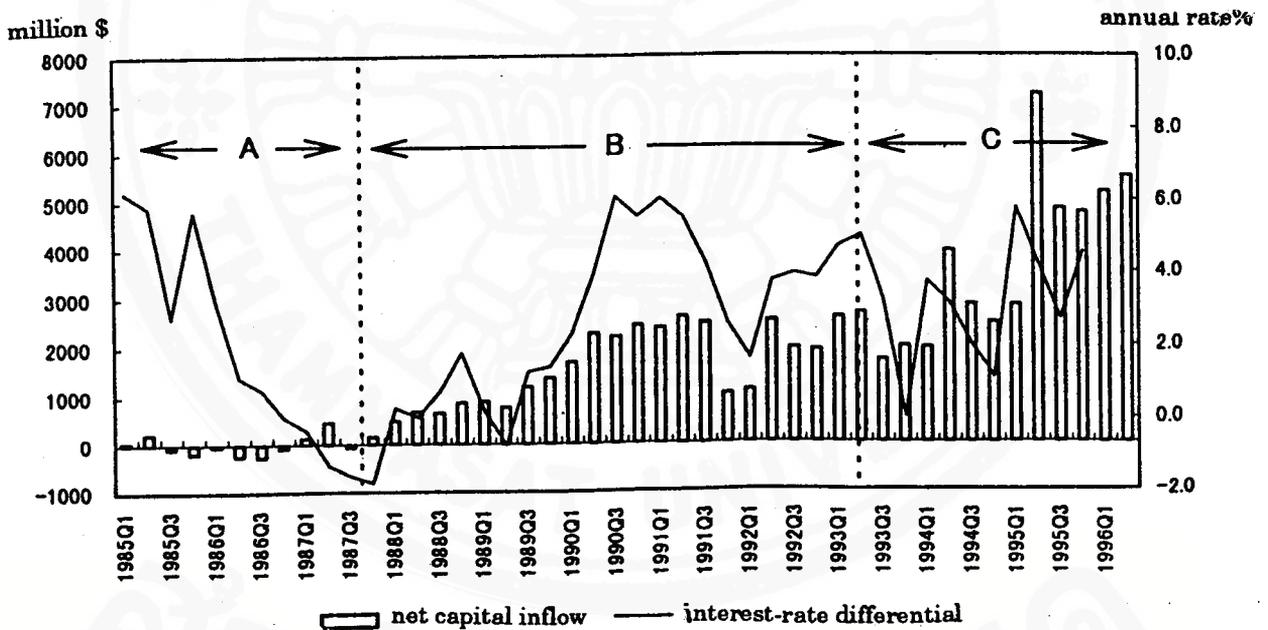
Thai financial markets used to be outside the scope of US fund managers until a few years ago, but this is no longer true. Foreign fund managers, especially young US fund managers, pour millions of speculative funds into the BIBF. They first attack a country with biggest risk. These foreign dealers do not look at sound economic data, but only at the charts of their own computer trading. This approach results in violent fluctuations of capital movements

outside the control of the Bank of Thailand.

Information disclosure by the Bank of Thailand has been deficient. The Bank of Thailand is independent, conservative and understaffed. Mistrust of its leaders prevails inside and outside Thailand. Control of financial institutions by the Bank of Thailand leaves much to be desired. Financial order, sound management, and suitable control should be maintained in the Thai free market economy.

The Bank of Thailand has kept Thai interest rates high enough to induce capital inflow. The speculative inflow of uncontrolled excessive dollars responded to the wide interest differentials as shown in Diagram 3:

**Diagram 3: Short-term Capital Inflow and Interest-rate Differential**



Source: International Monetary Fund, International Financial Statistics; M.Hayakawa, "Interest Rate Differentials and Short-term Capital Inflows in ASEAN Countries" (Japanese), JOURNAL OF RESEARCH INSTITUTE FOR INTERNATIONAL INVESTMENT AND DEVELOPMENT, Export-Import Bank of Japan, September 1997.

Diagram 3 shows for the 1985-1996 quarterly data how the capital inflow responded to the interest rate differential. The interest rate differential here means the difference between Thai money market rate and US Treasury Bond rate. The whole period is divided into three parts. In

Part 1 (1985Q4-1987Q3) capital inflow remained unresponsive to the wide differential. Part 2(1987Q4-1993Q1) shows increasing responsiveness of the inflow to the differential. This period includes the financial deregulation and the rapid increase of domestic credit demand. The excess demand for the credit pushed up domestic interest rates. Part 3(1993Q2-1996Q2) covers the opening of the BIBF in March 1993, which made it possible to make up for chronic shortages in the domestic fund. The BIBF caused rapid inflow of low-cost capital in response to the widening interest rate differential.

Notice that the huge interest rate differential was domestically and artificially generated to fill monetary demand for speculative investment. The year-end short-term inflow amounted to 1.9 billion dollars in 1992, to 3.6 billion dollars in 1993, and 14 billion dollars in 1994. The volatility of the short term capital flow increased dramatically due to the BIBF. Financial markets remain uncontrolled and unstable.

The Bank of Thailand could not prevent the inflow from becoming excessive. The excessive dollars were converted into bahts to be invested into the construction of condominiums, golf courses and other real estate. The result is the Thai bubble economy. The apparent boom was described as "soap bubble" or "sethakit fong saboo" in Thai. Condominiums are expensive to live in. Too many golf courses exist already in Thailand. It takes time and effort to settle the bad loans in the post-bubble period. Many small finance companies become bankrupt and need to be absorbed by large better performing ones. Thailand suffers a colossal foreign debt as the result of extravagant borrowing during the bubble expansion. Foreign debts are equal to almost half of the GDP.

In and around Bangkok I noted in September 1997 many buildings left vacant or only partially completed. These tall buildings may be dubbed "bubble towers" though not Babel towers.

In Japan, too, such vacant buildings were once seen. There are differences, however. In Japan, the boom of the real economy preceded the financial liberalization and the bubble economy, while in Thailand the liberalization of the financial system and the excessive inflow of financial capital preceded the bubble economy. Japan's escalating land prices and the money game led to the bubble economy in the late 1980s, the collapse of which leads to Japanese-style

big bang which has started officially since April 1, 1998, about ten years later than the peak of the bubble. The Japanese bubble economy had peaked around 1988 and 1989.

Behind the Thai bubble economy were the deregulation, the introduction of the BIBF, and the US-demand to open the Thai financial market. The bubble was due to a monetary phenomenon in Thailand, but to a real one in Japan. Causality is thus different.

The difference of the bubble economy between Japan and Thailand can be summarized as in Table 2:

**Table 2 DIFFERENCE OF THE BUBBLE ECONOMY BETWEEN THAILAND AND JAPAN**

<i>1 Causality</i>	Thailand	Japan
Cause	Financial Liberalization	Bubble Economy
Effect	Bubble Economy	Financial Liberalization

<i>2 Foreign Capital</i>	Thailand	Japan
Involvement of Foreign Capital?	Yes	No

<i>3 Accompanying Crisis</i>	Thailand	Japan
Post-bubble Financial Crisis accompanied by another?	Yes, it's accompanied by the baht crisis (Both crises take place simultaneously)	No, it's not accompanied by any other. It has occurred alone.

The bubble boom made Thai people so confident that they became blind to the warnings? as was the case with Japan in the late 1980s. Japanese banks are said to have contributed much to the Thai bubble in 1996. Japanese banks and securities companies suffer still several years after the burst of the bubble economy (e.g. bankrupt Sanyo Securities, Hokkaido Takushoku Bank, and Yamaichi Securities in November 1997). Effects of the burst of the Thai bubble may also last as many years, suggesting a very low growth rate of the Thai GDP in the near future since 1997.

During the Japanese bubble of the late 1980s, some economists were conscious of the

impending burst, which had been ignored by overconfident businessmen and selfish politicians? The same seems to be true of Thailand.

