

Economic Relations between Japan and Thailand*

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Introduction : This paper intends to deal with three topics.

- 1) Japanese economic cooperation with Thailand
- 2) Trade between Japan and Thailand and
- 3) Japanese investment in Thailand

We propose to describe the present state of affairs on these topics, to give rough analysis of it and to consider the ways to improve the present state of affairs. But in order not to lose the right perspective, we would like to state at the outset that Japan attaches importance to the maintenance of friendly relations with Thailand, not so much because it is a big market for Japanese export or investment. Purely from the economic point of view, there are other countries, whose trade and whose intake of investment are much bigger. We attach importance to the maintenance of friendly relations with Thailand, first, because Thailand is important from geopolitical point of views as the frontline state facing communist influence in the Southeast Asia and second, because we believe that Japan and Thailand can deepen friendly relations further. Japan and Thailand have many things in common. First, both of us have royal families to unite each people. Second, both of us have Buddhism as the major religion of the people. Third, both of us had been independent, when the Europeans dominated this part of the world. This is the perspective with which we see Japan-Thai relations, including our economic relations and with which we try to widen and deepen our relations for the mutual benefit of two countries. The view expressed in this paper is a Japanese view point and does not necessarily represent the view of the Japanese Government as a whole, and we would be happy to listen to comments from the Thai perspective.

I. Japanese Economic Cooperation with Thailand

1. Japan's economic cooperation with Thailand has grown considerably in recent years. (See Table 1) In 1981, we extended yen loan in the amount of 70 billion yen, (55 billion annual yen loan and 15 billion special loan for Gas Separation Plant), grant assistance in

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the amount of 12.3 billion yen and technical cooperation in the amount of 5.6 billion yen. (See Table 2) Thailand is now the biggest recipient of Japan's aid with the total of 87.9 billion yen. Japan's share in the economic cooperation extended by developed countries to Thailand is 68% in 1981. (See Table 3)

2. Japan is not doing this with ease. About a third of the national budget of Japan is financed by deficit financing, such as sales of government bonds. Reflecting this situation, rate of increase for the F.Y. 1983 general account budget is only 1.4% in nominal terms, the lowest rate since F.Y. 1955. Tough and strict examination of the order of priority for respective government programs is being carried out, and in the process, it was decided to freeze the wages of the government officials. OECF, an governmental-agency administering yen loan is also in a structural deficit despite heavy subsidies from the national budget because of very soft conditions of yen loan. In 1981 the deficit of the OECF is 8.8 billion yen. It is expected to rise 22 billion yen in 1982, 29.1 billion yen in 1983. Despite these difficulties, Japan is trying to increase its official development aid, because we believe that it is Japan's international obligation as the major economic power to increase ODA, especially to Asian countries. Budget for external aid recorded the highest growth rate of 7.0% among major items of expenditure such as defense, welfare etc. in the budget of F.Y. 1983.

3. Our aim in extending economic cooperation to Thailand is to help Thailand in her efforts for economic and social development, to promote peace and stability (through the stabilization of people's life) in Thailand, which is a frontline state facing communist influence in the Southeast Asia and to develop further existing friendly relations between two countries with the perspective we mentioned in the Introduction.

We are alledged to have other aims, such as promotion of our own selfish economic interests. Some argued that Japanese companies are making profit out of Japanese aid projects using Japanese concessional yen loans and therefore Japan's assistance is benefiting the Japanese companies. In this regard, it must be pointed out that yen loans, the concessional low interest loans constituting the bulk of Japan's annual assistance, are generally untied and companies of any country are entitled to participate in the tenders for the projects financed by yen loans. Furthermore, award of contract is made not by Japan, but by the Thai Side. The Sathorn Bridge financed by yen loan is, for example, built by Ital-Thai Company. It is the business of the commercial companies, Japanese, Thai or American, to make profit, but the Government of Japan cares not so much about which company makes profit, but cares much about the contribution the project is making to the social and economic development of Thailand.

The essential returns which Japan expects from Thailand against the annual aid are the longer range benefits such as political stability and economic development of Thailand

that will primarily benefit Thai people and eventually increase resilience of Thailand as the frontline state.

