

Change, Japan, Change

For Better Relations between Japan and Thailand*

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My Thailand: From Wats to High-rises

It is both a pleasure and an honor to be able to talk with you here today. As you know, this year marks the centennial of relations between Japan and Thailand, and it is also the sixtieth birthday of His Majesty the King. I would thus like to begin by expressing my thanks to Rector Nongyao and the many other people who have arranged for me to have this opportunity to talk with Thailand's future leaders in this auspicious year.

At the same time, I would like to pay my respects and congratulations to Rector Nongyao on her being awarded the Order of the Sacred Treasure, Gold and Silver Star, by the Japanese government recently in recognition of her great contributions to Japan-Thailand friendship. An example to all of us, she is well deserving of all of the fulsome accolades she receives.

Because Thailand feels so much like home to me, I have looked back, curious to know how many times I have been here. According to my own records, this is my thirty-ninth visit to your beautiful country. However, even more important to me than the number of visits is the fact that I spent a considerable part of my youth here, and it was here that I learned the meaning of international. Way back in 1952, I was assigned to the ESCAP Secretariat-then called the ECAFE office. Although this was a very trying assignment for me, especially since I was the first Japanese ever to be assigned here, it was also an opportunity to develop a beginning proficiency in English and to make many non-Japanese friends, including luncheon meetings with other economists, which is where I met Dr. Puey and many other people who became good friends.

My first impression of Bangkok was that it was a city of wats and klongs. Yet Thailand has developed tremendously in the intervening quarter-century, and it is now held up as a model for other countries. Thailand is no longer seen as a primarily agrarian country, and my repeated visits to Thailand have been more than chances to renew old friendships. Coming to Thailand, I have seen the development process in action and learned a number of valuable lessons from your experience.

The changes have been striking. Over the last three generations, the baht:dollar exchange rate has changed only slightly. This stability reflects your own price stability. Although there were periods of international balance of payments difficulty, Thailand has avoided the pains of external indebtedness that plague so many other countries. In fact, Thailand has improved its debt position, bringing the ratio of debt service to export earnings down from 25% to its present 16% or so. Much of this progress has been possible because Thailand has diversified the range of products it exports. The old pattern was for Thailand to export primarily maize, teak, tin, and other resources. Today, the statistics show a sharp increase in Thailand's exports of industrial products.

How has Thailand been able to achieve this record of steady growth? One factor has been the political stability under your benevolent King. Wisely, the government has allowed sufficient leeway in the private-sector economy and has sought to enrich the social stock. Seeking new fields of activity, entrepreneurs have not hesitated to enter into joint ventures with foreign capital. The city of wats and klongs is now a dynamic city of high-rises and high fashion.

The Thai Economy Today: Strong Export-led Growth

Thailand has achieved a record of economic growth that rivals that of South Korea and Taiwan - a record you can be proud of. The first reason for this success has been your success in exports. According to estimates from the Bank of Thailand, Thailand's exports are up 30% over the last year alone. Experiences tell us, however, that this is not an unusually high export growth rate for Thailand. In the past, Thailand's export growth has been a somewhat ragged pattern of very strong growth one year and almost zero-growth the next-primarily because most of your exports were agricultural commodities. However, this raggedness is being eliminated. This year's growth has been strong despite the general decline in agricultural export prices, and it is worth noting that industrial products are a major driving force in the current growth.

The second reason that Thailand has been able to increase its exports and improve its international balance of payments situation is that there is active capital inflow caused by direct investment in Thailand. There has, for example, been a sharp increase in investment from Japan as Japanese companies, hard-pressed by the yen's appreciation, have sought to build production facilities here in Thailand. Japan has not been alone in this. Even Taiwan and the other newly industrializing countries are rushing to employ Thailand's good quality skilled labor force. And with this investment, Thailand is acquiring not only a new economic identity but new technology, new skills, and new trading patterns. The combination of development in the newly industrializing countries and Thailand's own progress in industrialization is in turn laying the foundations for new growth.

Progress in Industrialization: Outstanding Adaptability

A country does not improve its international balance of payments the way Thailand has done out of the blue. Rather, your long years of progress industrialization have led to increased exports and drawn in greater investment. Investors have decided to invest in Thailand because they judge future potential by past performance.