It is not realistic to abolish the offshore market in Thailand. There may be nothing wrong in the offshore market, but it contains the above danger if used inappropriately. What is needed is more surveillance, more prudence and more long-term consideration of the national interest.

Japan and Thailand need to strengthen joint surveillance of financial institutions, in cooperation with the IMF. Japanese experiences of the bubble and the post-bubble turmoil may be of benefit to Thailand, if applied wisely and cautiously. International cooperation and financial assistance from outside are welcome, but they are not enough. What is eventually needed is self-control of financial markets. The Thai financial system is described as "slipshod" according to the Nikkei Weekly editorial of October 27, 1997.

Following the July 2 float, the Bank of Thailand now has more latitude in monetary policy, e.g. interest rate change, but its conservatism lingers on. More autonomy, more foresight and more sound management must be exercised by the Bank of Thailand. General confidence in the Bank of Thailand must be restored and enhanced. A mismatch must be filled between what an enlarged economy, especially international trade sector, demands and what the existing financial organizations can offer. The mismatch makes the economic crisis more serious.

### (3) Declining Export Competitiveness

Thai exports of garments, textiles, gems, accessories, plastic products, shoes etc. decreased drastically in recent years, according to the statistics of the Thai Ministry of Commerce. Thai labor-intensive exports had been losing competitiveness already even before the July 2 float. The loss is at least due to the following three causes:

#### (3-a) Rising real effective exchange rate

Although the baht remained officially pegged to the basket currency (or actually the US dollar) until July 1997, its real effective exchange rate had been rising since 1995. The baht exchange rate in terms of PPP had been on the rise already. The exchange rate of the baht remained stable for the 17 years, 1980-97, at a level of 25 or 26 baht to the US dollar. In terms of the purchasing power parity, it was estimated to be 30 or 31 baht to the US dollar.

### (3-b) Chinese massive export drive

China has been successfully pursuing export-led industrialization. Its currency was devalued 52% to the dollar 1994, placing it in a comparative advantage against its competitors. Its massive industrialization based on cheap labor as well as open door policy places it in an advantageous position in the Asian mega competition. The ratio of Chinese trade (exports plus imports) to the Chinese GDP already exceeds 40%. Vietnam and other new emerging competitors are also following, thus threatening Thai exports. The baht devaluation in Jul 1997 is said to make up for the loss of the competitiveness following the 1994 Chinese currency devaluation.

### (3-c) Rising wages and labor shortage

Because of the rapid economic growth, the domestic wages had been rising until 1996. A forecast made in 1996 stated that labor shortage would continue into the 21<sup>st</sup> century.

**Table 3 Demand and Supply of Engineering College Graduates (Actual and Predicted)**

Year	1995	1997	1999	2001
S(Supply)	10,630	12,970	14,450	15,470
D(Demand)	13,750	16,330	21,030	27,080
D-S (shortage)	3,120	3,360	6,580	11,610

Source: Ministry of Science, Technology and Environment, Thailand, July 1996

Table 3 shows a forecast made in 1996, which tells how acute the shortage of engineers would be in the future. The shortage of engineering college graduates was then expected to increase, pushing up wages and prompting job hopping. Although the Government had been trying to meet the growing demand for engineers, it had not been successful so far.

Labor shortages were reported for workers in general, too, before 1997. Industrial parks, for example, had to go farther inland to recruit a fresh labor force. The situation was reflected in a forecast in Table 4 which was based on the data before 1996.

**Table 4 Total Demand and Supply of Thai Labor (Predicted)**

Year	2000	2005	2010	2015
S(Supply)	37,165	39,067	41,214	42,332
D(Demand)	37,999	40,855	43,470	45,920
D-S(Shortage)	834	1,788	2,256	3,588

Unit:1000 laborers; Source: Tomomi Ohtsuka " Southeast Asian Economic Development and Changes of Labor Population", a paper (Japanese) presented at the 56<sup>th</sup> annual meeting of the Japan Society of International Economics, Seinan Gakuin University, Fukuoka, Japan. October 10, 1997

Table 4 shows how acute the labor shortage would be in the future for the Thai economy as a whole. In the year 2010, the labor shortage would amount to over 2.2 million. The shortage would push up wages, decreasing Thai export competitiveness. The shortage would attract further immigrants from neighboring countries (Laos, Cambodia, China, etc.), thereby aggravating urban congestion in Bangkok. A structural shift of the Thai economy from a labor-intensive to a technology-intensive one would help reduce the excess labor demand. Unless Thailand succeeded in upgrading the quality of its workers, its exports would find it difficult to regain competitiveness.

Labor shortages were acute even among foreign-affiliated companies. Pathumwan Technical College, as we were told in September 1997, would soon produce its first graduates. Responding to my question, "Where will they find jobs?", the director said, "They will probably find jobs in Japanese companies." What a surprising response! I had expected that they would find jobs in Thai industries. My guess turned out to be unfounded. I later knew the reason. Japanese high-tech industries were desperately in need of new engineering graduates. JICA-assisted Pathumwan graduates were the ones they really needed. No domestic high-tech Thai industries existed to hire them.

Bangkok used to be a magnet to rural people as well as people from the neighboring countries.

Educated women used to find lucrative jobs outside their households until 1996. It was then becoming difficult to find local housemaids in Bangkok. The case was different in Chiang Mai, however, where local maids were still available. Some Bangkok restaurants hired Laotian

and Cambodian workers as waiters and waitresses. The baht economic zone covers Laos and Cambodia.

Remember again that the above-mentioned two forecasts were made prior to the shift to the managed float. No data are yet available for the post-float period. Following the currency crisis since July 1997, depression and unemployment stay in Thailand. This makes the supply of engineering students redundant, not short, in 1998, a situation unexpected back in 1996 or 1995.

Will the time come again when engineering students are strongly demanded? The author thinks in the affirmative. A few years later in the early 21<sup>st</sup> century, they will become precious talents in Thailand. Thai low-tech labor-intensive goods will continue to lose competitive edge in the age of Asian mega competition. Quality will matter more in the 21<sup>st</sup> century. Quality workers will be eventually productive in future. What is of good quality, even though expensive, will be highly valued. What is cheap but of poor quality will be no longer attractive or competitive. This is a lesson Japan has learned. I hope this will of interest to future-oriented Thai leaders.

#### (4) No Supporting Industries and Rare Joint Ventures

##### (4-a) No Supporting Domestic Industries

There are no major domestic supporting industries available in Thailand. The Board of Investment (BOI) in 1994 designated fourteen supporting industries as investment-promoting industries, targeting Japanese medium and small industries. Many Japanese companies of car parts and electronic parts industries have successfully been transplanted into Thailand, which now hold a comparative advantage in Southeast Asia. This wide range of well established supporting industries of Japanese origin has lured GM, FORD and others into Thailand. The Thai government has no other choice but to depend upon Japanese and other supporting industries.

The Thai Government relies on Japanese small and medium industries as if they were "Thai" industries. Yes, legally, they are Thai industries. They rely on industries from outside. There is unfortunately no alternative.

Some Japanese MNCs once sought Thai supporting industries but in vain. They say the latter are not reliable, not competent, not up to the standard required, and simply not available. Domestic manufacturing in Thailand is chiefly confined to food processing, clothing,

assemblies of electronic equipments, and production of building materials. Traditional factories are small-scale and center on the processing of domestic raw materials most of which are imported. The baht devaluation since July 1997 has been affecting them so unfavorably. Layoffs are normal. Cars on streets are fewer. Consumer demand is in a slump. The concept of Asian Cars has receded already. In the 21<sup>st</sup> century, when the economy will be in better shape, the concept of Asian cars will regain importance. Asian cars presuppose intra-ASEAN supplies of car parts and components.