4. As a policy, we extend our economic cooperation to Thailand on the basis of requests submitted to us by the Thai Government. We respect the priority set by the Thai Government in extending our loan, our grant or our technical cooperation. Strategy for the economic development of Thailand is decided by the Thai Government. We may advise in the form of developmental surveys, when asked, but we cooperate with the Thai Government in implementation of the strategy decided by it. However, in considering annual aid projects, Japan feels strongly that the balanced development of industry and agriculture is most desirable in Thailand. For example, Japan is ready to assist Thai Government with respect to industrial development in the Eastern Seaboard, which has high priority in Thai five years programme, and has extended yen loans to number of projects including Gas Separation Plant. On the other hand Japan's assistance in the agricultural field covers variety of project such as irrigation projects and annual grant aid for supply of fertilizer.

5. We extend our economic cooperation in three forms and various fields :

1) Yen loan has increased in recent years. (See Table 4) However, it should be noted that the yen loan pledged in F.Y. 1981 includes two different segments. One is 55 billion yen annual yen loan with the annual interest rate of 3%. The other is 15 billion yen loan, especially made for the purpose of Gas Separation Plant with the annual interest rate of 4.25%. Therefore the base figure to be considered in deciding the amount of yen loan in F.Y. 1982 is 55 billion yen. We do not know how much increase Tokyo will give us this year on top of this base figure.

So far approximately 30% of yen loan is utilized for energy-related projects, 40% for building of infrastructures like roads, bridges and telecommunication and 20% for agricultural projects. Most of yen loan to Thailand is extended on very soft conditions – 3% annual interest rate, 30 years repayment period with 10 years grace period. In the terminology of loan, there is the concept of "grant element". Grant element of yen loan mentioned is more than 50%. In other words, you borrow the same amount of money from the commercial bank, the amount you have to repay will be more than double of what you have to repay under the scheme of yen loan.

2) Grant Aid has also increased in recent years. (See Table 5) We extend our grant aid in various fields, such as health care, education, agricultural research. We build, for example, Maharaj Hospital at Nakhon Sri Thammarat, Youth Welfare Center at Din Dang, Mahasarakarm Nursing College at Mahasarakam etc. Here again our aim is to help social and economic development of Thailand on the basis of requests by the Thai Government.

3) Technical Cooperation is extended to Thailand in the form of development surveys on various projects, of sending technical experts to Thailand and of inviting Thai people to be trained in Japan. Every year about 300 experts with skill and ability came to Thailand to cooperate with their Thai counterparts and to transfer their technical knowledge while they work with Thai people. Japan invites about 300 Thais a year for technical training in Japan. (See Table 6) We attach importance to this form of cooperation, because it contributes to the technology transfer much needed in Thailand and because human contacts are involved here, which deepen our mutual understanding.

1981 was an important year for technical cooperation between Japan and Thailand. In January 1981 Agreement on the Japan Overseas Cooperation Volunteers' Programme was concluded and in November 1981 Agreement on the Technical Cooperation was concluded consolidating the basis for the activities of Japan International Cooperation Agency, an governmental organization responsible for technical cooperation.

6. As far as Japan's economic cooperation with Thailand is concerned, what we should do is to continue the present relations, to expand and strengthen them as much as possible and to make the full use of resources so as to maximize the benefit derived from them.

II. Trade Relations between Japan and Thailand

1. Japan is the biggest trading partner for Thailand, occupying 24% of total import of Thailand and 14% of total export of Thailand. (See Table 7 and 8) but our trade has been characterized by imbalance. Japan exports to Thailand a lot more than it imports from Thailand. In 1981, Japan's import amounted to about 1.1 billion U.S.\$, while her export to Thailand amounted to about 2.3 billion U.S.\$, thus, making the trade deficit of Thailand vis-a-vis Japan about 1.2 billion U.S.\$. In 1982, Japan's export to Thailand decreased sharply and amounted to 1.9 billion U.S.\$, while Japan's import decreased a little and amounted to 1.0 billion yen, thus the trade imbalance decreased to 0.9 billion U.S.\$ (See Table 9) But we believe it is not proper to rejoice over this redress of imbalance in 1982, because this is caused by the sluggish economies both in Japan and in Thailand.