What have the major changes been in the Thai economy? The first has been the very laudable improvement in the quality of Thai labor. In 1959, the World Bank issued a set of recommendations on Thai industrialization including the need for enhancing basic education

and encouraging the emergence of domestic technocrats. Thailand has moved steadily to implement these recommendations. The process of industrialization has been a process of improving labor skills and developing technocratic abilities.

The second major change has been the progress in cooperation between the public and private sectors. While there are a number of state-run enterprises slated for privatization, the Joint Public and Private Consultative Committee (JP PCC) has been established to foster greater cooperation between the two sectors.

And third is that Thailand-and particularly Bangkok-is emerging as a major information, transport, and telecommunications center. Thailand is, for example, an important hub connecting air routes in the Pacific, Southeast Asia, East Asia, Oceania, and even the Middle East. Yet air routes are alone not sufficient to

earn Thailand a place as an information center. This is only possible when the domestic economy develops and you have the necessary information-processing capacity. Thailand's progress to date has been very much in that direction, and Bangkok is already known as the fashion center of Southeast Asia.

Thai Economic and Industrial Issues

Yet there are still a number of things to be done to accelerate and consolidate the favorable trends that have developed with the improvements in the international economic climate. I would like to discuss five of these problems with you: the need to diversify your industrial base, the need to promote the small-business sector, the need to extend the benefits of development outside of Bangkok, the need to modernize the agricultural sector, and the need to improve your trade balance with Japan.

1. The Need to Diversity your Industrial Base

Industrial output already accounts for over 20% of Thailand's GDP, and industrial products provide more than half of your exports by value. The rapidity of the structural change involved may be seen when you think that over 60% of Thailand's exports were agricultural commodities only ten years ago. For the last decade or so, Thailand has been implementing new industrial-promotion policies aimed at developing export industries. Until then, most of the industrialization-promotion was intended to provide import-substitution, and your output was not geared to the international market. Although most of the big Thai companies are still pretty much domestic-market-oriented, it is hoped that they will turn their hand to exports, because their

very size means that they will have considerable impact if they do. While the policies of promoting export-oriented industrialization has been very successful, there is still considerable potential if the big companies will work harder on exports.

Looking at the manufactures that are most important in your exports, they now include processed foodstuffs and other agro-industrial products, textiles, electrical machinery, and chemical products. Moreover, it is expected that there will be even greater diversification in your export sector as Japanese industries set up production in Thailand to offset the disadvantages of the yen's appreciation. The fact that Thailand offers a favorable social and economic climate is a major factor leading direct investors to choose Thailand. It is thus to be hoped that Thailand will exploit this favorable international environment to the fullest to make its industry even more internationally competitive.

There is an urgent need for better infrastructure provision, an area that still lags behind under the current policies. This is especially true of the need for better and larger port and harbor facilities and more modern telecommunications facilities. Accordingly, I am pleased to see that the Eastern Seaboard Development Project continues to hold the top priority in the Sixth National

Economic and Social Development Plan, and I think your policy-makers have made the right decision here. The various policies that are currently being adopted for attracting and supporting industry need to be modified and improved to meet changing circumstances. Just as there may be a need for new policies, so is there a clear need to radically overhaul old policies that have not proved fully effective or that have had only a limited impact.

With Japanese companies being forced to set up production overseas to cope with the yen's appreciation, there is now considerable investment, actual and planned, not only by the giants but by smaller Japanese companies as well. As a result, it is reasonable to expect that there will be a wider range of joint-venture opportunities available and a greater scope for technology transfer. In order to facilitate this process, it might also be helpful to make legal procedures for entry and stay easier for engineers and technicians visiting Thailand in connection with such cooperative ventures.

The potential of the Thai industrial sector is, of course, premised upon the willingness of the industrialized countries and other international markets to absorb your output, and it goes without saying that this in turn requires that Thailand make every effort to maintain and strengthen the institutional and attitudinal guarantees of free competition. There have long been serious problems in that commodities sector that is so important to Thai exports, and people have ardently argued the case for protectionism in the myopic belief that protectionism protects the nation's interests. While I realize that this is a difficult problem, I can only hope that successful bilateral and multilateral negotiations will be held in the spirit of international co-prosperity and that the Uruguay Round will result in streng-

thening free trade and the international competitive economic environment. Given the recent expansion of both trade and investment between Thailand and Japan, its biggest trading partner, there is a clear need for both countries to step up their exchanges of views and to see that these close and constant consultations lead to mutually advantageous arrangements.

