

ODA in Flying Geese Pattern: Thailand's Experience

Abstract

The paper studies the role of Official Development Assistance (ODA) as a tool to promote the regional Flying Geese (FG) Pattern formation with particular emphasis on the bilateral economic relations between Japan and Thailand. The paper argues that Asian economic development is in line with the FG pattern explanation which Japan is interpreted as a regional leading nation. Regional economic exchange, based mainly on Japanese private sector-led trade and direct investment as well as Japanese government-led ODA, has created a hierarchical linkage between countries of different industrial levels. Thailand is a case study of how interaction with Japan has shifted a less advanced country's economic structure. Owing to FG-influence Japanese flows, Thai industrial structure from agricultural base into industrial base in a quite impressively short time. On the other hand, in contrast to the FG argument, Thailand's proceeding from domestic production to export stage is not internal-based as many of raw material and intermediate goods are imported. This leads to external over-dependence and industrial development is questionable in a long run. Despite the export-promotion policy and increasing exports value, shift from domestic production toward export stage along the current FG-line does not fully benefit Thailand. The FG development can occur only when domestic industry is established with self-dependent production. Thus, the paper proposes that Asian countries must learn to make the most of the flows, either in form of ODA, trade or investment, in order to be independent from foreign dominance and step up to another stage of economic development on its own. This requires a determined joint-force of both government and private sector in the recipient country.

Part I: Flying Geese Pattern: Japan for Asia and Asia for Japan

Asia has long been the prime focus of Japan's foreign policy. For resource-scarce Japan, Asia serves as raw material base as well as external market for Japanese export. In return, the region benefits from capital and technological transfer from Japan. Such exchange creates the regional interdependent relationship, centered at Japan as the development pole.

Akamatsu Kaname's *Wild-Geese-Flying Pattern of Economic Development* has been popularly used to explain the relationship as well as development pattern of Asian regional economic development. Japan, according to the first stream of interpretation, is a benign leader which provides capital and technology to other nations in the lower

level hierarchy and by doing so, helps upgrade their economic development. On the other hand, many economists criticize that Japanese capital and technology providing is illusion or otherwise comes at a high cost¹. Japan has not helped upgrade regional economy. On the contrary, it exploits regional economy as cheaper production base for Japanese production network as well as creates regional dependency on Japanese capital and technology and some even accuse Japan as one of the cause of the infamous Asian Crisis in 1997.

Indeed, since its first proclamation, the Flying Geese (FG) pattern is believed to help shape Japan's external policy towards Asia. In its peak, theory had allegedly been the foundation of Japan's imperialist policy of the *Greater East Asian Co-prosperity Sphere*. The eventual Japanese defeat as well as the regional resentment towards Japan's WWII policy led to the suppression of further theory promotion. Despite such setback, the core of this theory guides well to how Japan and regional relationship should be. With its clear explanation of regional economic development, FG pattern will still 'remain an important driving force of the international political economic relations of the Asian Pacific area.'²

In general, ODA tends to be used by donors for their self-interests. For post war military-free Japan, the self-interest is more economic oriented. History since post WWII has shown an active economic role of Japan in Asia. The regional economic link is interwoven by trade (dominated by import from Japan rather than export to Japan) and investment flows mainly from Japan. In such process, ODA has been actively used to promote Japanese expansion. This paper argues that *the FG Pattern of Development* encourages Japanese government to use ODA as economic tools to promote trade and investment. ODA is a key to open the region to international economy--the initial stage to bring a country to join the wild geese flying flock--and lift up its development level. In this section, we will study the FG theory and relate it to regional economic relations. The theory's implication on government's role and on ODA will be the main focus. Two

¹ For example, Chunji Yun (2000) *A Critical Review for the Flying Geese Pattern of Development in East Asia* and Walter Hatch (1998) *Grounding Asia's Flying Geese* strongly criticize Flying Geese Pattern as source of Asian Crisis. They share the view that the so-called Flying Geese Pattern is created within vertical linkage of Japanese business network and is thus controlled by Japanese production system. Since countries in Asia rely on Japanese capital and technology, these countries not only suffer from plaguing trade deficit with Japan but also have little incentive to invest in technological innovations which might otherwise help establish their economic development on their own foot.

² Pakka Korhonen, (1994) "The Theory of the Flying Geese Pattern of Development and its Interpretations," *Journal of Peace Research*, vol. 31, no. 1, p.93.

main questions to be answered in this section is, first, whether Japan has led the Asian wild geese flock and thus stimulates the regional economic development and second, what the Japanese ODA's role is in such process.

1. FG Pattern of Economic Development: a discussion

The FG Pattern of Economic Development model attempts to explain the life cycle of industries in the course of economic development³. In its first version, it focuses on specific industries in a specific country. The rise and fall of particular industrial structure results in a particular country's the economic structural change as well as in the shift of industrial production from one country to another⁴.

Box 1 Akamatsu, Flying Geese Pattern and its legacy

FG Pattern of Development is crafted by Hitotsubashi University professor *Akamatsu Kaname*. Influenced by Marxism and Hegelian philosophy, he interpreted the 1930s Japanese industrial condition, then in expanding textile industry stage, and developed this famous development economic theory. The main idea of the theory is about the hierarchy of development process and how hierarchy of economic development can be changed through time. Countries can be divided in to three groups: leading countries, middle rising and followers. His theory also emphasizes the importance of interdependence, particularly through international trade, international division of labor and foreign investment. In addition, it encourages the status change for lower developing nations through possibility of catching up process.

During the WWII, the theory had been put in the central notion of the Greater East Asian Co-prosperity Sphere⁵. It legitimizes the role of Japan as regional leader, to bring development and prosperity to all follower Asian nations. Despite Japan's defeat, the theory is still influential domestically as its interpretation encourages the catch up process of post war economic development to the level of Western nations. It is also believed that many of his students, who became policy makers in various economic ministries, applied this theory to post war Japanese economic policy as well as its regional foreign policies. Externally, however, due to the WWII bitter experience, the

³ Raymond Vernon's theory of product cycle also attempts to explain the similar phenomenon. However, Flying Geese model emphasizes more on the linkage among countries of different industrial development levels while the product cycle theory focuses only on the production process.

⁴ C.H. Kwan (2002) *The Rise of China and Asia's Flying Geese Pattern of Economic Development*. p.2

⁵ Pakka Korhonen, (1994) "The Theory of the Flying Geese Pattern of Development and its Interpretations," *Journal of Peace Research*, vol. 31, no. 1, p.94.

theory is denounced as cause of Japanese wartime aggression and thus, post war role of Japan becomes suspicious to neighboring countries.

One of his students, *Kiyoshi Kojima*, has further developed Akamatsu's original concept to more detailed explanation. Kojima Model I, II and III⁶ are applied to regional transmission of FG industrialization process, which is believed to be an engine of Asian economic development. (See more about Kojima models in Box 2)

1.1. Main idea

The FG pattern seeks to explain the dynamic hierarchical relationship among countries of different economic development levels, which reflect by their export structure. Countries, ranging from less-advanced to advanced ones, have each own comparative advantage according to their levels of development. These countries seek to upgrade their industrial structure through augmenting their endowment of capital and technology. As such, international trade and foreign direct investment play an important role in the process, and via such exchange, international division of labor is created within the group. Country's capital and technological accumulation then results in a shift of its status within the group.

Single economy

The FG pattern focuses first at domestic industrial structure in a particular country. A particular industrial production life cycle normally composes of three time-series curves denoting import, domestic production and export⁷. This can be drawn in an inverse V-shape⁸, representing that competitiveness increases and then deteriorates overtime. (Figure 1)

An early stage usually starts when the country's main product is primary goods such as agricultural and simple processing production. International exchange (either through trade or FDI or both) with advanced countries allows for more capital and technological accumulation. This, combined with domestic forward and backward industrial linkages, changes the country's comparative advantage, which gradually shifts

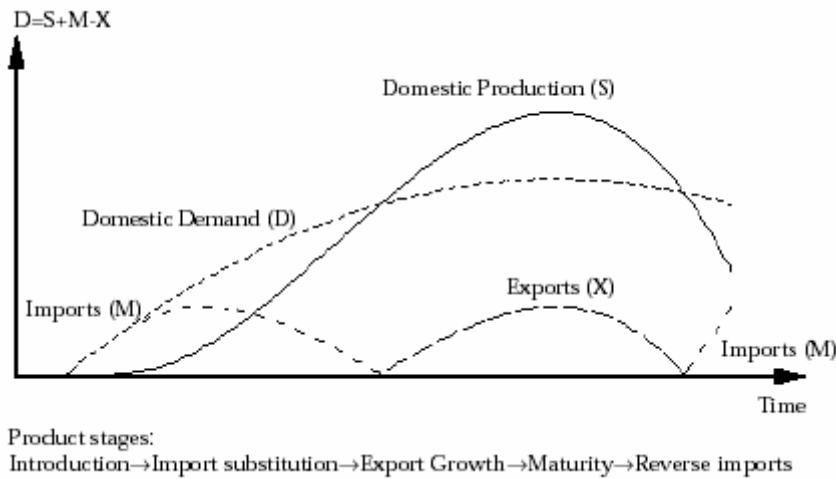
⁶ Kiyoshi Kojima (2000) "The "flying geese" model of Asian economic development: origin, theoretical extensions, and regional policy implications," *Journal of Asian Economics*, vol. 11, pp. 375-401.

⁷ Akamatsu Kaname (1962) "A Historical Pattern of Economic Growth in Developing Countries" p.9

⁸ According to Akamatsu, the term flying geese is in fact derived from this inverse V-shape.