2. Why is it that we have much imbalance of trade? In order to find answers to this question, we have to analyse the situation on commodity-by-commodity basis; why Thailand imported certain commodities from Japan, why Thailand did not succeed in selling certain commodities to Japan etc. However, it is difficult to analyse the situation in detail here, but one thing must be said. And that is, Japanese export to Thailand consists of mainly capital and intermediate goods, such as machinery, steel and chemicals while Japan imports from Thailand mainly agricultural and marine products such as natural rubber, fish, sugar, frozen chickens etc. (See Table 10) This situation is the reflection of differences

between the economic structure of two countries and of the fact that Thailand is in the process of industrialization. Thailand, in modernizing its economy, needs machinery, steel and chemicals and Japan will not be able to buy the agricultural products, value of which will equal that of machinery, steel and chemicals she exports. In this sense, imbalance in trade between Japan and Thailand is structural as far as present situation continues.

3. Thailand can import intermediate goods and machineries not only from Japan but also from European countries and the United States and others. So far Thai entrepreneurs choose to buy Japanese commodities, because Japanese commodities are internationally competitive. Thailand exports a lot of agricultural commodities not only to Japan, but also to the European Countries and U.S.A. where the trading terms are better. Although we believe that Japan and Thailand should cooperate further in expanding trade on agricultural products, eliminating some obstacles to it and that it is not proper for Japan and Thailand to concentrate our attention to the question of bilateral trade imbalance. When there is a structural imbalance of trade as we have now between two countries, it is not appropriate to make it imperative to redress it in a short time by some artificial means. We believe that it is proper to approach this issue by expanding mutually beneficial trade, and by concentrating our attention to the expansion of Thai export on the global basis. In this regards, we are ready to cooperate with Thailand in various fields. We are now building Trade Training Center by our grant aid. Through this Center, we intend to transfer technological know-how to promote export on which we have some experience. If requested, we are ready to cooperate further in this respect in such fields as quality control of export products including standard. As for our bilateral imbalance, we believe that generalized system of preference for products from developing countries including Thailand should be further utilized and others measures should be pursued further. For example, we are now cooperating with Thai authorities by sending experts in order to establish the way to fumigate fresh fruits such as mango, so that they will be fruit-fly free and can be exported to Japan.

4. Last, but not the least, there appears now the theoretical possibility to change the structure of trade relations between Japan and Thailand. If the importation into Japan of the LNG is realized, it will have the effect of balancing our trade once for all. However, at present major users of the LNG, namely electric companies and gas companies in Japan are reluctant to commit themselves to buy LNG from Thailand, as they have long-term contracts with other suppliers. We do not know yet whether this possibility will become on actuality or not, but we should keep this fact in mind.

5. As for what we should do about trade between our countries, we believe that trade is mutually beneficial to each other and as such should we expanded. Question of imbalance should be dealt with not through cutting of import or export, but through expansion of

trade. We should seek ways and means to redress the bilateral imbalance but the main emphasis should be placed on global balance of trade of Thailand.

III. Japanese investment in Thailand

1. Japanese private investment in Thailand has shown steady growth so far. Cumulative total of Japan's private investment in Thailand amounts to 427 million U.S.\$ in 1981 (See Table 11) However, compared to Japanese investment in other ASEAN countries, our investment in Thailand is the smallest. We invest in Indonesia 6,858 million U.S.\$, in Singapore 1,202 U.S.\$, in the Phillipines 687 million U.S.\$ and in Malaysia 681 million U.S.\$ up to 1981. Out of total overseas investment of Japan, our investment in Thailand holds the share of less than 1%. But among the foreign capital being granted the "promotional priviledges" by B.O.I. the Japanese investment occupies the first place with the share of about one third of foreign capital (See Table 12). However, the share of Japanese investment is now somewhat decreasing. In 1981, only 9% of foreign capital newly invested in Thailand with the promotional priviledges was Japanese and in the months of January-July of 1982, the figure was 12%. Reason for this slackening pace can be attributed to several factors, but the major reason seems to be that the investment in the industries for the production of industrial commodities for the domestic market has lived its life cycle, and the new horizon of export-oreinted investment or investment in industries based on natural gas has not yet opened widely.
2. Japanese investment has been made so far in such fields as textile industry (5%), fodd-stuff (13%), transportation machinery (7%), commerce (10%). In our view, Japanese investment has contributed to the Thai economy by increasing employment and by developing the Thai economy in the fields mentioned above. It is not easy to measure the contribution of Japanese companies to the Thai economy precisely, but the number of workers employed by the companies in which Japan invested is about 65,000 in 1982 according to the Japanese Chamber of Commerce. This accounts for approximately 5.5% of the total Thai workers in the manufacturing industries. This is the contribution made by Japanese investment in creating job opportunities. Another contribution Japanese investment is making to the Thai economy is the promotion of Thai export. In 1981, Japanese invested companies exported from Thailand about 464 million U.S.\$ to the countries other than Japan and about 449 million U.S.\$ to Japan. According to these figures, we believe that the Japanese investment in Thailand should be further increased for the benefit of both of us.
3. In February 1983, Japan sent an investment climate survey mission to Thailand, following up the talk held by Prime Minister Prem and then Minister of International Trade and Industry Mr. Abe. Two important prerequisites for investment; namely basic political stability and sound international economic standing exemplified by such factor as

