

# THAILAND'S WHITE PAPER: A SUGGESTED TRADE RELATIONSHIP WITH JAPAN

*Dr. Varakorn Samakoses\**

The lecture is divided into three parts: facts on Thailand's trade, the so-called Thailand's White Paper, and some personal reflections on Thai-Japanese trade relationship.

## Facts on Thailand's Trade

Thailand, or Siam-her former name, is a relatively open-economy. In 1984, her import and export value amount to more than 50% of GNP. With her traditional liberal views on trade, her trading partners are situated in various parts of the world. Thailand's main trading partners regarding her exports are, in terms of share of total value, Japan 15%, U.S.A. 13% the Netherlands 10%, Singapore 7%, Hong Kong 5%, and Malaysia 5%. For imports, they are Japan 21%, Saudi Arabia 15%, U.S.A. 12%, and West Germany 3%.

Japan stands up as the biggest trade partner of Thailand, both in terms of exports and imports. Table 1 shows the chronic deficit balance of trade Thailand has with Japan. Starting with 6,300 million baht trade deficit with Japan in 1970, the deficit has risen to about 44,000 million baht (260,000 million yen or approximately 1.5 billion US\$) in 1984. And during the last 5 years, the deficit has increased about 30% per year. Table 2 illustrates the share of Japan in the total trade deficit of Thailand. Generally, trade deficit with Japan contributes about one-third to two-thirds of the total trade deficit.

\*Faculty of Economics, Thammasat University.

While more than 80% of imports from Japan consists of capital goods, intermediate products, raw materials, and vehicle parts, 80% of Thai exports to Japan are primary or agricultural products. And under such an environment of deteriorating deficit and terms of trade, the Thai government has produced a report intended to be guidelines on Thai-Japanese trade relationship.

## Thailand's White Paper

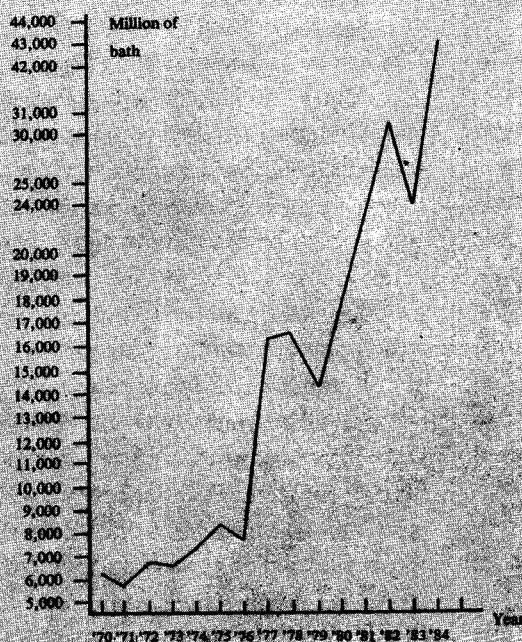
Basically the document, the so-called White Paper, is part of a major attempt by the Thai government to systematically lessen the trade deficit problem with Japan. The report has been approved by the Cabinet in June 1985. Needs for structural adjustment of Thai-Japanese economic relationship are described in the first part of the 36-page report. The objectives, targets, and guide-

lines of the suggested adjustments regarding trade, investment, and cooperation on economic and academic matters are contained in the second part. The last part suggests organizations to achieve the desired results on the Thai side. This section briefly summarizes the contents of the report.

According to the report, the needs for the suggested adjustments are fundamentally based on political and economic reasoning. Being a buffer state against communist regimes in Indochina, Thailand holds a strategic role in maintaining stability and security in Southeast Asia. To be in a secured economic positions, Thailand needs understandings and cooperation from her allies. Moreover, Southeast Asian countries are important sources of raw materials for the Japanese economy. Mutual understanding and cooperation among Japan and these countries are essential to the mutual benefits in the long run.