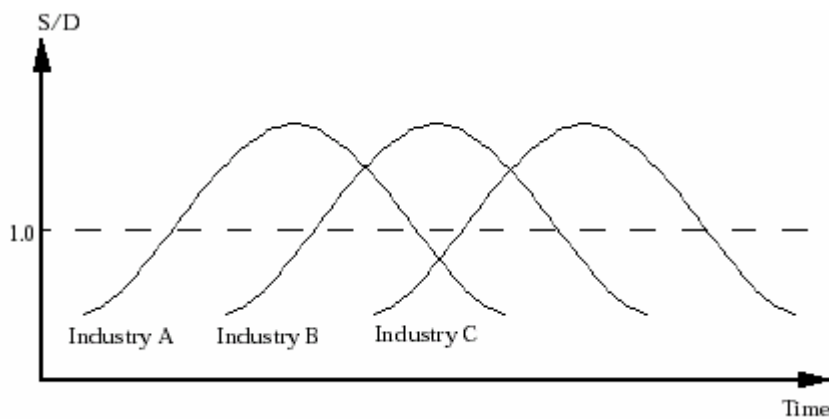
the industrial structure to a more capital and technological-intensive than the preceding stage.

Figure 1: Intra-industry rationalization: industrial transformation of the FG Pattern



Source: M. Ezaki (1995). "Growth and structural changes in Asian countries," *Asian Economic Journal* 9, No.2, pp.113-115

Figure 2: Inter-industry diversification: shift to a more sophisticated industry



Source: M. Ezaki (1995). "Growth and structural changes in Asian countries," *Asian Economic Journal* 9, No.2, pp.113-115

A nation's increasing competitiveness can also be explained by the interaction between intra-industry rationalization and inter-industry diversification. The process of *rationalization of production* enhances the efficiency and competitiveness within an industry. Production are increasingly value-added or new products are created within the

scope of same industry, e.g. from cotton to woolen to synthetic textiles⁹. Meanwhile, *diversification* of inter-industry cycles helps shift the industrial and export structure towards a more capital intensive level, e.g. from textile to steel to autos. (see Figure 2) Regarding these two processes, Kojima Model I argues that capital accumulation first causes economy to diversify to a capital intensive key industries and then rationalize them to be more efficient. Both processes repeat again and again and lead national economy to a higher level of production and exports¹⁰.

Open economy

When applied to an open economy, same industry of different countries becomes the focus point. The FG model explains the shift of industries from more advanced countries to less-advanced ones. In doing so, countries can be broadly divided into three sub groups¹¹: leading nations, newly rising nations and followers, forming a group of flying geese. As leading nation moves forward, they shed the outdated industry to lower advanced countries¹². The shift takes place according to each country's comparative advantage and creates in the industrial production's international division of labor.

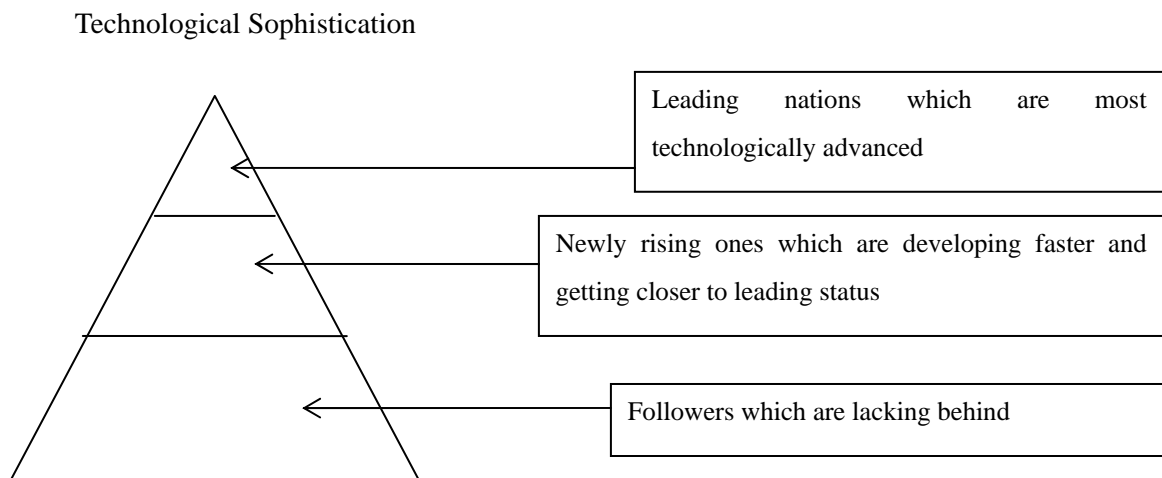
In the open economy, the hierarchal formation within the group is changeable. Each member has to keep on upgrading their technology in order to move forward (to a more technological sophistication level). An inactive leading nation can fall into latter groups if its technological advance is inadequate while those of newly rising nations or even followers may leap forwards into upper group. Moreover, in such forming, there can be sub-flock, 'several wild-geese-flying rows' in Akamatsu words, within the main group of FG. For example, among the leading nations which composed of European countries, England and Germany may lead sub-group while among the newly rising nations, Japan leads a small group of Asian NIEs, ASEAN and China respectively.

⁹ Kojima (2000), p.379

¹⁰ *ibid*, p. 376

¹¹ In Akamatsu's time of writing (1960s), Europe and American countries are those leading countries where as followers are Asian countries. Japan stands in the middle.

¹² The typical example is the shift of textile industry from Japan to NIEs, ASEAN countries and China respectively.

Figure 3: FG hierarchy**Box 2: Kojima Models¹³**

From the original concept, Akamatsu's students continue to work on details and apply his work to empirical tests. Among them, Professor Kiyoshi Kojima has developed three other influential pillars of original theory. Kojima models give more details of intra-industry and inter-industry dynamism. Roles of FDI and trade are included as factors of industrial shift and national development. Scope of the theory also expands to regional level by having Asia as a theoretical test ground. *Kojima Model I* argues that inter-industry diversification and intra-industry rationalization shifts industries to higher sophistication levels and thus upgrades national development. *Model II* includes the role of FDI and points out the benefit of pro-trade-oriented FDI for development. *Model III* further proposes regional integration, supporting by the *agreed specialization* principle.

1.2. International trade and Foreign Direct Investment in FG Pattern

Trade and investment play a significant role in FG pattern relationship. During the first step, international trade plays a leading role in creating a new relationship by bringing the less-advanced economy into an international relationship with the advance country¹⁴. A country is linked to the group by **import** products from more developed nations. It now becomes the lowest ranked member of the group: the *follower*. By opening the

¹³ See more details in Kiyoshi Kojima's work. Kijima (2000) can be a good start. The article also includes list of FG model-related works.

¹⁴ Akamatsu Kaname (1962), "A Historical Pattern of Economic Growth in Developing Countries" p.9

door to international economic exchange, it is drawn in to the group of FG. In some case, import may help create domestic demand which otherwise may not exist.

As domestic demand surges, import grows. More imports will lead to second stage of development: **domestic production**. More domestic demands encourage domestic industrial production. Since follower nations usually enjoy start-up conditions, i.e. low wages, domestic cheap raw materials, and domestic demand, its products can overcome import and succeed in domestic market. There are two ways to promote domestic production. Nationalist may prefer state to help infant industry in start-ups and protect domestic competition. This means, however, may lead to economic setback as international competitiveness may never be reached with too much domestic protection. On the other hand, for internationalist, foreign investment is desirable. It can help establish domestic production facilities, not only with foreign capital but also more advanced technology transfer. By either way, the aim is to strengthen domestic industry and compete with imports, at least in domestic level. This can be interpreted as *import-substitution* policy in many developing countries.

Once domestic production becomes more competitive and can produce more than domestic consumption, the process moves to final stage of **export**. At this level, original import of particular goods become obsolete from domestic market. Country starts to export its products to other countries and enters the stage of *export-promotion* period.

Regarding production and time line, normally the less-advanced countries are specialized in basic products, and as they advance to a more sophisticated industrial level, their export becomes more technological-intensive. In addition, a country may involve in import, domestic production and export of different levels of production during the same period. For example, it can reach export stage of less sophisticated production (e.g. agricultural produce), while in the same time produce simple processing goods domestically and import more sophisticated/ technological advanced products. By exchanging goods between countries of different industrial levels, *international division of labor* has been created.

1.3. Pro-trade-oriented FDI: towards FDI-led growth

Within the inter-nation FG network, FDI from advanced nations must be a

pro-trade-oriented FDI (PROT-FDI)¹⁵ in order to help upgrade industrial structure in less advanced countries. This PROT-FDI mechanism strengthens the international division of labor and accelerates regional growth through regional transmission of production. Disadvantage industry is relocated through FDI to less-advanced country in a way as to strengthen host country's comparative advantage. This kind of FDI includes transfer of capital, technology as well as managerial skills; all of which would enhance investing country's foreign production and also increases the host country's comparative advantage. The transfer expands capital goods production and exports of investing country while helps establishing new industry in host country. Spill-over effects (e.g. establishment of supporting industry, employment generation, skill development etc.) led by such transfer also benefit host economy. In short, through PROT-FDI, comparative advantages of both countries increase, production and trade is expanded as well as genuine FDI-led growth is created¹⁶.

1.4. International cooperation in FG Pattern

It can also be argued that the theory promotes not only the interdependence among nations of various levels of development but also international cooperation for mutual benefits. The process of upgrading their economy, developed countries have to rely on economic exchange with developing countries. There is an opportunity for leading nations to help upgrade less-advanced nations' economy, by exchange of goods (i.e. export and import process) which in turn helps create the developing countries' domestic market for new products. In order to promote their own export, more advanced countries may supply foreign capital/ credit to developing countries so the latter can afford import products. In today's term, export-credit has done such function.

Foreign Direct Investment is a direct means that advanced countries can help develop less-advanced countries' domestic production. By moving capital and know-how overseas, spill-over from the process is believed to be beneficial to economy of less-advanced countries. Through advanced countries' FDI transfer, FG process can be accelerated than otherwise be originated by developing countries themselves. With

¹⁵ This PROT-FDI is contrary to anti-trade FDI (ANT-FDI) which foreign investment, once being established in host country, monopolizes local markets by preventing entries of new comers. The latter type of FDI is against comparative advantage principle and does not promote trade or upgrade production in either investing or host countries.

¹⁶ This argument is based on Kojima model II. Investment frontier map shows the spread of such FDI across countries in each ladder of industrial production.

international division of labor, the FG model is said to influence regional economic integration process, particularly in East and South-east Asia¹⁷ in which Japanese FDI flows is significant contributor.