#### (4-b) Rare Joint Ventures

Joint ventures are rare between Japanese and Thai industries. There are a number of reasons according to top executives of Japanese MNCs I have interviewed. First, there are no comparable Thai partners available, as stated above. Second, there are more disadvantages than advantages. The textbook definition of a joint venture is "an undertaking formed for the purpose of carrying out a common project and conducted by two or more partners who share risks". Potentially, it can be an effective method to revitalize the local economy.

Disadvantages of joint ventures appear most when partners disagree in times of recession. A recession stays in 1998 as a result of the baht float and the IMF policy. More argument is expected in joint ventures during the depression. The disagreement means postponement of decisions, which may mean loss of business. Other disadvantages appear when Thai partners represent labor unions. Their disagreement with the Japanese partner can result in endless negotiations, postponements of agreements, and loss of business opportunities. These advantages and disadvantages can be summarized in Table 5:

**Table 5 Disadvantages and Advantages and of Joint Venture**

Disadvantages	No	Advantages
Mismatch of requirement	1	Transfer of technology
Disagreement (esp. in recession)	2	Transfer of management
Postponement of decision	3	Availability of Thai information
Negotiation with labor union	4	Positive interaction of Respective advantages

Source: my hearings of September 1997

Joint ventures are rare in Thailand, but there are some. SIAM TOYOTA, for instance, is a joint venture between Siam Cement and TOYOTA. TOYOTA benefits from its tie with Siam Cement, a representative royal industry. Its closeness to the Thai Royal Family is bringing many benefits to TOYOTA.

The same is true of TTL which enjoys thirty years as a successful joint venture. The Thai partners are politically related conglomerates and belong to political parties. The Thai partners are not in the textile business and complement the Japanese partner. The Japanese partner of TTL takes over production and marketing, while the Thai partner offers advance information about land availability, industrial plan, economic policy, etc. Advance information on tax benefits and preferential treatment is valuable to TTL and available through the partner close to Thai politics. Marketing is done by a Japanese big general trading company with a world-wide information network. The Japanese trading company is thus strategically involved in the TTL operation. The combination means a mutually beneficial mix of both Thai corporate culture and Japanese corporate culture. The result is a third corporate culture.

Strategic Thai political information and efficient Japanese production and marketing underlie the long-run success history of TTL, a now thirty-year-old Thai industry. The thirty years included the import-substitution period. Cheap labor is no longer a weapon. Inexpensive textiles of low quality are rapidly losing export competitiveness. TTL uses state-of-the-art machines and aims at a fashion-oriented textile industry with higher value-added. It follows the model of textile industries as in Japan. TTL is not like the old Thai textile industries. "Thailand is no longer a cheap-labor country and must aim for higher value added by producing more fashion-oriented sophisticated products," says a TTL manager.

Successful joint ventures thus utilize advantages to overcome or compensate for disadvantages. Successful joint ventures as well as other successful foreign-affiliated companies depend on Thai managers for labor management.

Apart from SIAM TOYOTA, TTL, and a few others, almost all Japanese companies do not form joint venture businesses in Thailand. Rather, they adopt internal continuous production, with all operations from the initial (upstream) to the last stage (downstream) carried out inside the same plant. NMB, for instance, sticks to a continuous internal operation, depending on no

outside suppliers. This system helps the company keep quality high enough to be competitive globally. Subcontracted small and medium firms accompany their parent company to Thailand. Though they leave labor management to Thai managers, other areas are usually managed by Japanese Minebea executives. Management localization is slow but progressing even at NMB.

My observations in September 1997 of the Japanese-affiliated companies in Thailand confirm the view that success in a Thai operation depends on the cooperation of capable Thai managers as liaisons between Japanese top managers and Thai workers. Competent Thai co-managers help increase the productivity of Thai workers. This view is shared by joint ventures and others.

#### (5) No Widespread Formal Education

##### (5-a) Low Level of Secondary Education

According to the World Development Report 1997, World Bank, the percentage of school age children enrolled in secondary education is 37% (female, 1993) and 38%(male, 1993) in Thailand, the lowest percentage among ASEAN countries. In 1980 the percentage was only 28%(female) and 30%(male). There was a 9% female increase and a 8% male increase from 1980 to 1993.

Only less than 40% of the Thai population go to secondary school. Why so low? The reason is a critical lack of zeal, interest and self-help. *ECONOMIST*, London, August 16, 1997 (p.21) points out Thailand's educational failings. Its public and private expenditure on education is less than 4% of GDP, the lowest percentage in Southeast Asia. Nor is it likely to rise much in the future, even though the Thai government has promised that education will be spared the budgetary cuts required by the IMF as part of the rescue package. Compulsory education is slow to be accepted widely. The standard of education varies. There are too few schools and too few teachers. Existing schools are overburdened. No wonder, Thai secondary education is so weak.

Compulsory education lasts only nine years and even this is not consistent throughout the country. Available school facilities are insufficient to provide primary education to all children. With the passage of the New Constitution, the Government intends to extend compulsory education to twelve years.

It is worth noting that the literacy rate is said to be over 90 percent, higher than that of most other Southeast Asian countries. According to the view of the author, this would be due to various informal educational programs done by religious missions, private Chinese primary schools and night schools. The figure (90%) could be an overstatement.

Many Thai children are deprived of the opportunity to go to school. Poor parents force their children to work to earn money. The result is street children, a serious social issue in Thailand. Politicians prefer to build factories to schools. The number of schools and teachers is still inadequate. The number of condominiums and golf courses is excessive. Every one knows it is up to education to enhance Thai productivity, but fundamental attitudes are lacking, like initiative, courage, and willingness to progress. It is the will to develop that is decisively important.

Professor Kitti Limsakul, Chulalongkorn University, says, "What is most important is education. Thailand lags behind other ASEAN countries in education. Compulsory education is slow to be accepted and practiced. Very few go on to higher education. Informal education is important but not enough. The Government must deal seriously with the improvement of overall education from a long-term perspective." I agree with him. I hope such views will eventually become part of a nationwide consensus among policy leaders. Universal formal education cannot be replaced by informal vocational schools, community classes and company training programs. Universal reform of education is urgently needed for the future of Thailand.

#### (5-b) Urban-Rural Inequality in Education

Poverty inhibits the spread of secondary education. Those living in urban areas are rich, but those in rural areas are not. The income gap and the lack of educational initiative block the spread of universal education to the countryside. Hilltribe people are deprived of chances to advance. So are Isan people in the northeast. Thai rural and hilltribe peoples are too poor to send their children to secondary schools. By contrast, there are even cram schools in Bangkok. Competition is keen at top-notch kindergartens in Bangkok, a scene unfamiliar in Isan. Bangkok's educational facilities are overburdened. There are too few schools, and the standard of education varies from school to school.

Rural people live in unacceptable conditions. Reduction of poverty comes from

educational investment in rural people. Rural education and community-consciousness are urgently needed. Rural people are unaware of the need to educate themselves, and especially their children. I wonder why the Government cannot redistribute more public funds, however scanty they might be, from the rich Bangkok areas to the poor rural areas. The deprived poor people need to be less ignorant.

The World Bank says that development starts and ends in people. I would rather say that development starts and ends in rural education of the people. Education of local people holds the key to the harmonious development of the country. Development requires the harmonious participation of every one, rural or urban. Local development could start right at grass roots if rural people are united for a common purpose of mutual help and further education.

Some conscious rural people are idealistic and call for democratic reforms, while urban people are realistic and call for pragmatic approaches. What is deficient is a rural-urban harmony and a national consensus.

The new constitution of October 1997 is quite innovative and idealistic. Why has it come into being? This is because politicians, rural or urban, are united this time in the face of the overwhelming serious economic crisis since July 1997. The rare "unity" is one of the unexpected benefits of the current large-scale crisis so far unexperienced by Thailand. The temporary existence of a rare nation-wide consensus means that all Thai politicians think they should avoid another political disruption which would only aggravate the ongoing turmoil.