2. The Need to Promote the Small-business Sector

The interaction among companies and among industries is an other important point in Thailand's industrial development. As the repercussions of industrial development stimulates other industries and sectors and promotes their development, this not only leads to increased production and employment but also offsets the increased burden of importing more raw materials and intermediate products to support industrialization and creates a more sophisticated and hence more robust industrial structure. Because much of this process is only possible if Thailand's small-business sector develops, it is imperative that policies to encourage the growth of this sector be promoted carefully and attentively.

Looking at the number of factories as an example, there are over 400,000 plants employing fewer than 200 people each, and these plants account for 98% of all Thai factories. It is to be hoped that these small and medium-sized businesses will become increasingly capable and that they will develop and prosper in tandem with their big-business brethren. I know the Ministry of Industry is helping small business develop a variety of technical and managerial skills. The Industrial Financing Corporation of Thailand (IFCT) is also providing active support in the form of small-business financing, managerial audits, and business information. It is essential

that there be sustained efforts to expand and develop the small-business sector, including development cooperation from overseas.

Further, it might be worthwhile considering greater tax policy flexibility to promote the development of core companies and their networks of affiliates. I should not have to point out the need for promoting relations among companies and among industries if Thailand is to take advantage of the influx of direct investment from Japan for your own industrial development.

3. The Need to Extend the Benefits of Development Outside of Bangkok

Yet for all of the macroeconomic progress that Thailand has made-and that progress is laudable and undeniable-there are still serious income and other disparities between modern Bangkok and the other regions. It is thus only right that regional development should be a major focus in the Sixth National Economic and Social Development Plan, just as it was in the Fifth Plan. The Sixth Plan also includes completion of phase one of the Eastern Seaboard Region Development project. I have seen these regions-having had the opportunity to visit some of them with Secretary General Snoh in 1982 as head of a Japanese government mission-and I know the need for development. Among them, for example, there is an especially urgent need to implement the plans for Laem Chabang to disperse industry out of the over-crowded Bangkok suburbs and to relocate much of the light industry in this area with its full complement of harbor and other infrastructure facilities. While I doubt if this project will be completed in time to handle the recent influx of new investment from Japan and other countries, it is no less necessary in the medium and longer term.

The Map Ta Phut region is another important development area. While its harbor project and other heavy-industry facilities mean that it will necessarily be a very expensive undertaking with a long gestation period to completion, I hope you will advance steadily one step at a time, each stage laying the foundations for progress in the next stage.

Looking even further ahead, it may well be that frontier-industries will not always want to locate in the littoral areas but will want to be near international airports as their major means of transportation and that you may want to build airport-adjacent industrial parks in interior areas such as Chiang Mai.

4. The Need to Modernize the Agricultural Sector

The fourth area of concern is agriculture and its accompanying agro-industrial sector. Thirty years ago, Japan was a major importer of rice from Thailand. In peak years, these imports totaled a million tons a year. Yet Japan is now a surplus producer itself, and we have stopped importing rice from anywhere. Looking at the agricultural sector, we see a long list of major Thai exports-rice, tapioca, sugar, maize, and more-suffering from the slump in international commodity prices, import restrictions in your major markets, the impact of the U.S. Farm Act, and other problems. Seeking to break this stalemate, the Thai government has made a major effort to diversify agricultural output, an effort that I support. This effort is already beginning to pay off. Fruit exports, for example, are gradually increasing, and Thailand exported its first mangoes ever to Japan last year, where they were very well received. Boneless chicken used to be a bone of trade contention between

Japan and Thailand, but the yen's appreciation has resulted in very rapid increases in your exports to Japan.

Yet I notice there are still many kinds of fruit that are in great abundance in Thailand but not exported to Japan, and I suspect there is still considerable room for growth if you can work out the marketing and distribution aspects, the fumigation and other hygiene issues, and the other problems that might impede exports. For instance, I am sure many Japanese would jump at the chance to enjoy your sweet Thai watermelon in the middle of the winter. There may be some technical issues that have to be solved, but I for one would be delighted to be able to stock my table with a fruit basket from Thailand.

The same is true in marine products. Thailand is already promoting aquaculture, and this is an area with great potential for the future. In addition to Thailand's excellent record in shrimps, you are also producing outstanding oysters and other shellfish, and I have heard that aquaculture experiments are under way on sea bass and other fish. The rich fisheries resources in Thailand's coastal waters are being rapidly depleted, and aquaculture is thus important both to satisfy domestic demand and to develop new export products.

