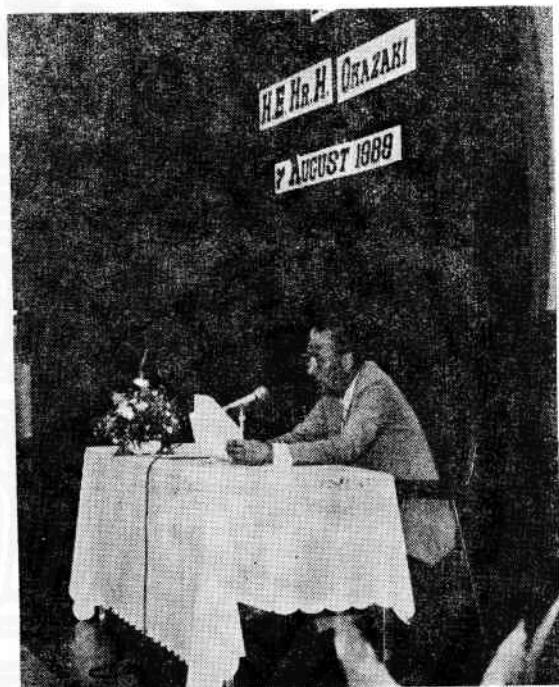


“Thai-Japanese Relations in the Next Decade”

Speech by
**H.E. Ambassador
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at the Japanese Studies Centre
of Thammasat University
on 7th August 1989



Part I

It is my great pleasure to have an opportunity to visit the Japanese Studies Centre of Thammasat University, the Mecca of Japanese Studies in Thailand, and to have an opportunity of speaking before you.

This building, housing the Japanese Studies Centre since 1985, symbolizes the friendly and cooperative relations between our two countries. We attach great importance to the activities of this centre and continue our involvement under various programmes provided through cultural grant aid, the assistance of the Japan Foundation

and a wide cooperative network of Japanese universities.

Today's topic is the current situation regarding Thai-Japanese Relations : Trends for the next decade.

I feel this topic is most timely in view of the fact that, as the last decade of the 20th century is upon us, I may be allowed to offer some predictions. Also, the serious changes facing the Japanese economic structure will have a significant bearing on Thai-Japanese relations.

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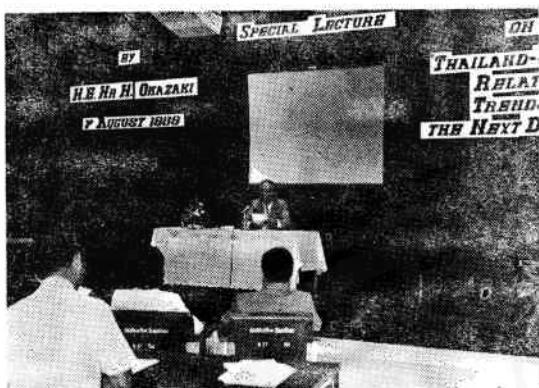
Things are developing fast. Therefore, we do not have enough statistical evidence to prove the trend but there are definite pointers suggesting that something new is happening. First, I will give you some figures for recent investment from Japan to Thailand. Following is a table of Japanese investment in Thailand according to BOI sources :



Number of	1986	1987	1988	1989
(Jan.-June)				
Applications	53	199	389	95
Applications approved	35	136	265	124
Projects already Operational	11	30	46	48

[Figures provided by BOI]





According to the statistics of the Japanese Ministry of Finance, there were 382 registrations for investment in Thailand in fiscal year 1988 which amounted to \$859 million. This number of registrations is only second to those of Japanese investment to the U.S.

These investments are certainly making a tremendous impact on the Thai economy. Last year the Thai economy showed a record growth rate of 11% and is expected to have another 10% growth this year. The direct contribution of Japanese investment is estimated to be almost 2%, but the actual impact may be greater. The multiplier effect has to be counted. Also, some investments from Taiwan, Korea and Hong Kong are shifts of Japanese investment from these areas to Thailand. According to the experimental and intuitive estimates of many Thai businessmen, half of this growth could be attributed to the rapid increase of Japanese investment.

Although the momentum is great, as we see above, the accumulative Japanese investment in Thailand up to 1988 is about \$2 billion, which is much smaller than its \$72 billion investment in the U.S., \$11 billion in England, \$10 billion in Indonesia and \$8 billion in Australia. Even among East Asian nations it is behind Indonesia, Hong Kong,

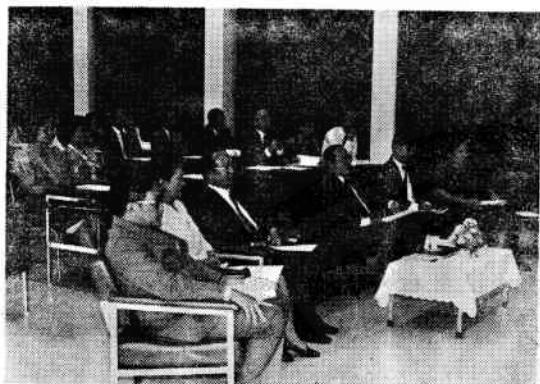
Singapore, Korea, China and has narrowly surpassed Malaysia last year.