Still, some observers are doubtful how far the new constitution will actually be observed. Law-abiding mentality is weak, as mentioned later. Pragmatic self-centered urban people may again destroy the new constitution. It is said, according to one of the writers of the October 1997 new constitution, that idealistic, innovative, and progressive rural people help create new government, which in turn pragmatic, self-centered, and conservative urban citizens tend to destroy. Urban businessmen are conservative, rather than progressive, and merely concerned with their own vested interests, rather than national interests.

In Japan, the large scale land reform and the abolition of zaibatsu were carried out following the end of World War II, ushering in further democratization. The IMF rescue package

now being carried out by the Thai government seems to have some similarity. Thailand could take advantage, ushering in further democratization and mitigating urban-rural inequality.

#### (6) Bangkok Concentration

Large cities always function as a magnet to rural peoples. Bangkok is no exception as people increasingly flock there to make money. In the village of Ban Na Tham in northeastern Udon Thani province, 50 of the 60 households have at least one family member who left home to work in industrial zones in and around Bangkok (TIME, March 30, 1998, p.23). Bangkok now is distinct from the rest of Thailand. Although it is difficult to find jobs in rural areas, it is less difficult in Bangkok. The on-going composite economic crisis indeed means the decrease of available jobs in Bangkok, forcing worker remigration into the countryside, but once the economy become better in the future, Bangkok area will offer more jobs than rural areas. Rural areas serve a supply source of labor force as well as an absorber of redundant labor force. In the course of depression, urban workers lose jobs in Bangkok and return to their rural homes where they manage to survive until Bangkok again creates new jobs. Villages serve as labor reservoir.

Half of Thai GDP is produced in Bangkok. Modern facilities are concentrated in Bangkok. The total area of the Bangkok Metropolis is 604 square miles (1,565 square km), only 0.3% of that of Thailand as a whole. The 0.3% area produced more than half of Thai GDP. The share of the industrial output by the Bangkok Metropolis in the national industrial output used to be 77% in 1987.

The population of Bangkok is about six million, or about one tenth of the whole Thai population. What's the population of the second largest modern city in Thailand? It's said to be Chiang Mai with only 0.18 million people. The difference is so huge, suggesting again that Thailand is divided into two parts, Bangkok and the rest.

Thailand exemplifies a typical divided economy. It is divided into the thriving part and the forgotten rest. The affluent first part is modern like Singapore, and the poor second part is agricultural. Little interaction seems to exist between the two parts. No major middle class exists through Thailand, although some say that in Bangkok a middle-income class is emerging. Their income is unstable, shrinking rapidly during depressions. The new middle-income class of Bangkok belongs to the first part of Thailand. The second part of Thailand, rural areas, has no

emerging middle class. In the rural area, one can hardly see modern large factories.

MNCs (Multi-National Companies) are used successfully by Thailand's enclave in and around Bangkok, while the rest of the country remains neglected, deprived and forgotten. Foreign-affiliated multi-national companies could easily leave Thailand and locate elsewhere, suggesting that Thailand's thriving enclave has no solid foundation. Thailand's enclave is footless, because it's derived from footloose MNCs.

What stay is just borrowed prosperity. MNCs are driven by profit motives. Once it becomes apparent that some other country is more lucrative in the long run, they will leave Thailand. To prevent their departure, politicians flatter MNC executives. MNCs usually shun the infrastructure-meager rural areas. (MINEBEA which builds a factory right in the middle of a paddy field is an exception.) Poor areas become poorer, rich ones richer. The gap becomes wider. The gap between Bangkok area and northeastern area is extremely large, the Bangkok income being on average eight times as big as the income of the northeastern area.

Thailand is a typical divided economy in an increasingly small world. One part thrives at the sacrifice of the other. When asked in Tokyo, "Where are you from?", Thai people usually say, "I am from Bangkok." They do not say "I am from Thailand". Bangkok is their country.

The excessive concentration in Bangkok results in notorious problems, e.g. traffic congestion, accidents, noise, air pollution, garbage, sewage, water shortage, electrical shortages, sinking ground, poor public health, sanitation problems, street children, prostitution, joblessness, immorality, drugs, violence, etc. Especially, the street children and girl prostitutes are serious ills which have become so deeply ingrained in Thai society. Although infrastructure is weak in Bangkok, it is even worse in the remote forgotten areas of Thailand. The notorious traffic jam in Bangkok is in 1998 a bit alleviated, due to the slowdown of industrial activities amidst the current economic crisis. Many cars once on the road are sold to used car shops where few buyers visit. Less cars on the street makes traffic smooth, another ironical benefit of the crisis. Until a few years ago, Bangkok workers were said to spend 44 days on the road due to the traffic jam. I also experienced in Bangkok that it took me an hour to go by taxi to a building just across the street, Traffic used to stop completely simply because of too many cars on the too few roads.

Professor Suvinaï Pornavalai, Thammasat University, points out a vicious circle in Thailand, which is a hopeless interconnection involved in the Thai socio-economic disease. The interconnectedness means that the crisis is so composite. The vicious cycle is topped by the above problems in Bangkok. He says that capitalism consists of both profit-seeking companies and satisfaction-seeking consumers. The two selfish desires interact and know no limit. These desires are best met in Bangkok. The money-making desires are limitless, resulting in a total neglect of compassionate neighborly concern for others. Humanity is thus lost. These culminate in aggravating the urban problems. The compassion of Buddhism is at risk. Fortune-tellers thrive in downtown Bangkok.

The problems of the Bangkok concentration are epitomes of the growing socio-economic contradictions in Thailand. The problems are so deep, so complicated, and so interwoven that no quick fix is possible. The grave consequences of the urban problems need to be seriously considered.

The Thai government is promoting decentralization. As factories move from Zone 2 to Zone 3, more tax benefits are granted. The Bangkok metropolitan area is already a non-manufacturing area. The idea of shifting the Thai capital to another city in Thailand is now totally forgotten and out of the question.

#### (7) Poor Law-Abiding Spirit

Thailand is traditionally rich in natural blessings, with food still available in the countryside. It is still basically an agricultural country. Agriculture employs about two-thirds of the total Thai labor force. A top manager of TTL says, "Agriculture requires no common rule. Industry requires compliance with common rules, standards and punctuality. Workers who used to be farmers must be retrained."

When person A makes an appointment to meet B at 3pm, B can come much later, say, at 4pm. To B, 3pm means "about" 3pm. One hour later does not matter to B ("my pen rai" mentality). Due to the "pramaan" mentality, appointments are easily broken. Promises are made casually and not kept. Thai people in general are not punctual, although there are exceptions.

Agricultural habits are lax in time and standard. It takes time and effort to adapt agricultural habits to industrial ones. Company training is needed as a kind of informal

education.

Trained workers can adjust easily, but not untrained ones. Training can help people realize how important it is to be punctual, meet deadlines, and observe rules in an organization. A law-abiding spirit does prevail in a good company, but the attitude is limited to the company, not beyond. The rest of the area is different. Traffic rules are observed inside the factory, but not necessarily so outside.

Frictions between modern and traditional habits appear here and there. Thailand literally means Land of the Free (MUANG THAI). Freedom is cherished. Individualism is a national characteristic. People are by nature not fond of being controlled by laws. Police officers are present, but bribes are also present. No laws, as some Thai professors admit, tend to be strictly observed. Mistakes and offenses are often overlooked.

Typical Thai businessmen in Bangkok who are originally large land owners in the countryside are essentially borderless. They are concerned not with national assets but only with their own commercial interests. They do anything possible to protect their own assets. They sell bahts and buy dollars without hesitation. They deposit their assets in banks in the United States without hesitation. They do not hesitate to break laws and neglect legal order so easily. No wonder, law-abiding spirit is so low in Thailand.