1.5. Implication of the FG pattern: International division of labor and Interdependence

Three significant implications can be drawn from the theory. First, the relationship within the group is **competitive**. Followers will try to catch up with those more advanced countries. In the same time, the leaders may fall behind if they fail to upgrade their development level. The dynamic sequence of production, which implies the rise and fall of competitive advantage in production, means each country has to move forward by keeping accumulate capital and technology. They have not only to compete with others but also with themselves.

Second, the **possibility of changeable position** within the group encourages those followers to work hard to move forward. Strong determination to develop is very important. Less advanced countries have to ‘weaken their vertical dependence upon advanced countries by pushing forward their own industrialization¹⁸’. In fact, it has hinted the strategy for underdeveloped country to accelerate its economic progress by learning from more advanced countries. Citing Japanese as an example, less advanced countries should improve the import products and adapt them to suit domestic conditions through the process of ‘*domestic industrialization*’. The purpose is self-reliance. Furthermore, a country can choose to specialize in some particular industries. That is, it concentrates limited resource and capacity to those selected sectors and develops production’s competitive advantage. Japan has pursued this focusing strategy when it exported an improved version of automatic looms to the origin of modern cotton industry like England¹⁹.

¹⁷ Chunji Yun (2000), *A Critical Review for the Flying Geese Pattern of Development in East Asia*, p.1 and Hughes (1999) cited in Yun, p.2 However, Yun argues that developmental processed envisioned by the flying geese model had never been created in the region. On the contrary, what seems to be regional division of labor among national economies is indeed the Japanese business inter or intra-firm network. Japanese firms’ sourcing and producing activities are the core of economic exchanges. Moreover, in such relationship, regional cluster firms have to rely on Japanese suppliers, causing never ending dependence and country’s trade balance deficits.

¹⁸ Akamatsu Kaname (1962), “A Historical Pattern of Economic Growth in Developing Countries,” *The Developing Economies*. Preliminary Issue No.1, March-August. p.8

¹⁹ Ibid, p.13

Third, **international economic exchange** is a key factor of development. Through international economic exchanges, either by trade or investment, nations of different level can mutually benefit. Since countries are in different level of development, each has comparative advantage in different products of different technological level. This is in fact the origin of international division of labor. The transformation process requires countries of difference specialization to keep international linkage and encourage cross country interaction. International trade induces nations into economic development circuit. Imports help less advanced countries access better living standard, enjoy more variety and more advanced products. In the same process, these export products earn income to advanced countries and allow them to acquire higher stage of technology as well as upgrade economic progress. Through three steps of wild-geese-flying development pattern, the advanced country has to gradually give up producing simple consumer goods, in which it has lost comparative advantage to less-advanced countries, and moves on to concentrate on capital goods or more sophisticated consumer products in which it has comparative advantage. In a perfect world with free trade and FG pattern works effectively, such international division of labor rapidly proceeds forward²⁰, and lifts up global economic development.

1.6. Role of government: Developmental State

The role of government, particularly in guiding the nation's economy, has been clearly stated in the original theory. It said that 'industrial policy of a country has a great influence on the wild-geese-flying pattern²¹'. Government may help strengthen domestic economy as well as promote international economic exchange in many ways. For example, theory stressed how the government can protect domestic infant industry by imposing import protection. However, this does not mean that government should adopt protectionism policy stance since Akamatsu said that such measure should only be temporary and aim only to help establish an 'international' competitive industry.

In later interpretation, FG model has been used to legitimize a greater role of government intervention into all stages of economic development. By doing so, the government adopts the *Developmental State* role by being active in stimulating economy by guiding or initiating economic activities²². Indeed, Japanese government

²⁰ Akamatsu Kaname (1956) cited in Pakka Korhonen, (1994), p.98.

²¹ Akamatsu Kaname (1962), p.23.

²² Such state's guidance can be termed '*industrial policy*'.

particularly after the WWII has done exactly so to help strengthen the postwar ailing domestic business.

Although Akamatsu leaves space for government to improve economic condition by various means of direct intervention, the success of interventionist government depends on other factors. Most important factors are the nature of domestic private sector and the government capability²³. For economy to advance further, private sector must respond efficiently to government incentives. Particularly in import-substitution stage where government protects infant industry, unless private sector works hard to accomplish a higher international standard, protective measures tend to be long and cost to economy would outweighs the benefit expected.

Regarding the capability of government, right policy and effective means of implementation is necessary. Such task is easier said than done, especially in developing countries which mostly are corruption-prone and are facing various problems of different kinds in the same time. In the country where government is strong enough to control all sectors and can effectively give a far-sighted guidance, intervention can be successful. However, for the rest, leaving economy in the hand of market sector may be more desirable. In such case, government should only provide public service/infrastructure and facilitate all economic transactions towards higher development.

1.7. How ODA is linked in FG Pattern?

Throughout three stages of FG economic development pattern, ODA can be used to facilitate the economic exchange. In import stage, ODA from advanced country helps followers acquire foreign goods by providing foreign exchange or by giving direct goods. While in colonial era, foreign government may introduce the new products through force into less-advanced country; however, in modern time, official assistance becomes an effective means to provide goods to less-advanced country. Export credit grants developing countries an opportunity to import products from advanced countries. Grants and Loan help fill the gap of foreign exchange. As such, advanced economy's export can benefit from market expansion while less-advanced nations enjoy the

²³ Yoshihara Kunio (1999), *The Nation and Economic Growth: Korea and Thailand*. Kyoto: Kyoto University, pp.34-36. In this book, Yoshihara compared the development strategy between Thailand and Korea. Thailand chose non-intervention means while Korea chose the opposite. The economic success of Korea is said to be benefit from capable government and dynamic response of private sector. Thailand, which lacks of both factors, also performs relatively well with non-interventionist policy,

opportunity to access more sophisticated import goods.

In a more subtle way, ODA can also help promote FDI physically and psychologically. By financing basic infrastructure investment, ODA creates one factor of favorable investment environment in recipient countries. In addition, the benign giving act from donor government gives recipient countries a good impression, towards the donor government as well as business. Such amicable impression is believed to lead to a positive long term relation between the two countries.

2. Japan in Wild-Geese Flying

The image of Wild-Geese Flying drawn by Akamatsu has influenced the subsequent Japanese policy makers²⁴. Japan views Asia as the main ground for FG pattern production network creation. Further to such plan, government is said to take an active role in help establishing the regional division of labor. In so doing, 'economic cooperation' becomes a major government's diplomatic tool. To facilitate the expansion of Japanese production network, this tool is composed not only government's aid but also business flows of trade and investment.

Originally, it is probably arguable that supply of raw material has been the main reason to create regional production network. However, change in international politico-economic arena from late 1970s, namely the oil shock to the *endaka* result of Plaza Accords, forced Japan to redesign her foreign policies. Comprehensive national security points out how vulnerable Japan is in terms of economic interdependence. Consequently, government aid and private investment are assigned a significant role to defend and promote Japanese interest around the world²⁵. From mid 1980s, regional division of labor, crafted by Japan, becomes more technological-oriented division. Japan, as the central hub of highly advanced R&D, will provide necessary but less sophisticated technology down the vertical line of regional division of labor. In so doing, Japan would be able to retain its position as the lead goose of regional flying geese with dynamic technological growth²⁶.

²⁴ Pakka Korhonen, (1994) "The Theory of the Flying Geese Pattern of Development and its Interpretations," *Journal of Peace Research*, vol. 31, no. 1, pp. 94-95 and Walter Hatch, (1998) "Grounding Asia's Flying Geese" *NBR Briefing* p.6

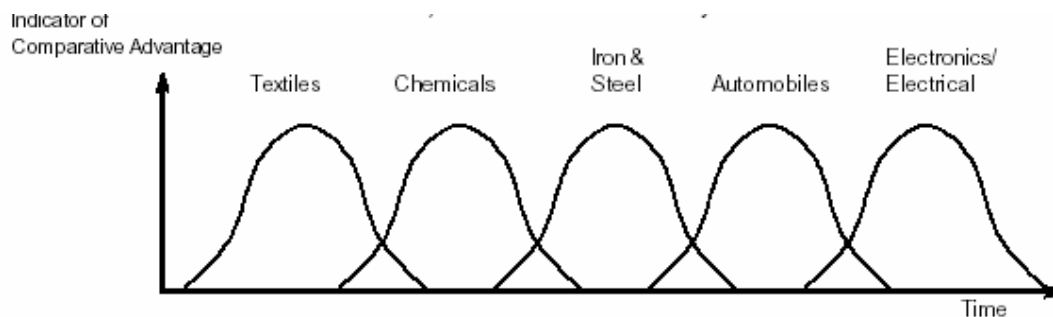
²⁵ Hatch and Yamamura (1997), p.118.

²⁶ Hatch and Yamamura (1997), p.119.