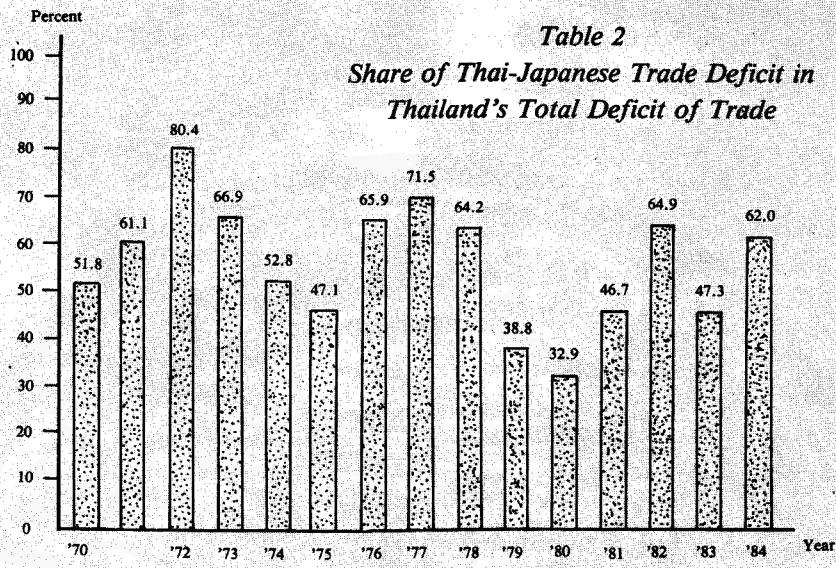
*Table 1*

*Thai-Japanese Trade Deficit*



Source : Ministry of Commerce

**Table 2**  
**Share of Thai-Japanese Trade Deficit in**  
**Thailand's Total Deficit of Trade**



Source: Ministry of Commerce

In the second part of the reports, guidelines for adjustments on trade, investment, and co-operation are suggested. On trade, the objectives are to reduce the trade deficit, to diversify exports to Japan, and to increase the ratio of manufacturing products in total exports to Japan. The guidelines for adjustments are divided into short run and long run. For the short run, they consist of the followings: negotiation on tariff, quota, and trade barriers of some exported items; negotiation on export targets; follow-up on past negotiations; and joint-projects in promoting exports of manufactured and semi-manufactured goods utilizing agricultural raw materials to third country. And for the long-run, the adjustments are: Japanese's assistance on research and development on quality standard and design of the exported products; Thailand adjusts to export diversification of both agriculture-based manufactured products and new manufactured goods; promote cooperation between Thai and Japanese trading companies; and encourage supplementary schemes such as counter-trade, triangular trade and buy-back.

On investment aspect, the objectives are mainly concerned with the Thai side and they are as follows: to revise conditions on joint-venture contracts; to adjust production pattern in order to reduce imports and to produce high value-added exported items; and to increase capacity to export. The adjustment guidelines in the short run are: to revise contracts regarding the use of more domestic materials in manufactured products and to revise the restriction on exporting the manufactured goods back to Japan and/or to the third country; to emphasize quality control on exported products. In the long run, the measures are: restructuring of manufacturing industries by joint cooperation on skill-formation, transfer of technology, improvement of domestic resources use ratio; joint support on export promotion through investment in small and medium-size plants in agro-industry, metallurgy and electronics industries; relocation of some sunset industries to Thailand; and finally Thailand must do its utmost in improving the investment atmosphere.



With respect to the economic and academic cooperation, the objective are: to revise and broaden the cooperation commensurate with other adjustment; and to disseminate the fruit of such cooperations to the private sector in Thailand in order to facilitate its development and structural adjustments. The short-run adjustment guidelines are: the Thai side negotiates to revise the Japanese required loan-conditions such that Thai contractors can participate in the construction projects; Thai agencies jointly draw up indicative plan of required Japanese aids; and both sides instigate the cooperation between the Japanese government and the Thai private sector. And for the long-run, the guidelines are to assess the impacts of the past cooperations and to undertake joint-research projects for the benefits of the restructuring adjustment on trade and investment of Japan and Thailand in the future.

And finally on organizations of the Thai

side, the report recommends that the implementation be divided into three levels, that is, policy level, policy-screening level, and negotiation team.

### **Personal Reflections on Thai-Japanese Trade Relationship**

When one compares Thailand's trade deficit with Japan of US\$ 1.5 billions to the deficit the United States has with Japan in the tune of US\$ 40 billions, the former figure seems relatively insignificant. However, in my own opinion, the significance and ramifications of the deficit problem can not be appropriately measured by sheer numbers. For long lasting mutual benefits, the chronic trade deficit problem need full commitment from the Thai government and greater attention from the Japanese side. In my opinion,

besides other reasons explained elsewhere, the problem is important to Japan for the following reasons:

(1) the Thai public is clearly aware of the dominance of Japanese influence on their life through Japanese goods in the market and activities of joint-venture companies in the domestic economy. Being a fundamentally broad-minded society, the public in general does not resent such dominance. Nevertheless one has to admit that the truth is unfairly vulnerable to the public image of Japanese in this part of the world. And this vulnerability is easily exploited. In fact, the Japanese dominance on Thai economy theme was effectively exploited once in the past by a pressure group to arouse public feeling in order to rally public support for the group's subsequent cause. A former Thai student leader later admitted that this tactic was used in the 'yellow peril' campaign prior to the group's successful overthrow of the Thai military regime in 1973 (the so-called 14th October event). In light of the Thai politics, it is not impossible that such theme could be played again. Needless to say, such an instigated anti-Japanese feeling is devastatingly detrimental to the benefits of both sides.

(2) it is true that the chronic trade deficit is the results of inappropriate structures of investment and production of the Thai economy. Thailand, for more than twenty years, concentrated on import-substitution industries which are made available mostly through Japanese investment (Japan has invested more than US\$ 1.6 billions during the last twenty six years). Relying on imported technology and raw materials from Japan, the Thai economy virtually depends on raw materials and intermediate products from Japan. This basically is the major cause of the deteriorating trade deficit. Such structural problems need understanding, cooperation, and time to correct. In my view, even though the multilateral or an overall trade deficit is what one should pay attention to, the serious and worsening trade deficit of two partners is always potential political issue. World history has shown that minor conflict could possibly lead to irrational regional economic nationalism and the worse-off of all the parties concerned. The fact that the world looks up to Japan for stronger role in maintaining world's peace and stability in the coming century may necessitate Japan to pay fuller attention to this trade deficit problem.



### **ABOUT THE SPEAKER**

*Dr. Varakorn Samakoses of Thammasat University, Bangkok, Thailand, is the first exchange scholar from Thammasat under Waseda-Thammasat Exchange Agreement. He received his bachelor degree in economics from the University of Western Australia, and later his master degree and doctorate in economics from the University of Kansas, U.S.A.*

*His interests cover public finance, especially local finance, economics of education, and economic development. He is a keen student of Thai society and interested in the multi-disciplinary approach to the problems of Thai economic development.*

*He is member of the National Research Council of Thailand (Economic Division), and recently elected as Secretary-general of The Economic Society of Thailand.*