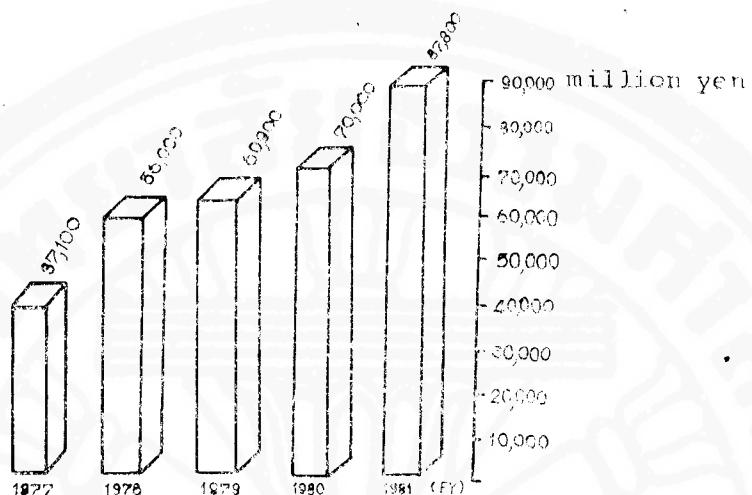
debt-service ratio; exist in Thailand. However, from the Japanese companies view point, investment climate in Thailand can be further improved with regard to the provision of adequate infrastructure such as ports, telecommunication and energy supply, the issuance of work permit and visas, stabilization of taxation system, and requirements of local content or of local staff. Reflecting the good and friendly relations existing between our two countries, the Thai authorities such as B.O.I. and Ministry of Finance and the Japanese Chamber of Commerce are getting together to discuss and coordinate the views on these issues in the friendly atmosphere. We expect the good results from these consultations.

4. On the governmental level, Japan has proposed to conclude "Investment Protection Agreement" with Thailand. So far our talks were not successful due to the differences of opinion as to the scope of the agreement. Some even hinted to me that since there is no Thai investment in Japan, Japan is the only one to benefit from the agreement. We disagree with this line of thinking, because by concluding this agreement, our investment in Thailand might increase and that brings benefit both to Thai economy and Japanese economy. We believe that conclusion of this agreement is timely as the development of Eastern Seaboard based on the natural gas coming from the Gulf of Thailand may open up the big prospect for our investment in Thailand.

5. As for Japanese investment in Thailand, we understand very well the need for the Thai Government to regulate to a certain extent the foreign firms, including Japanese but at the same time we think that too strict regulations would turn the potential investors away from engaging in the mutually beneficial ventures. We have to make our best endeavours to strike a good balance so as to create the climate attractive to the potential investors.