2.1. FG Pattern in Asia: Does it exist?

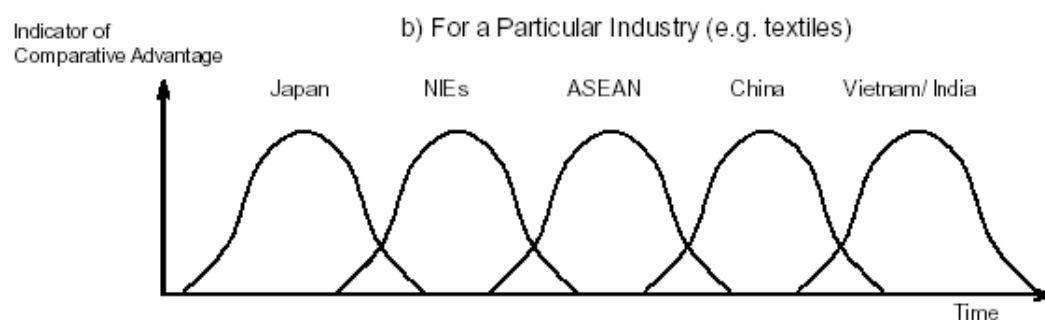
Asian development pattern seems to follow the FG explanation. Each economy has developed from basic industrial production, usually textile and shift to chemical industry, steel industry, auto-mobile industry and the electronics/ electrical industry. (see Figure 4) In each industry, there is transfer from advanced countries to lesser advanced one, according to the regional hierarchical linkage. Japan as the regional development core, gradually sheds its losing comparative advantage sectors to NIEs and successively to ASEAN countries and so on. (see Figure 5)

Figure 4: Typical sequence of Asian industrial production



Source: C.H. Kwan (2002), p.4

Figure 5: Shift of FG pattern production in Asia



Source: C.H. Kwan (2002), p.4

On the other hand, it should be noted that the industrial transition in Asia is not exactly following the original version of Akamatsu's FG pattern. Growing number of economists argue against the application of FG model to Asian development²⁷. It is

²⁷ Particularly after the Asian crisis, many economists cast doubt over the real formation of Asian flying geese. See for example, Hatch (1998), Hart-Landsberg and Burkett (1998) and Yun (2000)

undeniable that, although the regional industrial structure is in line with FG shape, regional division of labor is formed by having Japanese capital and technology as a life blood. The regional production network is not linked by trade of backward and forward industrial linkage products among member countries. Rather, Asian countries are linked by relocation of Japanese capital via direct investment and by imported technology from Japan as fuel of each country's growth engine. In each export product, there is always high percentage of parts imported from Japan or otherwise the product is produced under Japanese license using Japanese technology. Rather than developing their own domestic production base, Asian countries rely on Japan as a source of industrial upgrade. This explains why despite each country's export success, most of them suffer from plaguing trade imbalance with Japan. What worsens the situation is that Japan has never been a sufficient market of those regional export products. Re-import to Japan is relatively few. Most of exports from Asian countries are sent to the third countries, particularly US and Europe. It is probably not exaggerated to say that, far from what stated in FG model, Asian countries are simply Japanese sub-contractors and in practice, they are merely used as re-export hub to ease trade tension between Japan and other countries.

2.2. Japan's economic role in Asia

Japan's economic role in Asia has spread over trade, investment and ODA. The framework of Economic Cooperation has in fact classified a broad responsibility for government and business. ODA falls into Japanese government's operation while private sector takes over trade and investment-related role. With the combination of both forces, Japan has slowly constructed a FG pattern of economic network in Asia.

Japan has indeed played an important role to upgrade Asian economies via its export of capital and technology. In many countries, FDI, especially that from Japan, has been the main engine of economic growth. Table 1.1 shows the increase of GDP growth rate and table 1.2 shows a corresponding data of the increase of net FDI flows, which Japan is the largest provider, in ASEAN countries. The fact that amount of FDI grew significantly after 1988 as did real GDP growth rate confirms a close connection between the two. Many studies about Japanese FDI also show a supportive evidence of such forming of FG pattern in Asia²⁸. Most of investment is in manufacturing sector.

²⁸ For example, Laixum Zhao (1997), *Japanese Foreign Direct Investment in East Asia* and Yoshihara Kunio (1978), *Japanese Investment in South East Asia*

Through time, the pattern changes as host economy's industrial structure becomes more advanced. However, the hierarchy within the group remains the same, i.e. Japan is still the leader, followed by NIEs²⁹, ASEAN³⁰ and China respectively. More precisely, Japan is the center of the regional growth engine. In addition of capital, Japan is also the main provider of technology to Asian economies. Table 3 shows a dominant position of Japan as technology provider compared to other leading industrial countries.

Table 1: Annual percentage growth rates of real GDP in Asian countries

Countries	Average 1978-1987	1988	1989	1990	1991	1992	1993	1994	1995	Average 1988-1995
Indonesia	5.2	5.8	9.1	9.0	8.9	7.2	7.3	7.5	8.1	7.9
Malaysia	5.5	8.9	9.2	9.7	8.6	7.8	8.3	9.2	9.6	8.9
Thailand	6.4	13.3	12.2	11.6	8.4	7.9	8.4	8.6	8.6	9.9
Korea	7.7	11.3	6.4	9.5	9.1	5.1	5.8	8.4	9.0	8.1
Taiwan	8.6	7.3	7.5	4.9	9.2	6.5	6.3	6.4	6.4	6.8
Hong Kong	8.3	8.0	2.6	3.4	5.1	6.3	6.4	5.4	5.0	5.3
Singapore	6.9	11.1	9.6	8.8	6.7	6.0	10.1	10.1	8.9	8.9

Source: International Monetary Fund

Table 2: Net FDI inflows in ASEAN countries

Years	Indonesia	Malaysia	Thailand	Philippines	Singapore	ASEAN-5 total
1961-1980	2,163	4,453	1,186	452	3,728	11,982
1981	133	1,265	288	172	1,675	3,533
1982	225	1,397	189	16	1,298	3,125
1983	292	1,261	348	105	1,085	3,091
1984	222	797	400	9	1,210	2,638
1985	310	695	162	12	809	1,988
1986	258	489	261	127	1,533	2,668
1987	385	423	182	307	2,696	3,993
1988	576	719	1,082	936	2,710	6,023
1989	682	1,846	1,727	563	3,963	8,781
1990	964	2,958	2,236	530	4,489	11,177
1981-1990	4,047	11,850	6,875	2,777	21,468	47,017
1988-1990	2,222	5,523	5,045	2,029	11,162	25,981

Source: Yue(1993) "Foreign Direct Investment in ASEAN Economies," *Asian Development Review* 11(1)p.73 cited in Hart-Landsberg and Burkett (1998) p.90

²⁹ Republic of Korea, Taiwan, Hong Kong and Singapore

³⁰ Indonesia, Malaysia, Thailand and Philippines

Table 3: Sources of Imported Technology in Korea and Thailand

Unit: Percentage of total license fees

Supplier	Korea	Thailand
Japan	47.9	53.0
USA	28.2	19.8
UK	3.8	5.0
Germany	5.7	2.7

Source: Hatch (1998)

The allocation of Japanese FDI in Asia is influenced by the regional comparative advantage and differs in each period. The earlier phase of Japanese overseas investment, raw materials in Southeast Asia is the main destination. In later period, FDI is focused in labor-intensive manufacturing and moves around according the changing cost of production, i.e. first to NIEs and ASEAN and now China. Within the process, as the countries once hosted Japanese FDI developed, they also follow the Japanese-led investment to lesser advanced countries, creating a chain of FG pattern of investment. The growing FDI from NIEs in ASEAN countries after 1989 can be explained by the shift of comparative advantage within FG group. During early 1990s, NIEs' share is more than 20% in ASEAN, and in Malaysia and Philippines, the number is as high as 45% in some years.

The formation of Asian FG pattern can therefore be confirmed from the pattern of Japanese FDI in Asia, which has been summarized as followed:

“Japanese FDI in East Asia reflects the comparative advantages of these (East Asian) economies. In Hong Kong and Singapore, dominant shares are in finance, services and commerce, while in South Korea and Taiwan, a significant share is in chemicals and electric and electronic products. Japanese FDI in ASEAN big four and China concentrated in labor intensive operations such as food, textiles and chemicals, with an emphasis on resource extraction (e.g. mining) in Indonesia and Malaysia.”³¹

This is also consistent with the following Japanese investment statistics. As of 1994, Japanese manufacturing investment share was 43.6% and non-manufacturing share was

³¹ Laixum Zhao (1997), p.4

54.5%³². Mining, services, electric machinery and finance & insurance are four major sectors which received most of Japanese FDI.

Box 3: Japanese investment in Asia

Japanese investment in Asia³³ can be divided roughly into three periods:

1. 1951-1985

Japanese direct investment began in 1951³⁴, which Japan gradually recovered from WWII. Due to Japanese natural condition, the growing domestic industry needed to outsource natural resources supply from other countries. Therefore, natural resources are the main target of investment in the first period. Japanese FDI sought natural resources such as oil and mineral from Southeast Asia and exported back as raw material for industrial plants in Japan. Indonesia, Malaysia Thailand and Philippines are major destinations of Japanese FDI in this period.

In 1970s, Japanese FDI was moderate compared to those in 1980s. Low labor cost is the reason of overseas investment. Most of FDI in this period went to NIEs, particularly manufacturing industries such as textile and electronics. However, after the oil shock in the middle of 1970s, part of Japanese FDI went to exploration of natural resources such as petroleum, iron core and coal.

2. Post-1985

In this period, Japanese FDI increases sharply owing to continuing appreciation of Yen, especially after the Plaza Accord in 1985. Many companies decided to move production base overseas to reduce cost, resulting in steadily increase of FDI outflow. In 1988, Japan become the world's largest FDI investors³⁵, at US\$ 34 billion and the flow reached its peak in 1989 at US\$ 67.5 billion³⁶.

3. 1990s

The early 1990s has been marked as the end of Japanese bubble economy and the beginning of global recession. As a result, global share of Japanese FDI notably decreased from its boom period. Nevertheless, FDI to Asia only slightly decreased and soon started to increase again around 1993-4. This time most of it went to ASEAN and China. Asian share in Japanese

³² Laixum Zhao (1997)

³³ Apart from Asia, Japan also invests in other areas of the world. However, objective and pattern of investment is different. In North-America and Europe, Japanese FDI is mostly in form of trading firms, finance and insurance services. FDI in Latin America is also natural resource-based.

³⁴ Wiwatchai Atthakorn (1975), *Role of Japanese Investment in Thailand*. Odionstore: Bangkok. p.5 (in Thai)

³⁵ Pattern of FDI, however, is quite different from earlier period. Most of Japanese FDI after 1985 went to US (roughly 50%) and Europe (roughly 20%). Besides, non-manufacturing industries (such as finance, insurance and real estate) took a major share.

³⁶ Laixum Zhao (1997), *Japanese Foreign Direct Investment in East Asia*, p.2

FDI has been relatively stable around 10-15%. However, since 1992, it has rose to more than 20%, particularly in manufacturing sector, showing rising significance of Asian countries as Japanese economy base.

2.3. Japanese government as the FG pattern promoter

Japanese government adopts Akamatsu's idea of active government in stimulating national economic development. It has played an active role to help stimulating the FG formation as well as promoting the regional cooperation. Japanese main policy tool, Economic Cooperation, has broadly classified the roles of government and business. Public fund in form of ODA and private fund in form of trade and investment flow work together for the national economic interests. An outstanding performance of Japanese business' trade and investment is already discussed in earlier section; now we will study the role of Japanese government and how ODA is used as a policy tool.