So, what is new about Japanese investment in Thailand? We don't see a parallel economic boom in other countries which have received greater Japanese investment. The main reason, -which may be borne out by statistics in later years -, is that Japanese investment in Thailand in recent years is concentrated in export oriented industries. This is quite a new pattern for our overseas investment.

Japanese investment started in the early '70's, mainly in the U.S. and the E.C. The main purposes were to avoid trade friction or to establish a production base in these areas in order to counter the possible trade restrictions for finished products. At the same time we have heavily invested in Australia, Indonesia and other countries to explore natural resources. Also, we agreed to invest in the developing nations for import substitute industries. In short, Japan preserved its powerful export oriented industry only in Japan and had had no intention of investing abroad for importing finished products.

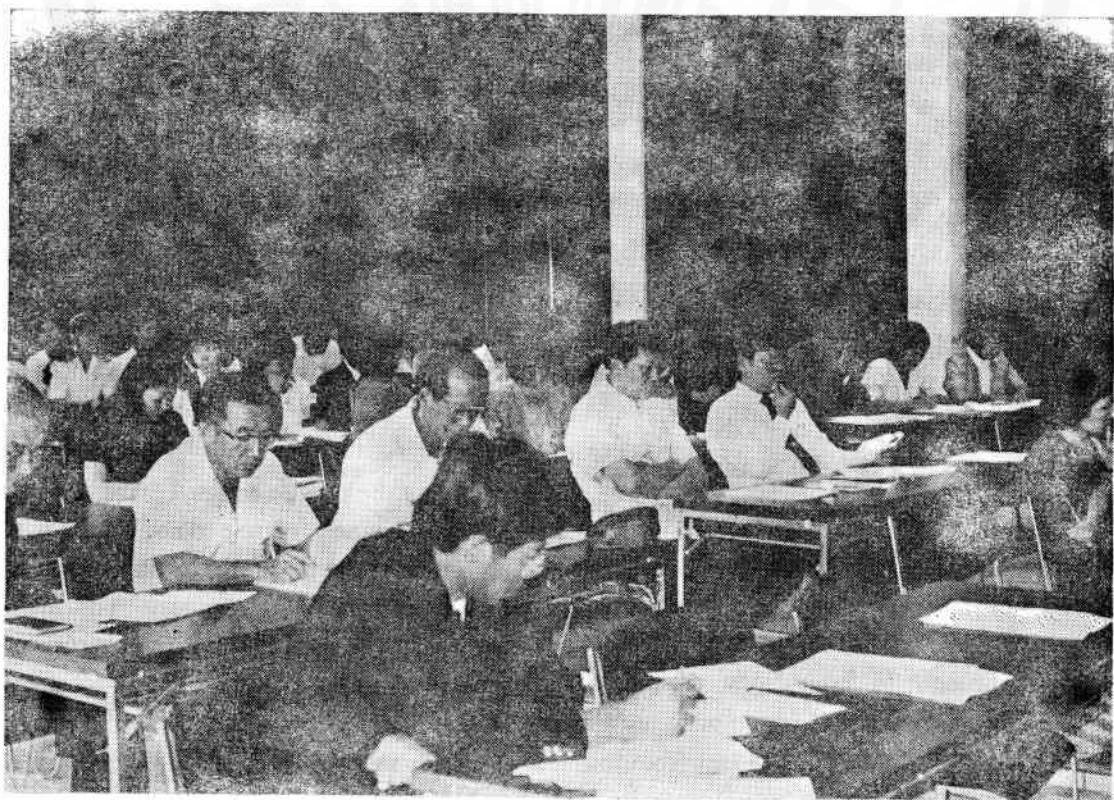
These recent investments are quite different in nature. The main cause is the high yen, particularly the high labour costs and land price in Japan. Some Japanese manufacturing industries found it impossible to





continue competing in the world market and therefore decided to shift their production bases to Thailand. The export oriented industry is a most serious business since it has to be competitive in the world market. Import substitute industries can easily compete with

foreign imports simply by raising the trade barrier. For resource extracting industries you can manipulate the price of raw materials according to the world market. For export oriented industries, however, you must produce completely competitive products with the most efficient use of technology and with strict quality control which, in turn, requires high management skills and close cooperation between management and labour. This process will vitalise the economic system and society. Needless to say, the export oriented industry is essential as a measure to change the economic structure fundamentally in order to solve the chronic trade deficit.