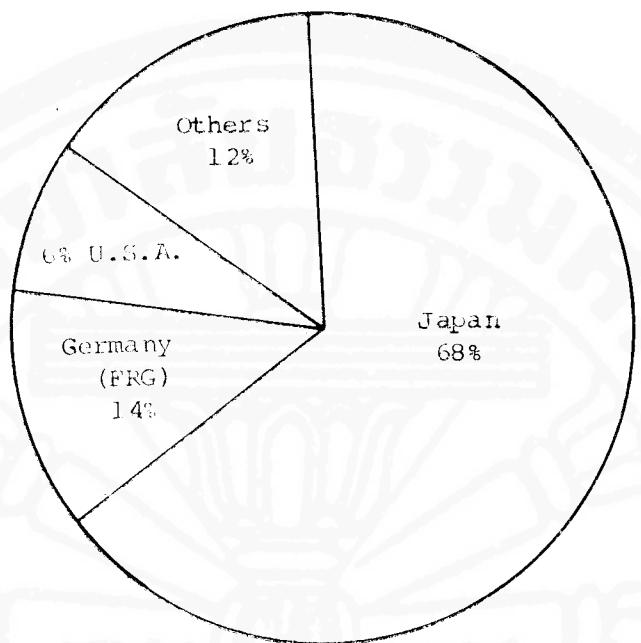
Conclusion: We have touched upon three topics mentioned in the Introduction is a rough manner and tried to consider the ways to improve the present state of affairs. Three aspects of our economic relations we dealt with here have a good possibility to be developed so as to maximize our mutual benefit derived from each of them. But if we integrate these three aspects in order to expand our mutual benefit derived from each of them. But if we integrate these three aspects in order to expand our mutual benefit, the effect may become greater. For example through economic cooperation, Japan and Thailand can cooperate to build the good infrastructure such as roads, ports and telecommunications facilities. This will help to create the good investment climate for Japanese companies. Japanese companies and the port built may contribute to the further expansion of export of the Thai goods.

We believe that Japan-Thai economic relations have the bright future. We believe that we can expand our mutual benefit, if we try to solve the problems we face in a friendly atmosphere, existing between our two countries.

Table 1 Japan's Economic Cooperation with Thailand**Table 2**

Japan Economic Cooperation with Thailand (1981 F.Y.)	
Yen Loan	70,000
Grant	12,300
Technical Cooperation	5,600
Total	87,900
	(million yen)

Table 3 Developed Countries' Economic Cooperation with Thai land
(DAC basis)



1981 : Total 316 million dollars (Net disbursement basis)

Table 4 Yen Loan (Pledge basis)

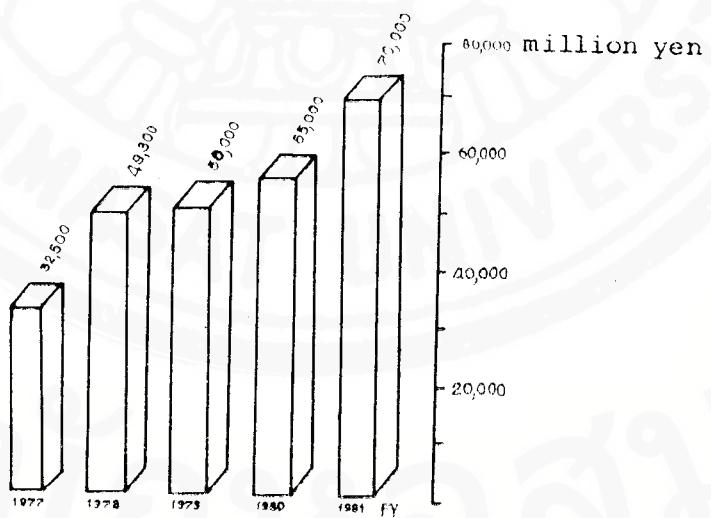
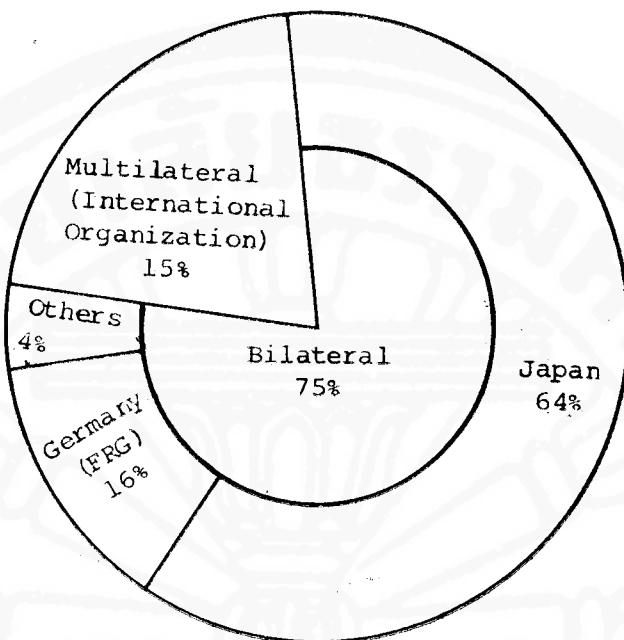
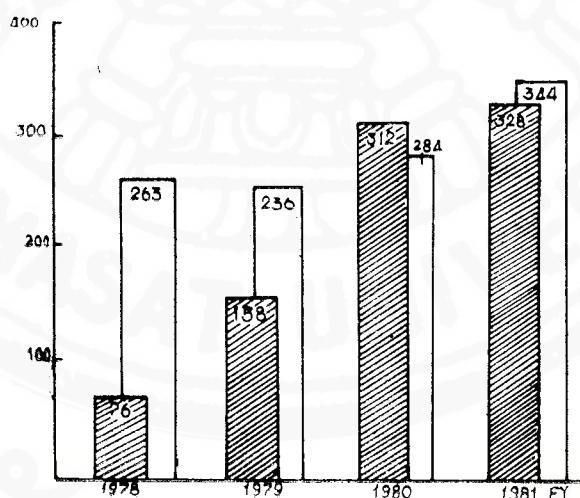