Asia has long been the prime focus of Japanese foreign policy. Specifically in terms of ODA, Asia, particularly Far East Asia, has received the highest percentage of Japanese ODA and the amount is increasing every period. (See Table 4) This confirms a close relationship between Japan and Asia. Furthermore, countries' economic need seems not to be the most important factor for Japan to give out her aid, as also shown in the table that Lower-middle Income Countries receive the largest portion of aid. The allocation to countries in this category is higher than LLDCs and Low Income Economies which mostly are in Africa. (See Box 4 for country classification) Another interesting fact is that, countries within the scope of FG model are major recipient countries, namely Indonesia, Thailand, China as well as Korea³⁷. These countries alone account for one third of total ODA despite their status of middle income economies.

In a more specific form, Japanese government initiates both institutions and policies to support the FG formation. Many governmental economic agencies drafts policies to promote the regional cooperation and make it works for Japanese interest. In one of EPA's report, it has "identified Japan, the NICs, and ASEAN as upper-, middle, and lower grade economies³⁸", just according to Akamatsu's image of wild-geese flock. In one report³⁹, Japan called out for the "Asian Brain" in which all members of regional

³⁷ Korea continued to receive ODA until the end of 1980s

³⁸ Hatch and Yamamura (1997), p.119.

³⁹ Economic Planning Agency, (1988) "Promoting Comprehensive Economic Cooperation in an

division of labor work together as one organic unit, under close coordinated aid, investment and trade policies. It is clear that wild geese flying cannot strongly take off alone without government support. Japanese ODA program seems to perform well for such supportive function.

Table 4: Japanese aid allocation Unit: Per Cent of total ODA

1978-79		Japan 1988-89		1998-99	
Indonesia	10.4	Indonesia	13.1	Indonesia	11.1
Bangladesh	6.0	China	7.4	China	9.6
Thailand	5.6	Philippines	5.4	Thailand	6.1
Myanmar	5.4	Thailand	4.9	India	5.2
Pakistan	4.8	Bangladesh	3.9	Philippines	4.4
Egypt	4.6	India	3.1	Viet Nam	3.4
India	3.8	Pakistan	2.8	Pakistan	2.3
Korea	3.7	Korea	2.3	Bangladesh	2.0
Philippines	3.2	Sri Lanka	2.0	Sri Lanka	1.5
Malaysia	2.6	Myanmar	1.8	Malaysia	1.5
Iran	1.8	Malaysia	1.5	Brazil	1.1
Sri Lanka	1.6	Kenya	1.5	Peru	0.9
Viet Nam	1.4	Egypt	1.4	Ghana	0.9
Brazil	1.1	Turkey	1.2	Syria	0.8
Peru	1.0	Nigeria	1.1	Egypt	0.8
Total above	56.9	Total above	53.4	Total above	51.6
Multilateral ODA	26.1	Multilateral ODA	24.0	Multilateral ODA	22.0
Unallocated	2.4	Unallocated	5.0	Unallocated	7.7
Total ODA \$ mill 2 710		Total ODA \$ mill 10 213		Total ODA \$ mill 15 736	
LLDCs	24.7	LLDCs	18.8	LLDCs	12.4
Other LICs	18.7	Other LICs	28.6	Other LICs	37.6
LMICs	44.7	LMICs	43.7	LMICs	43.7
UMICs	6.2	UMICs	5.2	UMICs	5.4
HICs	5.2	HICs	3.2	HICs	0.9
MADCT	0.4	MADCT	0.4	MADCT	-
Total Bilateral	100.0	Total Bilateral	100.0	Total Bilateral	100.0
Europe	0.4	Europe	1.8	Europe	1.3
North of Sahara	7.8	North of Sahara	2.9	North of Sahara	2.1
South of Sahara	8.9	South of Sahara	14.7	South of Sahara	9.5
N. and C. America	2.0	N. and C. America	2.1	N. and C. America	3.1
South America	6.1	South America	5.1	South America	5.3
Middle East	4.7	Middle East	2.3	Middle East	3.5
S. and C. Asia	31.2	S. and C. Asia	20.3	S. and C. Asia	19.2
Far East Asia	38.2	Far East Asia	49.5	Far East Asia	54.5
Oceania	0.6	Oceania	1.3	Oceania	1.4
Total Bilateral	100.0	Total Bilateral	100.0	Total Bilateral	100.0

Source: Development Assistance Committee, OECD www.oecd.org/dac

International Economic Environment Undergoing Dramatic Change: Toward the Construction of an Asian Network”, in Japanese, cited in Hatch and Yamamura (1997), p. 119.

Box 4. Major Economies classified by Income Category

(Reference) Major Economies Classified by Income Category

Income Category	1997 GDP per Capita	
LLDCs		Albania, Angola, Yemen, Uganda, Ethiopia, Eritrea, Cambodia, Gambia, Guinea, Guinea-Bissau, Comoros, Democratic Republic of the Congo, Sao Tomé and Príncipe, Zambia, Sierra Leone, Sudan, Somalia, Tanzania, Chad, Central African Republic, Togo, Tuvalu, Niger, Nepal, Haiti, Bangladesh, Bhutan, Burkina Faso, Burundi, Benin, Malawi, Mali, Madagascar, Myanmar, Mozambique, Mauritania, Laos, Liberia, Rwanda, Lesotho
Low-Income Economies	< US\$785	Albania, Armenia, Azerbaijan, India, Cameroon, China, Kyrgyz, Kenya, Côte d'Ivoire, Republic of Congo, Zimbabwe, Senegal, Tajikistan, Turkmenistan, Nigeria, Nicaragua, Pakistan, Viet Nam, Honduras, Bosnia and Herzegovina, Moldova, Mongolia
LLDCs		Vanuatu, Cape Verde, Kiribati, Djibouti, Equatorial Guinea, Solomon Islands, Samoa, Maldives
Lower-Middle-Income Economies	US\$786–US\$1,505	Algeria, Indonesia, Ukraine, Uzbekistan, Egypt, Guyana, Kazakhstan, Guatemala, Georgia, Syria, Swaziland, Suriname, Sri Lanka, China, Papua New Guinea, The Philippines, Bulgaria, Brunei, Macedonia, Morocco, Romania
Middle-Income Economies	US\$1,506–US\$3,125	Iran, Ecuador, El Salvador, Grenada, Costa Rica, Colombia, Jamaica, St. Vincent and the Grenadines, Thailand, Tunisia, Dominican Republic, Tonga, Dominica, Namibia, Panama, Paraguay, Fiji, Belize, Belarus, Peru, Marshall, Micronesia, Jordan, Latvia, Lithuania, Estonia
Upper-Middle-Income Economies	US\$3,126–	Antigua and Barbuda, Argentina, Uruguay, Estonia, Republic of Korea, Gabon, Croatia, Slovakia, Slovenia, Seychelles, St. Lucia, St. Christopher and Nevis, Palau, Chile, Czech Republic, Trinidad and Tobago, Turkey, Hungary, Brazil, Venezuela, Botswana, Poland, Malaysia, Republic of South Africa, Mexico, Mauritius, Lebanon

Note: The chart is classified by DAC and the World Bank.

Source: JBIC, *ODA Loan Report 2000*, p.108**Box 5: Example of Japanese ODA Policy supporting doing overseas business**⁴⁰*1. Low interest loans to overseas investors*

Japanese government, through EXIM Bank, the Japanese Development Corporation and Japan Finance Corporation for Small business, provides low interest loan to many FDI investors, particularly small suppliers of manufacturing industry.

2. Foreign investment insurance

MITI, through the Japan Trade and Investment Insurance Organization, has policy scheme to insure Japanese investors by covering overseas business losses due to unforeseen commercial as well as political circumstances. The maximum coverage is as high as 97.5%.

3. Administrative guidance prior to investment

Japanese investors can find lots of information about overseas investment through various channels of government agencies. Seminar and meetings are frequent and informative. Close consultation and meetings are norm between public and private sectors in Japan.

4. Administrative guidance overseas

Such government supports can also be found in embassies and overseas offices of other government agencies. JETRO and Exim bank are among the most active. Those government officials keep close contact with Japanese local affiliates. Being a source of information means it helps creating business not only between host country and Japan but also linking business between Japanese companies themselves. For example, small parts manufacturers are introduced to larger assemblers, creating a regional network.

⁴⁰ Hatch and Yamamura (1997), pp. 122-123.

5. *A public-private training program for foreign workers*

Many agencies help training overseas workers, mostly from Asia where Japanese manufacturers invest heavily. JICA is a prime agent to finance overseas training program as well as sending Japanese expert overseas. The Association for Overseas Technical Scholarship (AOTS), founded in 1959 under MITI, also has similar function. As of 1989, it helps training as many as 40,000 overseas workers, mostly from Asian countries. This association's fund is co-financed by Japanese businesses, which invest in Asia and thus directly benefit from such training.

3. Asian economy under Japanese leadership: benign or malign guidance?

The relocation of Japanese industry to Asia is welcome by host countries' government. Followed the logic of FG pattern, they expect that such relocation will increase the capital and technological accumulation which leads to higher level of industrial production. What happens in the real world is probably different from that rosy picture.

3.1. The impact of Japanese FDI

FDI is necessary in sustaining the shift within FG and is an accelerator for industrial upgrade. In Asia, it is the reason behind an outstanding economic growth particularly in 1980s and early 1990s. Many countries have been successful in changing economic structure to a more industrialized or higher sophisticated level of production. However, as economy develops, one should expect that it will lead eventually to self-reliance of recipient country. This seems not to be the case in Asia as many are still rely on Japan in many ways.

For Asia, impact of Japanese FDI falls directly on supply side in which many have to rely on Japanese capital and technology. This results in over dependence on Japan. Behind the economic development and high growth, in fact, those countries are only Japanese subcontractors and mostly rely on import parts from Japan. The value added in their export counts only small fraction and mostly are small labor cost. Another setback of this phenomenon is the fact that Asian countries have less motivation to develop their own economic resource such as human capital. The consistent flow of Japanese capital as well as technology made them feel happy to do so. However, as such flow shot up, as seen in early 1990s, many Asian economies stumbled.