The Japanese trade surplus has been a serious problem for Japan and we have been looking for solutions. Now I feel that the high yen was the right answer. It has not produced yet a solid effect on U.S.-Japanese relations, unfortunately. But it may prove to be the most authentic way of correcting the trade imbalance with developing nations, particularly with Thailand. Since the Japanese factories which shifted their base from Japan to Thailand had already had a large market in Japan, the U.S. and Southeast Asia, they simply transferred location to Thailand with their established market. That will improve the Thai balance of payments over the medium and long term.

I feel that the Thai trade balance may attain a surplus in the middle of the 1990's, though this forecast seems to be controversial. The current balance will achieve a surplus much earlier because of increasing tourist income. I believe that in the middle of the 1990's nobody here will be talking about the trade imbalance, but in the latter half of the '90's your problem may well be the export surplus to other countries.

Incidentally, you may have already solved your balance of payments problem. Your imports from Japan are about double your exports to Japan. But half of your imports from Japan are capital goods and therefore you have already achieved a balance in the normal transactions. Besides, these capital goods are imported by means of money brought in from Japan as investment. Thailand is not losing money at all by this imbalance and it is evident from the statistics in your capital account.

Part II

I gave a bright picture for the future of the Thai economy and Thai-Japanese relations judging from the current trend. Our question is how long this trend will continue? Of course, nobody can predict the future, but, with high probability, I believe that the Thai high economic growth will continue.

The perpetual mistake of the economists is to give a conservative estimate. They have a mental attitude which sees under-estimation as more permissible than overestimation and they always make mistakes in their predictions at a time of upward economic growth. As a political analyst pursuing accuracy, I would predict an average 8-10% growth of the Thai economy towards the middle of the 1990's. I would not be surprised if it is almost 20% at some stage, about the time when all the investments of 1988 and 1989 will be in full operation. I have witnessed similar development in the Korean economy in the early '70's.

Of course this optimistic forecast depends on certain premises such as lack of violent political or economic changes in the world. These changes may be sometimes inevitable and beyond control, but at least there is one premise which can be maintained by governmental efforts, that is, the maintenance of the present Thai policy of free trade and respect for contractual obligations.

In my diplomatic career I have witnessed many instances of reluctance on the part of Japanese investors or even the flight of capital from a particular country. The main cause was invariably the shift of government policy. Businessmen would accept changes in economic conditions as a fact of life but they find it very hard to deal with changes in government policies and consequently with

government interventions. In some countries I witnessed a case in which a successful joint venture found it hard to continue its business because of governmental pressure for the employment of more national staff with higher salaries and use of locally produced materials, pressures which were initially unexpected. With such a measure that particular government may have had a short-term gain but intimidated the further flow of investment. Japanese business generally trusts the Thai Government. Many other governments propose similar or even more favourable conditions for investment, but if businessmen feel that this conditions may be changed unilaterally they will opt for the government which is more trustworthy.

Since Japanese investments are massive at this moment it may look as if the recipient nations may have more leeway for choice. I also understand the Thai traditional policy of diversifying foreign influences. But the introduction of Japanese investment is highly competitive. Every one of the 50 United States is sending a mission to Japan to invite new investment. So is practically every country in the world.

At this moment, for various reasons, Japanese attention is concentrated on Thailand. I hope Thailand will make the most of this given opportunity. Japan has a high yen so you could get as much capital inflow from Japan and if that condition changes you could turn to other countries. The best way for economic development is to pay almost respect to "the invisible hand".

Concerning the so-called economic domination by Japan, one should not worry too much. The classic issue of domination

of trade imbalance is fast becoming obsolete. The manufacturing industries now being invested in will become* Thai industries in the course of time,--in one generation according to the normal pattern.

In some developing countries they may remain as foreign investments for a long time but in a country like Thailand where people are both efficient and patriotic, the long-term result is obvious. Particularly in the case of export oriented industries, it requires a group of efficient engineers, good management and good capital labour relations, and therefore such industries cannot remain foreign for a long time. They will soon become the backbone of the Thai economy.

Again, please don't hurry and leave it to "the invisible hand". Trust the capability of Thai people. Premature intervention for nationalistic reasons, as seen in many other countries, will discourage further investment, at a time when additional capital inflow is essential for sustained high growth in the economy.

Part III

I might briefly touch on future Thai-Japanese relations in general.

Coming back again to the question of investment, many, Japanese businessmen give political stability as number one reason for investment in Thailand. This means that with whatever political changes in Thailand, the basic Thai society will not change and the basic economic policy will not change.

This assessment is proving increasingly correct, In the sustained economic prosperity

and under the condition of decrease of the external security threat, Thai democracy is expected to last. Post-War Japanese society is deeply influenced by the American way of thinking and the Japanese have unreserved trust in a democratic society. Of course, our relation has a deeper historical root. We are the two nations whose independence remained intact during a century of imperial-

istic domination and have never had antagonistic relations. We have all the makings of being the best of friends.

One might say that my prediction is too optimistic or even too diplomatic. I, myself, am surprised by the fact that my speech has become so diplomatic but I believe this is an objective assessment for the future of Thai-Japanese relations.