Table 5 ODA Loan Aid to Thailand

1981 : Total 208 million dollars (Net disbursement basis)

Table 6 Reception of Thai people for technical training.

- Reception of Thai people for technical
- Dispatch of Japan experts

Table 7 Thailand's total trade with foreign countries (1981)

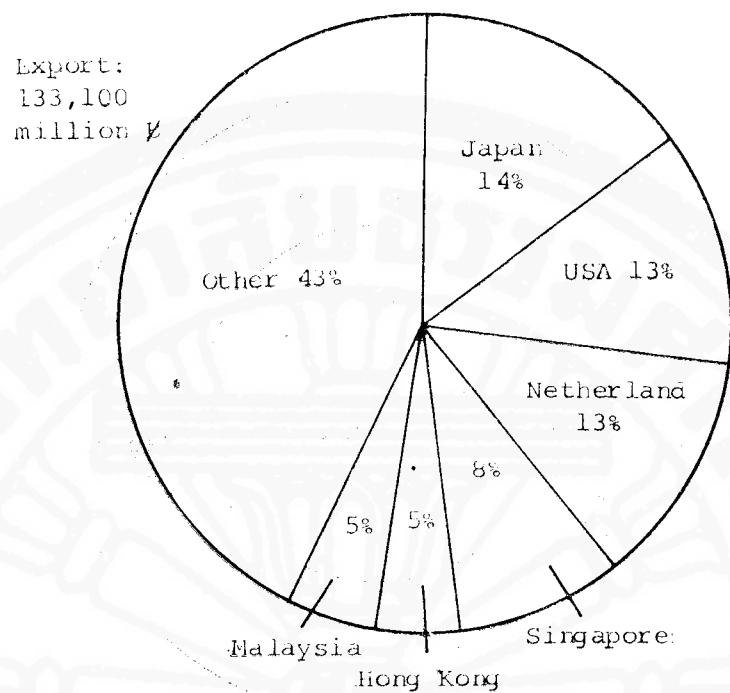


Table 8 Thailand's total trade with foreign countries (1981)