Closely related to this diversification in maritime production, the development of the agro-industrial sector is essential for promot-

ing diversification and sophistication in your exports. There has been much talk of the newly industrialized countries or N-I-Cs, but I hope Thailand will premise its development on taking full advantage of your wealth of resources and becoming a newly agro-industrialized country or N-A-I-C.

Thailand is already the world's largest exporter of canned tuna fish, and it is very rapidly expanding its exports of such other products as boneless chicken, frozen shrimp, canned pineapple, and other processed foodstuffs. In many of these areas, Japan accounts for more than half of your total export market, and co-operation between Thai and Japanese companies in such aspects as processing technology, marketing, and distribution would obviously be one effective way to ensure continued growth.

5. The Need to Improve Thailand's Trade Balance with Japan

Yet despite this strong economic performance and your almost miraculous turn-about in exports, Thailand continues to run a deficit in its trade with Japan. In 1986, Thailand's trade deficit with Japan was 31.2 billion bahts. This figure is roughly comparable to 1981's deficit of 30.8 billion bahts. Between 1981 and 1986, both exports and imports have increased about the same amount, but your deficit has shrunk considerably as a percentage of the total two-way trade. I believe this is significant.

Trends in Trade between Japan and Thailand

(units: billion bahts; %)

| | Japan-Thailand Trade | | Thai Deficit | Thai Deficit as Percentage of Two-way Trade |
|------|-------------------------|-----------------------|--------------|---|
| | Thai Imports from Japan | Thai Exports to Japan | | |
| 1981 | 52.5 | 21.7 | 30.8 | 41% |
| 1986 | 63.7 | 32.5 | 31.2 | 29% |

While much of the remaining deficit is attributable to structural differences between the Japanese and Thai economies, and is thus not amenable to short-term solutions, I am hopeful that the current influx of direct investment from Japan will help to rectify these structural differences. At the same time, I assure you that there are

continuing efforts being made to ensure that the Japanese market is more open to Thai products. Even in the agricultural sector-so long treated as inviolable-Japan recognizes that it is no longer possible to plead that agriculture is a special case, and hard-core agricultural protectionism is gradually losing its popular support.

The Future of Japanese-Thai Relations: Change, Japan, Change

Given that Thailand has the potential to be a major hub of ASEAN growth, what should Japan do to help? The most important thing Japan can do is to change and to become more international. This is important for Japan, for Thailand, and for all the world.

It would be easy for Japan to promise all kinds of cooperation. And it is certainly important to think about economic cooperation and to implement cooperation in line with Thailand's progressive development. Likewise, Japan can also offer advice and assistance for Thai industrialization. Yet in all of this, Japanese cooperation with Thai efforts must be based upon respect for

Thai thinking.

In that sense, I feel that the report on *Restructuring of Economic Relations between Thailand and Japan* released in late 1985 was a very significant document in that it was a lucid statement of the need to coordinate investment, technical, co-operation, and trade and to press for greater market-opening. Both of our countries are making an effort to change.

I believe that the greatest contribution that Japan can make to Thai economic growth and to the world economy at large is to be more and more open to foreign products and ideas.

Third-wave Hopes: Thailand as a Growth Center

There are three major waves in postwar Asian economic history. The first was in the 1960s, when Japan experienced its stunningly rapid growth. Looking back on conditions in Japan right before Japan's defeat in World War II, I remember how we argued about how to revive the war-devastated Japanese economy. Turning their energies to peace, The Japanese people transformed Japan from an economic disaster into one of the central foci of world growth. The

second wave was the emergence of the newly industrialized countries. Despite the two oil crises of the 1970s, these countries achieved very high growth rates.

Until the 1960s, it was the industrialized countries of Europe and North America that provided the main impetus for world economic growth. Spanning the Atlantic Ocean, the United States and the EEC were the major deve-

lopment powers. Yet when these leaders fell prey to industrial-sclerosis, as seen in sluggish productivity and a penchant to consumption in place of investment, Japan and the newly industrialized countries were ready to take up the slack and to provide new momentum for world growth.

While the prolonged bout of high interest rates, high oil prices, and an overvalued dollar has been ended, there are a number of fundamental problems remaining. How, for example, does the United States intend to resolve its twin budget and trade deficits? How can the United States restore confidence in the dollar? The fact that the fate of the dollar is still uncertain was a major factor sparking the recent stock market collapse. If the United States wants to restore confidence in the dollar, it will have to reduce its budget and trade deficits. This will probably have a deflationary impact on the world economy.