In order to move forward within FG pattern, motivation and full effort from recipient countries is necessary. It is the cooperation between government and business to put an effort or adopt measures to improve the acquired capital and technology in order to further proceed to another step of development. Sadly, it seems that many of Asian governments are not doing enough. Many are happy just to receive the capital and technology from Japan without the ambitious to improve the Japanese imported technology and thus create their own independent from the vertical linkage of Japanese controlled production.

The most popular development path chosen by Asian economies is export-oriented trade. In the trade cycle, high import costs must be compensated by equally amount of export earning. This means there must be enough demand in world market for Asian export. Furthermore, reliance mainly on export income means these countries are vulnerable to external shock. The stumble export market is one of factors believed to cause a significant slow down of Asian economy prior to 1997 crisis. In either case, Japan is supposed to be the export market for products of less-advanced levels from other countries in FG group. However, Japan has not yet taken such responsibility although the import statistic has shown a positive trend in recent years. (See Table 5) From the past record, it appears that Asia is used as Japanese export base for the third markets. As a Japanese sub-contractor, benefit that host country may gain from export is questionable.

Table 5 Sales by Japanese Subsidiaries located in Asia Unit: Per Cent

	1988	1989	1990	1991	1992
Local Sales	59.8	63.9	59.6	54.5	66.1
Export	40.2	36.1	40.4	45.5	33.9
To Japan	13.7	15.8	11.8	15.5	15.8
To N.America	8.7	6	7.6	8.5	3.7
To Europe	4.5	3.3	6.1	4.3	2

Source: The 5th Statistics Almanac of Overseas Investment, MITI, 1994 cited in L. Zhao (1997), *Japanese Foreign Direct Investment in East Asia*, p.30

The ideal FG pattern has not yet completed in Asia. The main flaw is probably too much dependence on Japan. However, this does not mean that FG model is useless. It can be used as a guidance, or motivation, for Asian countries to be more selective in receiving capital and technology, not only from Japan but also from other advanced countries. This is the duty of the national government to make decision with regards to

ODA and FDI acceptance. The FG model, if supported by appropriate policies, can certainly bring win-win cooperation between countries of different economic levels.

4. Conclusion

This section explains the FG model and verifies its applicability into Asian economic development. Although the model can be a good starting tool to study the regional shifting economic pattern, one should realize the imperfection of the model when applied to the real situation.

There is a contrary between the model's ideal industrial shift and the shift in the real world. What happens in Asian is different from original explanation, particularly the role of Japan. This answers the question whether Japan has led the Asian wild geese flock and thus stimulates the regional economic development or not. Records of Japanese economic policies since post WWII until now show that Japan has followed the guidance of Akamatsu's FG pattern of economic development theory. The industrial relocation moved from Japan to lesser advanced countries. Nevertheless, the shift, although being based on comparative advantage, does not in full control of each country. Contrary to the original version that emphasized self-reliance, Asian countries cannot yet stand on their own feet. Their proceeding to higher stage of industrialization following FG pattern actually relies on Japanese import and capital. Although this results in 'miracle' growth rate, it is doubtful whether it brings a real development to the downstream countries of industrial relocation.

Regarding the role of Japanese ODA in the FG formation process, one can clearly see that ODA is used as facilitator for trade and investment. Some has been used mostly to build infrastructure. Others have been used in helping doing business. Despite some self-interest ingredients, ODA should still be welcome by recipient countries as an additional resource of upgrading industrial base⁴¹ in the creation process of Asian FG.

In conclusion, one can say that there is FG pattern formation in Asia. Nevertheless, it has not yet developed in a perfect form. There is doubt over whether Japanese FDI is truly PROT-FDI and leads to a genuine FDI-led growth. Japanese dominance seems to be the biggest obstacle. This, however, does not mean that FG

⁴¹ As seen in Thailand's case, Japanese ODA helps finance the country's largest industrial estate and help boosting country's growth rate. See chapter 4 for more details of the project.

pattern cannot be developed in the future. Akamatsu's FG model is still applicable but this depends on the capacity of other Asian countries to leap away from Japanese main stream, improve the imported technology and be more independent from Japanese dominance. Doing so is the only way to create a successful FG partnership towards a sustainable advanced economic development.

Part II: Thailand and Japan: Partners for Growth

During the past forty years, Thai economic structure has been significantly transformed from basic agricultural one to an industrial one. Particularly in 1980s-1990s, Thailand is among the world's fastest growing economy⁴². The transformation is a combination of domestic and foreign forces. Apart from Thai government's effort and domestic private sectors, this extraordinary economic performance is also owing to foreign capital flows, both in form of aid and direct investment. During the process, Japan has been the most influential economic actor, as investors and traders, arguably with an active support from Japanese government via its ODA.

In this section, we will study how Thai economy has changed during 1960-1990 and how Japanese economic presence is related to such phenomena. Theory of FG can be used to explain Thai economic change as well as Japanese role in Thailand in two main points. First, Japan is regarded as major factor of Thai economic structural change. In the three stages of development, Japanese trade and investment affects how Thai industrial structure becomes more sophisticated through times and how economy shifted from import to export stage. Second, in so doing, government policies of both countries have significant influence over economic activities. Their specific roles and interaction with private sectors, however, are different⁴³.

The structure of this section is as followed: Thai economic development pattern is discussed, using the Five-year National Economic and Social Development Plans as a study guideline. Following the plans, Thailand, which originally an agricultural base economy, becomes gradually industrialized. Private investment, particularly foreign direct investment, is believed to be the main engine for Thai economic growth. Then,

⁴² Worldbank (1993), *The Asian Miracle*.

⁴³ Japanese government is known as an active supporter with various means of industrial promotion policies while Thai government chose a free-hand policy and let private sector take the lead in economic activities with freedom.

the contemporary bilateral relationship between Thailand and Japan is analyzed. Economic is not the single reason explaining an active and continuing role of Japan in Thailand. Political and social factors influence the bilateral relation. The final part applies the FG model to the bilateral interactions.

1. Thailand in the International Economy: Entering the Flying Geese Group

As in many other developing countries, “development” is national goal for Thailand. In order to achieve higher level of national development, Thai government initiated national five-year master plan, *the National Economic and Social Development Plan*, in 1961. The National Economic and Social Development Plan is the first time Thailand used a systemic guideline for her macro-economic planning. Back then, the relationship with international economy was quite small, mainly limit to foreign development assistance from US and international institutions. However, as Thailand opened the country to more international contacts, Thai economy become more and more attached to world economy, resulting in a more external dependent economic pattern. A look into successive National Social and Economic Development Plans provides a confirmation of the significance of foreign investment, international trade and foreign assistance to Thai economic development.

In all Five-Year plans, three basic foundations of Thai economic policies can be found. *First*, role of government and private sectors are quiet separated. Government limits itself only in public investment and public service providing and leaves other areas to private hands. *Second*, until 1990, fiscal and monetary discipline has never been abandoned in economic decision making. In some period, growth is traded off with economic stability. Interest rate and exchange rate stability is under government’s close supervision. Probably owing to this fact, Thai path of development is relatively smooth and Thailand is one of the most attractive countries for investment. *Third*, as in many developing countries, industrialization and export are main tools towards development.

The **First Plan** established various policy foundations and particular attention was on infrastructure construction to prepare for future economic activities. Foreign aid, mostly from the US and the World Bank, contributed to such public investment. The **Second Plan** followed the First Plan principle but expanded the scope of the policy implementation to cover all over the country. The **Third Plan** shifted its focus to production-related guidance, with emphasis on import-substitution industry first. Tariff

and other trade barriers had been used to promote domestic production and reduce imports. Although consumer goods imports decreased, capital and intermediate goods imports grows constantly showing that economy hardly developed under the import restriction. Once government realized that import-substitution did more harm than good, Thailand turned to export-promotion policy from the **Forth Plan** and thus all efforts have been devoted to promote export-oriented industries since. However, highly dependence on capital and intermediate goods imports persist. In order to earn foreign currency to purchase these imports, Thailand has to accelerate its exports. Through this mechanism, international trade becomes one of the growth engines of Thai economy.

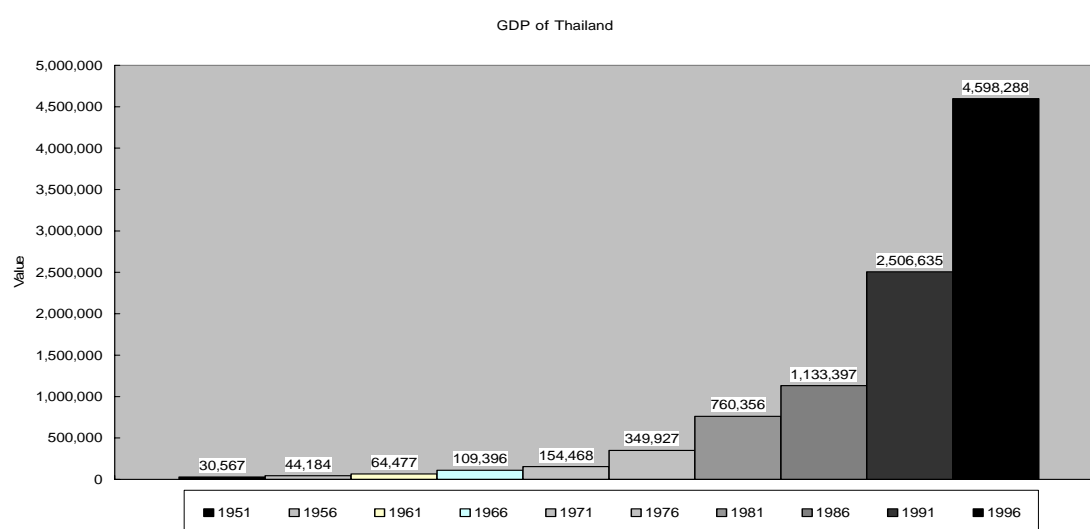
Table 6: Basic Indicators of Economic Development in Thailand, 1960-85