Not only victims but also offenders tend to overlook, out of "my pen rai" mentality. Onlookers think some specific circumstances must have caused the offense and refrain from asking further questions or condemning. This habitual behavior, they say, comes from Buddhist pity, compassion or tolerance. Thai Buddhism teaches salvation through Buddha's benevolence and promotes or justifies reliance on others to accomplish one's purpose. Asking for external help is thus considered to be a virtue? They take it for granted that rich countries aid poor countries. Habitual dependence on others means lack of own efforts. People become irresponsible to own actions and tend to justify own neglect of laws. The lack of self-help efforts is thus deeply rooted.

Common Buddhist people prefer harmony to disagreement. They rarely argue in public, leaving fundamental problems unsolved. Things old are retained, defying things new. Conservatism stays. Restricting freedom is considered to be undesirable in the Land of the Free.

Such a liberal and relaxed mentality, though understandable, hinders the adherence to legal order. Traditional customs which are supposed to have merits can thus become demerits in the age of mega competition which requires borderless harmonization with global standards.

Natural "my pen rai" culture and "sanuk" spirit so particular to Thailand can be maintained but must be adapted or changed to meet industrial needs. As stressed by a Thai manager, Thai blue-collar workers by nature demand a "pleasant working environment with harmony", which requires altruism rather than selfish individualism. A new team spirit is necessary, but it is difficult to develop and nurture. Education must play a decisive role to enhance a new law-abiding spirit.

Thailand needs to become a law-governed country. It is up to education to promote a law-abiding spirit. Existing laws need to be more strictly observed. Rules exist to be observed. Rules in a modern society are mandatory. NGOs and communities can be helpful in reaching this goal. The Thai Government cannot consider company education as a substitute for formal secondary school education.

Agreement is cherished in Thailand as in traditional Japan, but discussion based on reason should be encouraged to avoid conflicts later. Both Buddhism and reasoned discussion can coexist. Harmony can go together with consensus. Adjusting traditional Buddhist values to modern industrial society needs to be done wisely. Again educational reform and a general reorientation of the country's leading minds are required.

#### (8) Declining Moral Standards

The general moral standard is being eroded. Corruption, theft, prostitution, drug abuse, crime, Aids, and other moral problems are increasing and spreading. Foreign businessmen are also involved. Deprived poor immigrants from rural Thailand live in shanties which coexist with modern buildings. Money-making industrialization, expanding consumer needs, and general aspirations to become rich quickly combine to lower moral standards in Thailand. Frictions with traditional habits are appearing. Traditional good moral values are being rapidly replaced with unwholesome consequences. The number of street children is on the increase, although the government is trying to prevent it by various means.

Some rural children and women are deceived by sweet words and brought to Bangkok

to work in immoral places. Some of them manage to escape and become street children. Child labor, child abuse, child abandonment, girl prostitutes and the like are normal. NGO facilities functioning. For example, Emergency Home, a voluntary NGO facility in Bangkok, accommodates and takes care of such deprived children and women. It also offers informal education. Another such example is FHC (Foundation for Handicapped Children) also in Bangkok. Such NGO facilities are on the increase because the Government does not take extensive care of the less fortunate among the population.

According to the 1997 UNDP (United Nations Development Program) report, Thailand has been successful in reducing HIV/AIDs victims through government initiative, community support, and employee participation. This is a remarkable success in Thailand, but still many urgent tasks remain.

#### (9) Worsening Environment

Thailand also suffers from an unhealthy environment as is the case in other ASEAN countries. Thailand is beset with wastes, air pollution, poisonous gas, water contamination, new pollutants, soil erosion, deforestation, noise, soil erosion, sinking ground, water shortage, etc. The carbon monoxide density in Bangkok is very high. The water is increasingly contaminated. Dirty sewage flows direct into the Chao Phraya river. Canals are polluted. Harmful industrial wastes from factories are dumped, with costly anti-pollution equipments hardly in service, although there are exceptions. Mangrove trees and tropical forests have been destroyed. The Thai government has been trying to cope with these environmental issues in its five-year development plans and other policies. The environment law has been revised. I have heard, however, that the law is not well observed. Poor law-abiding spirit hinders ecological progress. The costly anti-pollution equipment is said to be turned on, only while authoritative inspectors come.

Forest fires in Indonesia in September 1997 which were caused arbitrarily by primary products boom were polluting southern Thailand as well. Indonesian farmers have no choice but to set fire on the forests to secure arable land quickly. Forest-burning farming affects many neighboring countries. Lack of common concern and lack of environment-friendly planning can be seen as the cause. Poverty interacts with deforestation. An ever-shrinking world necessitates

mutual protection of the environment. Pollution knows no boundary.

Environment-friendly development is urgent. The worsening environment threatens the basis of Thai economic growth. The task of protecting the environment cannot be left to the Government alone, which is understaffed. NGOs, NPOs, and communities need to be aware of the need to protect the environment. Each person, urban or rural, needs to be conscious of the importance of environmental protection. Selfishness only aggravates problems. Development must be environmentally sustainable. Again it becomes the responsibility of education to enhance community awareness of the seriousness of ecological problems.

Developing countries including Thailand must be environment-friendly. Third-world politicians make it a rule to blame first-world politicians in environmental issues, in an effort to justify their own destruction of the environment. They offer the pretext that the first-world politicians used to pollute the earth arbitrarily. The increasingly smaller world, however, makes it difficult to justify their pretext. Environmental issues can no longer be separated from economic issues. Sustainable development requires pollution control in both developing and advanced countries.

The environment is an international public good available to all countries and to be protected by all. Sustainable development depends on an appropriate balance among poverty reduction, educational reform, and environmental protection. Moral education is urgently needed for a better environment.

#### (10) No Self-Help

##### (10-a) No Own Effort

I myself have heard many economists say that self-help has just begun in Thailand. Although Japanese ODA officials in Bangkok agree that all ODA loans and grants are originally supposed to encourage self-help, they note that the goal has not yet been realized in Thailand. This view is shared by many longtime observers of Thailand in Japan.

What a surprise! People who know nothing about the conditions inside Thailand are surprised to find the lack of self-help initiatives in Thailand. It is a sad reality. Despite many years of two-digit growth rates well publicized to the world, serious self-help efforts are not yet underway in Thailand.

What is the cause? Overconfidence and irresponsibility are. Thailand's habitual high growth, easy availability of borrowed funds and my-pen-rai mentality have made Thai people so lazy, so complacent and so shortsighted that they have neglected serious efforts to use funds wisely to repay loans and to internalize what they have learned from the West. Their overconfidence has made Thailand irresponsible for its repayment of past borrowings. There are many conscientious Thai scholars who have already been aware of the serious lack of sustained serious self-help efforts, but their pre-crisis warnings had remained ignored.

Traditional Buddhist habits of depending on others make people less dependent on own efforts, irresponsible to their own behaviors and promises. Promises are easily broken. So are laws and regulations.

Thai success is only borrowed. The borrowed success has an inherent vulnerability. Borrowings are not gifts; they need to be returned with interest. The returning efforts should occur from inside, because they are supposed to help the borrowing country become economically independent.

Low-interest ODA loans are especially designed to help promote self-help efforts. So far, attempts to reach the goal have been unsuccessful. Past high-growth experiences have inertia effects (physics)? so that they fail to stimulate self-conscious efforts. The inertia implies conservatism, adherence to tradition, and a lack of innovative actions. Thai politicians, policy makers and business leaders have been blurred so much by their overconfidence, shortsightedness and ignorance that they have neglected their own effort to help themselves. Their concern is the preservation of the status quo rather than genuine economic autonomy, saying "What's wrong with high growth and dependence on foreign capital? Nothing is wrong. So far, so good. So will be our future. Let's enjoy life now! Sanuk!"

Thailand has too long been accustomed to the once successful use of borrowed capital, technology and equipment. Its habitual high growth is based on these borrowings. Such borrowing habits have in effect have made the Thais extremely complacent. So are some neighboring ASEAN countries. Nothing begins by blaming others. Something must begin by blaming oneself.