Under the circumstances, what is the outlook for the third wave? This is expected to see the rise of East and Southeast Asia. The Pacific nations are very diverse in terms of resource endowments, religious preferences, cultural heritages, historical traditions, lifestyles, and much more, but this very diversity is an important part in the so-called "flying geese pattern" of development. If each of our countries will develop in its own way and in keeping with its cultural independence, the combined result will be a competitive progress that can lead the way for the entire world.

Looking specifically at Southeast Asia, the country with the greatest potential for growth is none other than Thailand. The first reason for saying this is that you have achieved balanced development in both the agricultural and industrial sectors. It is a mature growth pattern. Of course, there is still much to be done, including

promoting the small-business sector and raising technological levels, and it is hoped that Thailand will develop a greater receptivity to foreign capital, but Thailand is still a stand-out among the developing countries. And this accounts for the great interest that Japanese investors have shown in Thailand.

The second important point is the progress that you have made in the development of human capital. While many Thai have studied abroad in the United States, Thailand does not suffer from the "brain drain" problem that afflicts so many other countries. Your people are motivated to get good educations-in Thailand and overseas-and to put their educations to work for Thailand's future.

The third point is the stable political environment and administrative machinery. There have been many changes of government and considerable turmoil in neighboring lands, but Thailand has retained its basic political stability and its administrative mechanisms have continued to function effectively. Thailand has been far more stable than its neighbors.

Immediately after the war, a group of scholars, businessmen, bureaucrats, and other people met in Japan to discuss economic policies for the postwar era. One of the youngest participants, I had the opportunity to take part in drawing up the basic blueprints for the Japanese economy. Although that was many years ago, I am still impressed with the lessons that we learned then: education is of primary importance in the long run, and social cohesion is needed to ensure that educated people pull together.

Having been part of the first wave of Asian growth, Japan is now resolved to do everything it can to help the ASEAN countries as they

propel the third wave. Although it may appear too little too late, we have made a determined effort to open our markets. You may not think that we have changed very much, but I assure you we have reached the point of no return on this liberalization and internationalization process.

One of the projects that I have been intimately involved with is the International University of Japan-the I-U-J. This was a major experiment, the first graduate school in Japan to offer instruction in the international language of English. We have sought to make this a truly international effort, consulting with Rector Nongyao and other Thai educators, both for curriculum planning and to see what kinds of programs would be attractive to non-Japanese students. At the time, Rector Nongyao said she found it a bit incredulous that a Japanese university would actually offer courses in English, but she was confident that Thai students would be interested. The many Thai students who have studied at the I-U-J have proved her right. Just as we sought to build social cohesion within Japan forty years ago, this is a new effort to build international social cohesion. If it was technology transfer that provided the bridge between the first and second waves, it is interfacing that takes this into the third wave. The establishment of the I-U-J is one experiment in this direction.

For years and years now, I have called for Japan to change. This call has been reflected in my statements in Japan and my remarks at international conferences. I have sought to promote change both as a policy planner and a policy doer. I have worked together with many other people studying the changes that are needed in Japan and how Japan can best contribute to the international community. The results of these studies have shown up in, for example, the recent

program to recycle a total of at least \$20 billion to the developing countries over the next three years the new Asian Industrialization Projects, and the plans to provide priority policy assistance.

Personally, I think Japan has changed quite a bit and become much more outward-looking over the last four decades, but I also realize that there is still much to be done. Changes such as these do not come easy. They take time, but the fact that they are slow in no way negates their imperative for the third wave of Asian industrialization. Thus I will continue my cry: Change, Japan, change-and be part of the international community. This is, I believe, in the interests not only of Japan but of Thailand and all of the other Asia-Pacific countries.

The reminiscences of an old man are in themselves meaningless, and it is only when old memories help to shape youthful progress that they have social value. I have been astonished at the rapid changes that have taken place in Thailand in the last quarter-century, but I know that this is not the end of your development either. Rather, you young people will carry the banner of progress forward and ensure that tomorrow's Thailand is even more affluent and more vigorous than today's.

I was thus very glad to have this opportunity to talk with the leaders of tomorrow. This is an auspicious year not simply because it is His Majesty the King's sixtieth birthday but because your energies and your dreams will make it the beginning of a bright new era in Thailand's history.

My thanks to Rector Nongyao for giving me this chance, and to all of you for indulging me in it.