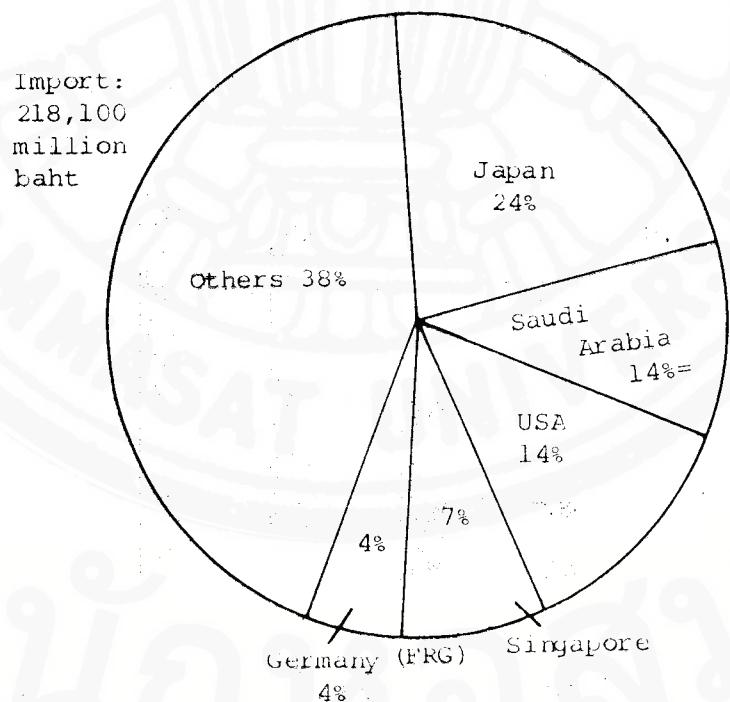
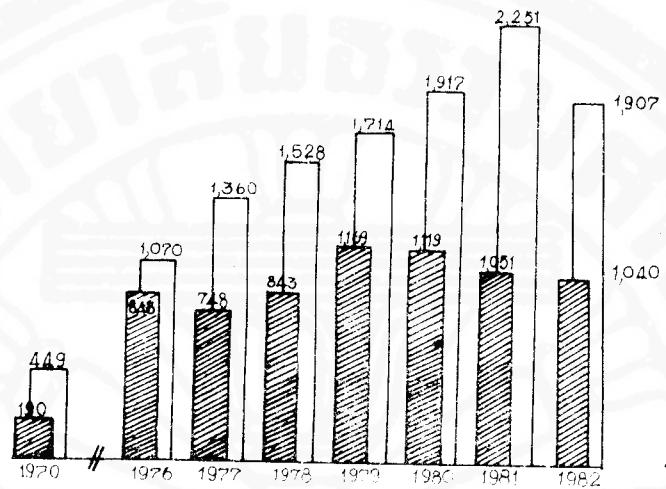