Some used to say, "What's wrong with borrowing-based rapid growth? Advanced

countries now like the US have benefited from such borrowings from outside." The question fails, however, to consider the inherent vulnerability of borrowings. The truncated development (one based on things borrowed) has built-in weaknesses. True development must be "bought" from inside; a price must be paid.

Once outside conditions change, the weakness suddenly becomes exposed, as witnessed by the aftermath of the July 2, 1997 shift to the managed float, the continued devaluation of the baht, lingering financial turmoil and aggravating widespread economic slump never experienced before.

Thailand and other ASEAN countries must keep pace with each other, which necessitates resorting to what Gershenkron calls the "benefits of backwardness". Developing countries nowadays cannot proceed as gradually as Japan in the Meiji Period did. Things must go much more rapidly than in the 19<sup>th</sup> century. Still, far-sighted policy makers could issue early warnings and make adjustment in harmony and forestall disaster. Harmony is a word Thai people like. Borrowings are not free, but must be returned with interest. Genuine development is not free. It has a price and needs to be "bought". Benefits of backwardness do not accrue unconditionally? Nor do they fall from heaven like manna.. Prices must be paid Certain preconditions must be met.

Some Japanese firms are deeply involved in the Thai economy. They are committed to the continuation of their Thai operations despite many lean years in the near future. Commendable?indeed. They feel responsible to their keeping jobs of Thai employees. Both Japan and Thailand have vulnerability interdependence built in business operation.

I say, "Commendable?indeed." The Thai government can no longer keep depending on such conscientious Japanese firms. Excessive dependence on others, as the current composite crisis teaches us, must be supplemented now with indigenous widespread self-help efforts, however painful they are.

Japan and other advanced countries can help Thailand develop. But Thailand needs to help itself eventually. This basic lesson, it seems, has long been neglected. Thai people used to take it for granted that they can continue to use what they have been using. The experience of the past rapid high growth made politicians and business leaders so negligent that they have

ceased to recognize the importance and necessity of self-help. Do they need self-help? The answer is obviously "Yes, they do." This is a precious lesson of the serious crisis now affecting all sectors of the economy.

Foreign technologies, equipment and management are simply transplanted in Thailand as part of the process of worldwide internalization (not internationalization) of MNCs. The distinction between a domestic and a foreign operation used to lose importance. MNCs are essentially footloose. They can locate anywhere in the world without national attachment. MNCs can train people anywhere. Japanese-affiliated companies, for example, train Thai workers not in Thailand but in Japan. NMB has its own airplane to transport workers between Thailand and Japan. Thai workers are trained offshore. Dependence on training in other countries has been normal. The trained workers feel comfortable inside air-conditioned work places including canteens, a scene so different from their rural house they commute from. Their turnover rate is naturally very low.

The companies use parts, components and materials imported from supporting industries in neighboring ASEAN countries as well as Japan. A supply network, as shown in the "Asian Car" concept, is partially established throughout Southeast Asia. Thailand's apparent prosperity was not founded on indigenous technology but on the Asian supply network and things borrowed. MNCs bring in the latest Western technology. Thailand used to enjoy the benefits of the borrowed technology. Assembly-type production benefits Thailand with my pen rai mentality.

Thailand used to enjoy the advantages of backwardness. History shows, however, that habitual occurrences of such technology borrowings weaken a country's resolve to make its own diligent efforts. There is nothing wrong with living on foreign technology. The question is how to use it wisely, how to internalize it and how to repay it. Self-learning needs to be built in domestically. This is a harsh reality nobody can escape.

Thai people are optimistic by nature. They like festivals. The country is blessed with natural resources. Their tropical nature is not best suited to serious industrialization efforts. Thailand as a semi-NIES, however, has passed a point of no return. It must raise and use domestic savings for indigenous development. It cannot go back to the old agricultural mono-

cultural country. Thailand is no longer among the poorest countries. It's no longer a cheap-labor country. Current sacrifices become so much larger.

Thai urban people are so curious that they want to use latest gadgets, as if they were their own products. Young people flock to buy latest gadgets from the West and feel proud to show them off. They are eager to spend rather than save. Japanese tend, by contrast, to save rather than spend.

The borrowing country tends to become accustomed to the availability of modern facilities so long and so much that they take them for granted and use them as if they were their own. This easy custom holds inherent dangers, which have become clear in the economic turmoil following the post-bubble shift to the managed baht float. Excessive confidences in the successes of borrowed rapid growth have led to a lack of serious attempts to repay. Borrowed success must be accompanied by corresponding industrial efforts and patient self-help initiatives. Political foresight and harmonious self-help leadership are really needed. It is worth repeating that what is borrowed must be paid back with a sacrifice.

#### (10-b) Imported Medicine

Bangkok hospitals use modern medicine and equipments imported from elsewhere. The latest medicines satisfy sophisticated patients. It does not matter where the medicine is from.

The same is true of the government policy. The IMF acts as a "doctor" for the ailing Thai economy. Its medicine is supposed to be taken seriously. The Thai government does not depend on any domestically proposed measure but the one proposed from outside. It has become its "own" measure. It is now irrelevant to make the distinction between an insider proposal and an outsider proposal. What is pertinent is pertinent anywhere. Pertinence knows no boundary. The IMF medicine is bitter but must be swallowed before further progress can be made.

Some Japanese business leaders associate the current Thai shock treatment to the Japanese land reform ordered by the General Headquarters of the Allied Forces right after World War II in 1946. Without the then outside pressure of the Occupation Army, Japan would not have attempted such drastic reforms for democracy. Both countries are thus vulnerable to outside

pressures. Other similarities in general are no colonization (independence), Buddhist tradition, tendency to prefer harmony and ambiguity, one race nation, one language nation and a reigning monarch or emperor. These common traits attract both countries to each other. These similarities draw Japanese to Thailand and vice versa. Some Japanese businessmen say that Thailand is like Japan's younger brother. Both peoples feel comfortable in each other's land. What has happened in Japan can also happen in Thailand. Thailand can learn and internalize, just as Japan has learned and internalized.

Temporary pain in Thailand must be shared by everyone without exception. Thai civil servants must faithfully administer the IMF medicine as their own measure. The Thai Government must keep on paying due heed to the prescription of the IMF doctor. Such united shared pains will be a step forward to a brighter 21<sup>st</sup> century. Good medicine does taste bitter. In Thailand there are many critics, who must participate in sharing the pain. Unless such criticisms and divisions subside, one must remain a bit pessimistic about Thailand's future.

#### **IV. COMPARISON WITH JAPAN**

There are more than 3,000 Japanese-affiliated companies in Thailand. Along with Korea, Thailand is among the two favorite destinations of Japanese companies. Why is Thailand so attractive to Japan? Would Japanese experiences be of benefit to Thailand?

Thailand attracts Japan due to many similarities, which are exemplified as follows:

Some similarities between Japan and Thailand:

- Both are susceptible to external pressures
- Both are not colonized.
- Both have long history.
- Both have similar rural customs.
- Both have many traditional industries.
- Both belong to Asia.
- Both people are diligent.
- Both respect traditionally Buddhism.
- Both prefer harmony and ambiguity.
- Both distinguish between principle and practice.
- Both are one-race nations.
- Both are one-language nations.
- Both have a king or an emperor.
- Both have non-banks (housing loan companies in Japan, Finance companies in Thailand).
- Both have experienced bubble economies.

There are of course many dissimilarities which are not mentioned here, but it is these similarities that make many Japanese feel comfortable in Thailand and help strengthen ties between two countries. Thai is spoken basically only in Thailand and Japanese only in Japan. Thailand has a king in high esteem, Japan an emperor in high esteem Both people are similar in face and skin. In the countryside of both countries one finds similar customs. Smiling Thai faces appear friendly to Japanese visitors. For these reasons Japanese tend to feel at home in Thailand. Both share industriousness. What has happened in Japan can happen in Thailand. Japanese experiences, if used wisely by Thai self-helpers, could benefit Thailand. What is important is to unite people's will to develop according to a Thai method, not a foreign one. Such autonomous development from inside will help Thailand gain true economic autonomy. This is, the author thinks, possible even in the age of borderless mega competition.