	1960-70	1970-80	1980-85
Annual growth of per capita income (%)	3.9	4.0	3.2
Interest rate (%)	2.0	9.3	4.8
Percentage distribution of GDP on			
- Consumption	79.2	76.2	78.3
- Capital formation	21.4	24.0	22.8
- Imports	19.9	25.9	27.5
- Exports	17.8	21.8	24.5
Balance of payments (billions of US\$)			
- Trade	-0.3	-1.1	-2.8
- Current account	-0.1	-0.7	-2.0
- Capital account	0.1	0.6	2.1

Source: NESDB and Bank of Thailand, cited in Akrasanee (1991) p.76

Figure 6: Thailand's Gross Domestic Production at current market prices, 1951-96

Unit: millions BHT



Source: NESDB, Thailand www.nesdb.go.th

Table 7: Openness to Trade

Exports/Imports	1962	1972	1978	1983	1985
Exports/GDP(%)	14.6	13.5	17.5	15.8	18
Imports/GDP(%)	17.1	18.9	23.4	26.1	24.2
(Exports+Imports)/GDP (%)	31.7	32.4	40.9	41.9	42.2

Source: Pubbawesa (1989) "Review of Economic Development in Thailand," p.21

Under the Plans' guidance, Thailand is fully connected to the world economy. The economy relies more and more on international trade and international flows. It appears that these Five-Year plans bring in a favorable growth to Thai economy. GDP growth rate between 1960-1985 is 7.1% while the world average is 4.0%⁴⁴. This high growth is owing to industrialization, expansion of the service sector and agricultural diversification promoted in the Plans. Economy grows constantly together with higher per capita income and more exports from both agricultural and industrial sectors. On the other hand, more external linkage also means that domestic economic condition becomes more vulnerable to external changes. Nevertheless, changing economic structure is hardly called a success as domestic production is much relied on imports. This situation not only continues to put a hard strain on Thai balance sheet but also shows that industrial production is in fact underdeveloped. This signals a problem of Thai economic development in a long run.

In sum, the First to Forth Five-Year Plans share the same goal of the balanced economic and social growth and development. Each plan, however, has its own means to achieve the target. Economic strategies of each plan have been evolved according to the changing domestic and international conditions. For four decades under these guidelines, Thai economy is fully linked to the world economy and Thai economic well-being more and more depends on international trade and foreign flows.

Box 6: The National Economic and Social Development Plans

First Plan 1961-1966

The First Plan is a part of the economic reform taken by then Prime Minister Field Marshall Sarit Thanarat who wanted to develop Thailand to "join the rank of progressive country⁴⁵". The World Bank, together with Thai technocrats, is believed to help shaping the new

⁴⁴ Wisarn Pubbawesa (1989), "Review of Economic Development in Thailand," in Suchart Prasith-rathsint, ed. *Thailand National Development*, p.16

⁴⁵ Ammar Siamwalla (1997) "The Thai Economy: Fifty Years of Expansion," in TDRI, *Thailand's Boom*

national economic direction for Thailand⁴⁶ which the country is moved to a more open economy and private business and foreign own enterprises are promoted⁴⁷ through domestic economic reform⁴⁸. Consequently, this strategy leads to a limited economic role of government and growing private sector's role in following years.

Probably because development in terms of PM Sarit is an extensive government investment in basic infrastructure, the First Plan focuses on infrastructure investment as national economic development fundamental. Government invests extensively in transportation and related facilities, dam for irrigation and electricity generation and other basic infrastructures to prepare for private investment. Based on this policy stance, the role of Thai government has since been limited to investment in public utilities and services while leaves other areas to private sectors.

It is obvious that Thailand could not afford such large investment without supplement fund from abroad. Fortunately, during this period, the United States, which was politically active in the region, was the country's main financial source. The US provides not only capital but also technical expertise The World Bank which is also an arm of American ideological institution was another major source of foreign inflows. These two sources filled the saving investment gap and established the grand foundation of modern Thai economy.

Second Plan 1967-1971

The implementation of the First Plan is considered a success with growth rate of per capita income around 4 percent annually. The second plan follows the idea of the first plan, but expands its scope to cover all over the country, particularly distance area such as North-eastern area. Development regionalization is added into the plan. Social development is also given

and Bust. p.6

⁴⁶ Akrasanee (1991) and Ammar Siamwalla (1997), p.5

⁴⁷ Prior to the plan, Thai economy was nationalist and unorganized. Private economic activities were not allowed and economy was mainly monopolized by public or quasi-public enterprises which often performed at a loss despite such monopoly privilege. Ammar (1997), p.5

⁴⁸ Example of other domestic reforms are the introduction of new investment promotion law, including setting up the Board of Investment to promote foreign investment and the establishment of other new economic agencies such as the Bureau of Budget, the National Economic Development Board (later known as the National Economic and Social Development Board which is national think tank directly responsible for drafting the Five Year plan and other economic and social policies) and the Fiscal Policy Office.

⁴⁹ The Government sets the target of industrial export at 40 per cent of total export by the end of the Fifth plan (1986).

⁵⁰ This realignment also resulted in a change of exchange rate system from dollar-peg to unannounced basket-peg, in which other major currencies share more weights in new exchange rate calculation.

⁵¹ Ammar Siamwalla, "The Thai Economy: Fifty Years of Expansion," in Thailand Development Research Institute (1997), *Thailand's Boom and Bust*. Collected Papers.

significance as problems of social inequity began to surface with widening social gap between Bangkok and rural areas.

The main growth engine in this period is agricultural sector. Aid from the US and World Bank has contributed to this growth phenomenon. Foreign technical expertise as well as introduction of agricultural innovation improved production significantly. With all favorable policies and foreign support, Thai economy grew at 7.2 percent per annum. A firm foundation of Thai economy is founded in the period between the First and Second.

During this plan, the US and the World Bank remain important source of fund but Japan also becomes more active. In fact, by the end of the Second Plan, Japan has already become the largest sources of aid and capital flows to Thailand.

Third Plan 1972-1976

Thailand becomes more connected to global economy via trade and foreign investment. During this plan, Thai economic is effected by domestic and international turbulence, causing slowdown in various sectors. Economic expansion is the national priority with equal policy balance given to monetary stability. In order to increase foreign income, government introduces various policies for export promotion and restructures national import structure.

Investment in infrastructure projects from earlier plans starts to bear fruit. Construction budget is, therefore, decreased. Instead, more budgets are used to upgrade production structure, especially in import-substitution and export promotion industry. International trade plays a large part in national GDP, with share of export over 20%.

This plan is strongly affected by regional political instability. Communism expansion becomes more aggressive and situation in Indochina is vulnerable. Domestically, ideological conflict leads to political unrest. Furthermore, Middle-East conflicts result in oil crisis, adding more cost to economy and causing significance slowdown to Thai economy. As a result, many of economic targets set in the Third Plan could not be realized.

Fourth Plan 1977-1981

Due to economic slowdown and regional political instability during the Third Plan, the Fourth Plan shifts the focus to economic stability based on national security. Equal income distribution becomes the Plan's priority in order to avoid conflict between classes, which is known as the main cause of socialist revolution.

Import substitution and export promotion retains priority status within national economic plan, with special focus on raw-material industry as well as export industry. Income and employment generation industries such as agricultural and domestic natural resource

linkage industries are emphasized.

Although the past plans help promoting the economic growth and have shifted the export structure of the country from agricultural-oriented to more industrial-oriented, economic growth are still centered in Bangkok metropolitan area and its vicinity. This causes income distribution inequality and over-polarization of national economic development. To solve the problem, **area-specific development strategy** is initiated to distribute more income and economic development to upcountry. In order to revitalize national economy, government puts much effort to expand agricultural production while upgrading export-promotion industry. Plans and measures are introduced to make full use of national resources, such as land, water and gas.

Fifth Plan 1982-1986

Owing to the successive plans, in this period, Thailand already becomes middle income country. Thai government has therefore set a new target to be semi-industrialized country, in which industrial production and income will get close to agricultural ones⁴⁹.

With more reliance on international economy, the global economic slowdown during 1970s and early 1980s has significant impact on Thai economy. Rising fuel cost, international financial structure problem, inflation and economic stagnation become great pressure on national economy because Thailand relies on international trade as well as import of energy, capital and raw material.

Economic which stumbled in the Fourth Plan period has soon recovered. However, under international unstable economic condition, government emphasizes more on domestic economic restructuring to be able to absorb more shock in the future. Instead of growth focus, the government emphasizes on increasing production efficiency. Monetary discipline is also emphasized. The plan also seeks for economic and social development balance and more participation from private sector.

Regarding export growth, despite the newly acquired comparative advantage in light labor intensive industry, export growth of those products was relatively flat. This is due to the high value of Baht, which was tied to appreciating dollar during 1980-1984. Once Baht value had been realigned in 1984⁵⁰, Thailand entered the boom period of manufactured goods⁵¹.

More balance of economic development is also given significance. In so doing, area-specific strategy which has been initiated in the Forth plan is the heart of development process in this Fifth plan. The **Eastern Seaboard project** became the most important investment project for Thai government. Center of import substitution policy is car industry and home electrical appliances.

Sixth Plan 1987-1991

Similar to earlier plans, the objective of the Sixth Plan is to raise growth and development as well as to solve social and economic problems. Among there, trade deficit, unemployment and rural poverty/ income inequality problems receive special attention. Promotion of export-oriented industries is aimed to ease trade deficit problem as well as create jobs. Meanwhile, local participation as well as small scale and provincial industries are also promoted to raise rural income and to regionalize economic development to upcountry.

With favorable change in international economy, particularly decline in oil prices and increasing foreign investment flows, Thai economy sees a more comfortable policy environment. Unsurprisingly, again during this Plan, Thai economy expands at average 10 percent annually.

2. Thai Path of Development: from Agriculture towards Industrialization

Traditional Thai economy is of Agricultural base. Since early 1960s, Thai government has actively promoted industrialization of the country. Within 20 years, industrial sector gradually took a larger portion of GDP over agriculture and Thailand has recorded as one of the world's fastest growing economy. The change of economic structure has moved from primitive agriculture to basic manufacturing (such as food processing and textiles) to a more complicated industry like steel, computer, and vehicle production. The pace of industrialization is markedly increased in the 1980s, owing to the foreign investment boom.