Table 9

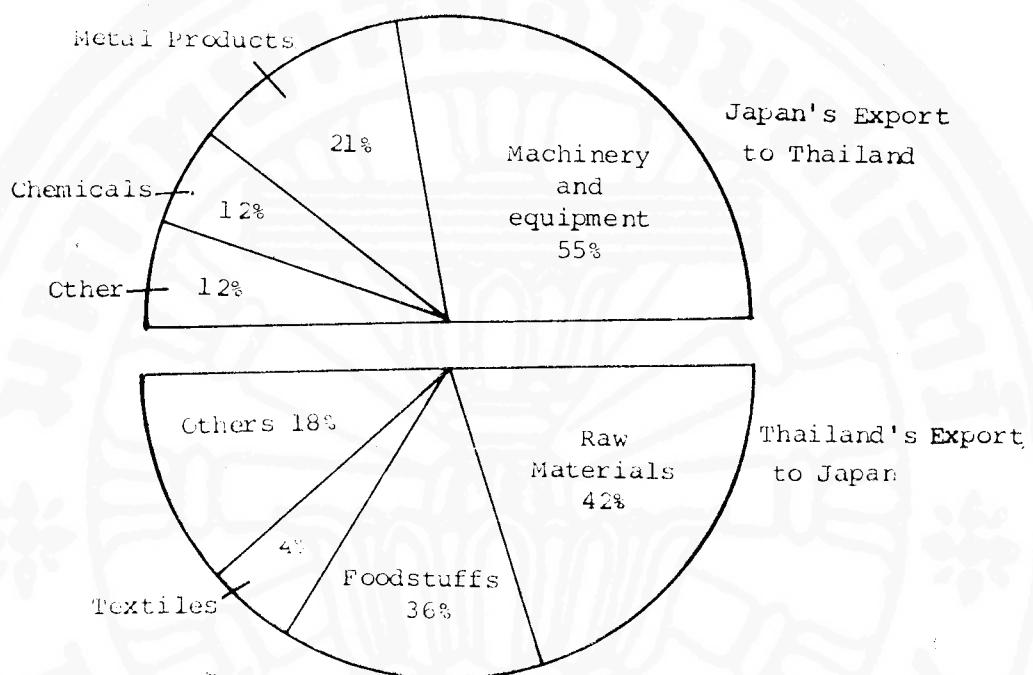


□ Japan's export to Thailand

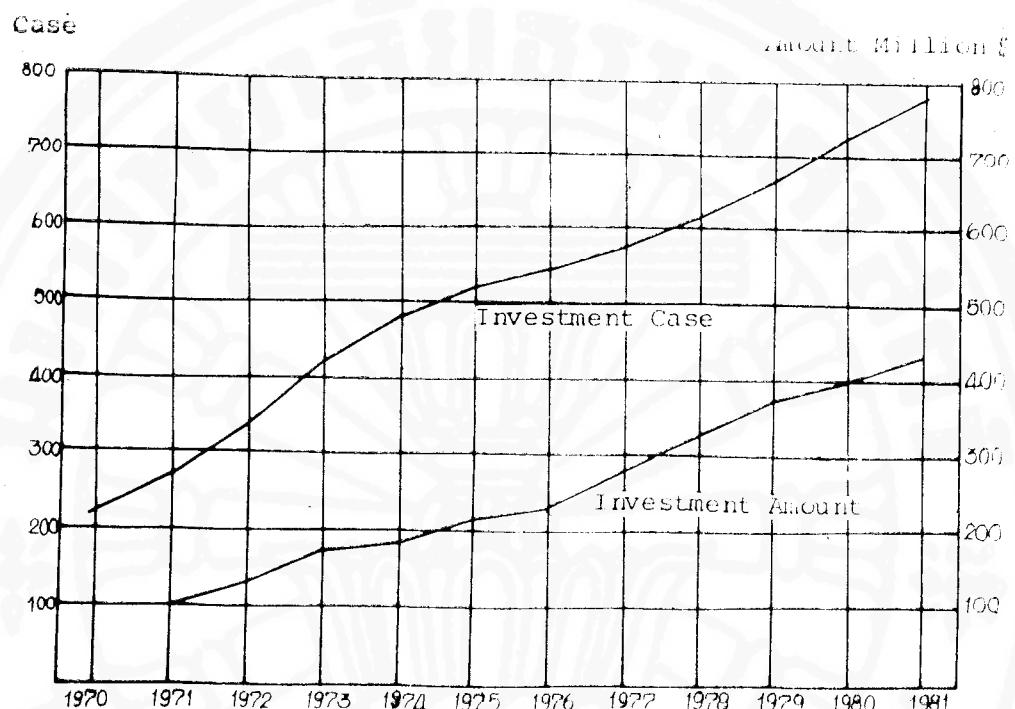
▨ Thailand's export to Japan

Source : custom statistics in Japan

Table 10 Trade between Japan and Thailand classified by types and goods (1981)

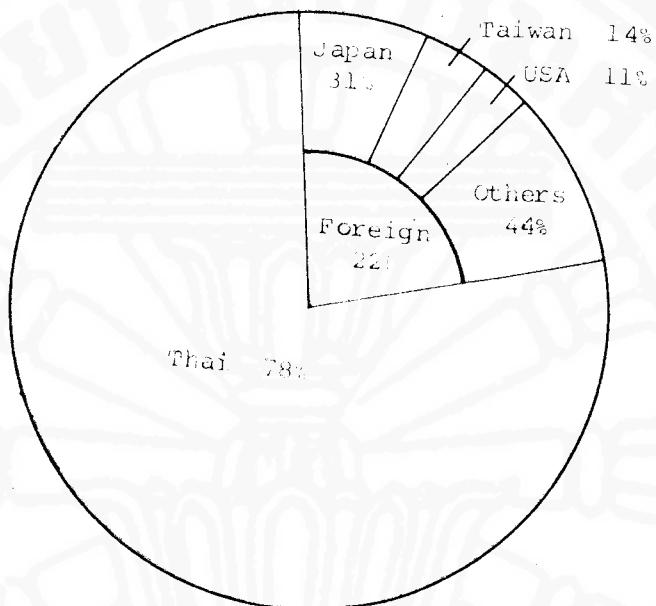


Source : custom statistics in Japan

Table 11 Cumulative total of Japan's Investment

(Source : Ministry of Finance Japan)

Table 12 Share holdings in firms granted promotion certificates by B.O.I. (end of 1981)



(Source : Ministry of Finance Japan)