Both countries have agricultural habits in common. "Yu-I" in Japanese means helping each other in agriculture (e.g., mutual help in rice planting and harvesting, employing and being employed in farming, rural festivities and public works). This corresponds to "chay lue khan (help-each other)" in Thai, which also means mutual help in farming, festivals, ceremonies, public works etc. The similarity attracts those Japanese workers who hail from remote Japanese villages feel at home in Thailand, even if they do not speak Thai.

#### **V. SOME STRENGTHS OF THAILAND (NAIC, BAAC, Help-Thai, new import-subst)**

Thailand's strengths lie in agriculture, mutual help, king-led democracy and social stability. Thailand is basically an agricultural country. Its comparative advantage lies in agriculture and related industries. As a aftermath to the current crisis, many Thai business leaders voice the need to raise the productivity of Thai agriculture. NAIC needs to be adapted to the new critical situation and reinforced.

Thailand has traditional good customs of mutual help. Small-scale banks for farmers function well in Bangladesh as well as Thailand. Gramin Banks (gramin means village in Bengali) are in service through Bangladesh. In Thailand there are similar banks called BAAC (Bank for Agriculture and Agricultural Cooperatives). Both presuppose joint liability of a small group of borrowers who are acquainted with each other. The borrowers are mostly women and poor people. The collective responsibility keeps repayment rate very high, because, if one member fails to repay, other members of the group repay instead. Traditional personal ties support such joint responsibility and guarantee smooth operations of the rural banks. Such banks which are strange in America or Europe belong to one of Asian strengths. They support rural finance at grass roots. Once rural finance flourishes, beneficial effects spread to the rest of the country. It is the joint will to escape poverty that really helps solve difficult problems.

Thai-Help-Campaign is another such support from the grass roots. This is a campaign launched first by Buddhist monks and later by governmental saving banks in December 1997. Agricultural organizations, provincial governments, state-owned enterprises join hands to support the campaign. Traditional mutual help lives on even in the wake of the post-devaluation composite economic crisis and financial squeeze. One of the objectives of the BAAC is to help poor families send children to school. Financial institutions remain underdeveloped in Thailand.

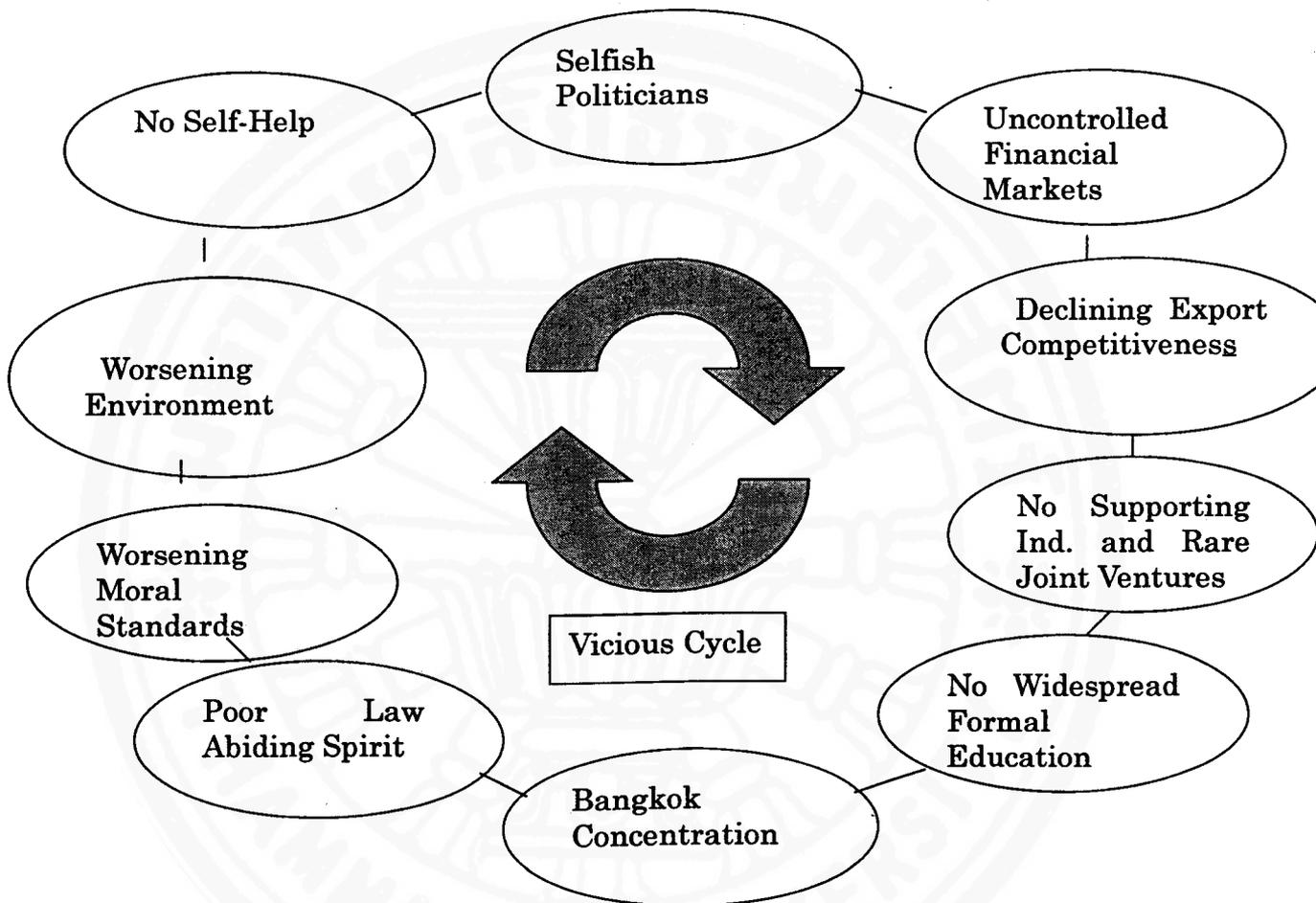
BAAC-type banks will help gather dormant rural savings and utilize for further NAIC to strengthen national economic base. The central government encourages saving. Better financing and more economic activities at grass roots will help Thai economy regain strength and confidence overseas. Hopefully, such bottom-up self-help efforts gain more national support and continue to stay active without corruption.

## VI. VICIOUS CYCLE

Professor Suvinai Pornavalai, Thammasat University, points out complicated interconnections among twenty-three elements of the Thai disease: consumerism, money making, urban concentration, traffic congestion, worsening quality of life, rural deprivation, deforestation, Aids, ocean contamination, water shortage, power shortage, energy-intensive production, child labor, low level of education, prostitution, poverty, corruption, crime, inefficient politics, destruction of traditional values, pessimism, and world economy. This comprehensive list of ills shows how difficult it is to treat the disease.

Here let me concentrate on the ten economic factors of the Thai Economic Disease. There exists a vicious circle among the ten components of the Thai economic disease. The elements are all connected to one another. The circle appears to have no way out. The causality is often not one-way but two-way. If lines were drawn between any two closely related factors, Diagram 4 would become black, filled with many interconnecting lines. The simplified illustration of the vicious cycle is shown in Diagram 4:

**Diagram 4 Socio-politico-economic Vicious Cycle in the Thai Economy**



## **VII. TRIPLE CRISIS**

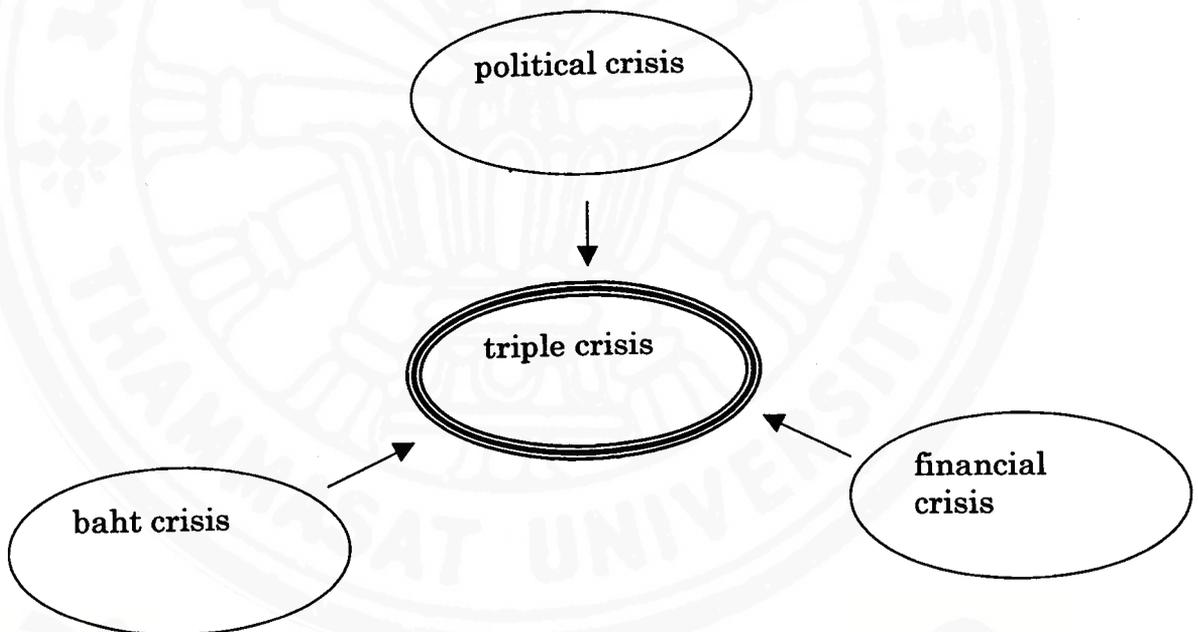
Thus far we have dealt with the ten underlying problems. The first three are concerned directly with very important politico-economic aspects. Some observers prefer to single out the three and call it a triple crisis.

The current politico-economic crisis since July 1997 was not yet over as of November 1997. The reason is, as some observers say, that three crises are combined with one another. They are the political crisis (1), the financial crisis (2) and the baht crisis(3). The baht crisis was triggered by the July 2 shift to the managed float. The baht devaluation lingers on. The simultaneous financial crisis makes the current currency crisis all the more difficult to solve. The

political crisis is still superimposed. The three are interconnected, making total solutions all the more difficult. .

The solution of the post-bubble triple turmoil takes much time and harmonious endeavors. The political crisis, as discussed so far, refers to self-interested politicians, predominance of vested interests and political instability. The financial crisis requires an improvement of disorderly financial institutions and a reconstruction of bankrupt finance companies. The baht crisis requires more discipline of Thai financial system, more prudent use of borrowed funds and more mutual surveillance.

**Diagram 5: TRIPLE CRISIS**



### **VIII. CONCLUSION**

As to the post-bubble composite crisis of Thailand following the July 2, 1997 shift to the managed baht float, many people mention many causes. On careful consideration, they can be narrowed down to the following ten: self-interested politicians, uncontrolled financial markets, declining export competitiveness, lack of supporting domestic industries and joint ventures, no widespread formal education, Bangkok concentration, poor law-abiding spirit, declining moral

standards, worsening environment, and no self-help. These ten elements of the Thai economic disease are so interwoven that there appears to be no cure. Extremely composite they are. Professor Suvinai Pornavalai, Thammasat University, also emphasizes the severity and complexity of the disease. The question is where and how to break the seemingly endless circle.

The crucial of the ten symptoms is the lack of universal secondary education. Thailand lags critically behind other ASEAN countries in secondary education. Many potentially bright young rural people are deprived of the opportunity to study. Thailand's educational failings show a critical lack of zeal, interest and self-help. Its public and private expenditure on education is less than 4% of GDP, the lowest percentage in Southeast Asia. Nor is the percentage likely to rise much in the future. Unless Thailand promotes more universal secondary education, it will be difficult to survive the coming 21<sup>st</sup> century mega competition.

Education holds the key for Thailand's return to stable high growth rate. Sustained educational reforms would help develop domestic industries, promote a law-abiding spirit, mitigate labor shortages, alleviate Bangkok-concentration problems, improve moral standards, contribute to a clean environment, and upgrade self-help efforts. Educational reform is indeed a tall order, but Thailand can no longer postpone its establishment. Money is necessary, but not sufficient. Nation-wide will to educate oneself is essential. Laid-off workers back to villages can study and prepare for their future. Such study depends on willingness. I wonder why they just loiter about without self study and without preparation for next careers.

Thailand is the country of the free. People leave economic decisions to market forces. Thai laissez-faire economy is driven so much by volatile uncontrolled forces that government-led efforts disappear. Laissez-faire or deregulation in a well-developed market economy like the US or UK is one thing, but laissez-faire or deregulation in a developing country like Thailand is quite another. Easy copying can be a danger.

The Thai economy has no solid foundation and is footless. Footloose MNCs have supported its rapid growth so far. It used to walk on "bamboo stilts." Once the stilts are removed, the economy falls down to the ground. It grew high and used to look outstanding from outside, but the boom did not continue. Economy has ups and downs. A country must prepare for the downs even during the ups.

Medicine at Thai hospitals is imported, not indigenously made. Thailand depends on IMF medicine for economic rescue. Land and labor are indeed indigenous, but all the other factors essential to modernization are foreign and borrowed. All that is borrowed, not given, must be paid back through self-learning endeavors. What is needed is serious self-help and united insider initiative. Thai leaders must be harmoniously motivated for the national interest. Japan has so many similarities and can help, but Thailand should not take it for granted. Assistance is one thing, but true economic autonomy is quite another. Widespread self-help, universal education and consensus national efforts are being called for. Will it be possible to survive the mega competition otherwise?

Thailand's habitual high growth, easy availability of borrowed funds and my-pen-rai mentality have made Thai people so lazy, so complacent and so shortsighted that they have neglected serious efforts to use funds wisely, to repay loans and to internalize what they have learned from the West. Their overconfidence has made Thailand irresponsible to the repayment of past borrowings. Overconfidence and irresponsibility are to blame.

Professor Suehiro pays attention to the gap between existing systems and ideal systems. I agree with him. The gap is causing a mismatch. The gap entails a structural deadlock in Thailand. Without an attempt to fill the structural mismatch, further progress of the Thai economy will be difficult.

Thailand is a typical dual economy in the borderless age. The thriving Bangkok area is so distinct from the forgotten rest. Rural education is completely neglected. Rural people remain deprived. Conscious countryside efforts are desperately needed. Thailand is divided between traditional domestic low-tech industries and modern imported high-tech industries. No repercussion exists between the two. It is education that links between.

So many socio-politico-economic problems exist in Thailand, and the ten problems are connected with one another in very intricate ways. The current structural crisis is so composite and may last a decade. A decade of endurance is in store. The vicious cycle rotates. Is there any way out? Will the vicious cycle be broken somewhere in the near future? Unless drastic changes take place consistently and extensively, the author remains doubtful.

Only if the drastic reforms are undertaken and continued, will traditional strengths of

Thai economy regain and become attractive to investors overseas.

Good traditions of mutual help remain in Thailand. Hopefully, they will get reinforced and widespread through Thailand, strengthening Thai economy from inside, not from outside. I hope I am not the only one to propose this way.

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