2.1. Changing economic structure: shift to more advanced industry

Thai economic development can be divided into three stages. In **1970s**, the import substitution policy has created basic industrial base, centered on processed food and other value added agricultural products. In **1980s**, an export-oriented manufacturing sector based on labor-intensive products such as textiles and garments are established. In **1990s**, major products are more technological advanced ones such as computer parts, automobiles and electrical appliances. Accordingly, production and exports of agricultural commodity decreases as number of industrial manufacturing increases and take over as leading export products from the beginning of 1980s.

Table 8: Structure of Production of Thailand (percentage of GDP)

Sector	1960	1970	1980	1985	1991	2000
Agriculture	44	32	28	23	12.6	10.3
Industry	18	24	27	30	38.7	40.5
Manufacturing	n/a	n/a	22.6	n/a	28.2	32
Service	38	44	45	47	48.7	49.3
GDP	100	100	100	100	100	100

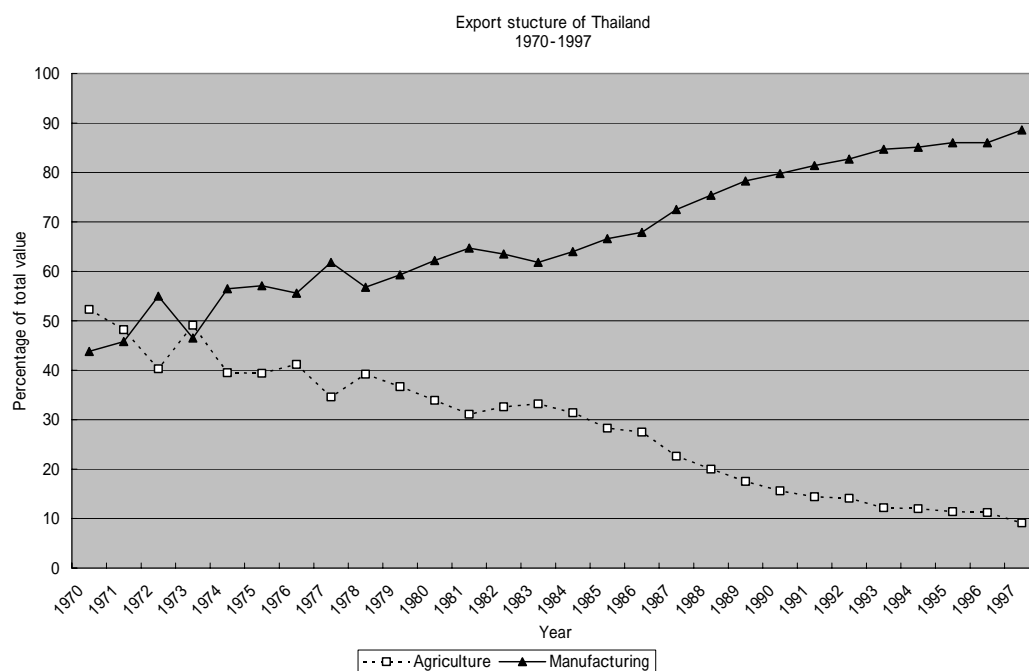
Source: 1. 1960-1985 from National Economic and Social Development Board, Thailand (1987) Data sheet cited in Wisarn Pubbawesa, Review of Economic Development in Thailand, in Suchart Prasith-rathsint, ed. Thailand's National Development (1989)

2. 1991, 2000 from Thailand at a glance, www.worldbank.org

Note: 1. Industry= mining and quarrying+manufacturing+construction+electricity and water supply

2. Service= transportation and communication+wholesale and retail trade+banking insurance and real estate+ ownership of dwellings+public administration and defense+services

3. 1980 manufacturing data is from Thailand at a glance, Worldbank 1981 data

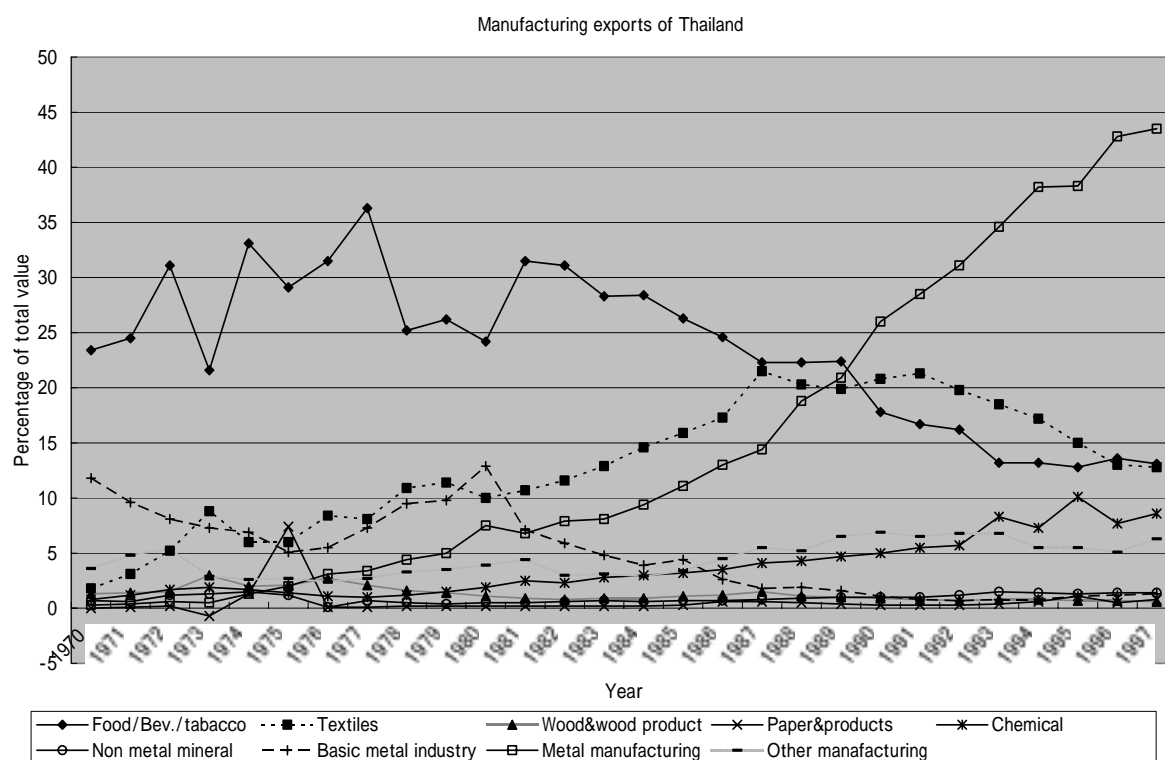
Figure 7: Export Structure of Thailand, 1970-1997

Source: UN, International Trade Statistics Yearbook, various years

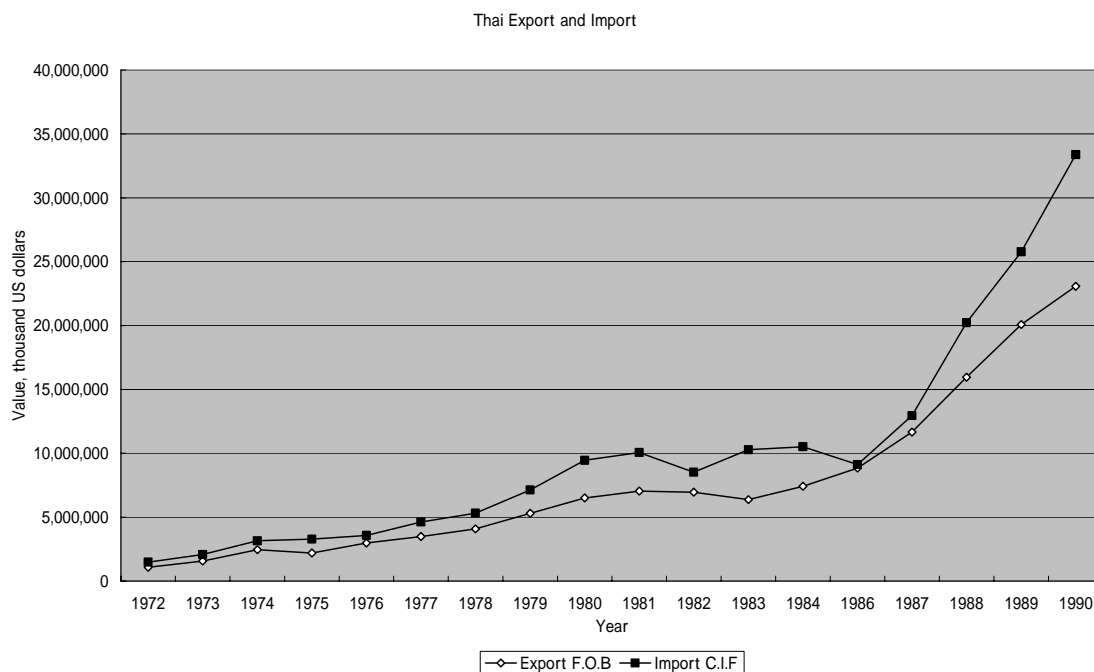
Table 9: Structure of Manufacturing Sector

Industry	1960	1972	1978	1983	1985
Food Processing	57.3	36.4	32.7	27.7	28.3
Textiles	12.6	18.6	18.3	20.9	22.5
Wood and wood products	5.2	3.7	3.2	2.2	2.7
Paper and paper products	4.2	3.4	3.2	3.6	3.1
Chemical and allied industries	7.8	15.7	14.2	15.6	15.5
Rubber and rubber products	0.8	2	2.5	1.9	1.4
Non-metallic	4	5.7	6.5	7.1	8
Engineering	7.2	12.6	17.2	16.9	14.8
Miscellaneous	1	2	2.2	4.1	3.7
Total manufacturing	100	100	100	100	100

Source: National Economic and Social Development Board, Thailand. (1987) cited in Wisan Pubbawesa, Review of Economic Development in Thailand in Suchart Prasith-rathsint, ed. (1989) Thailand's National Development: Social and Economic Background

Figure 8: Manufacturing exports of Thailand, 1970-1997

Source: United Nations, Yearbook of International Trade Statistics, various years

Figure 9: Trade balance of Thailand, 1972-1990

Source: UN, *International Trade Statistics Yearbook*, various years

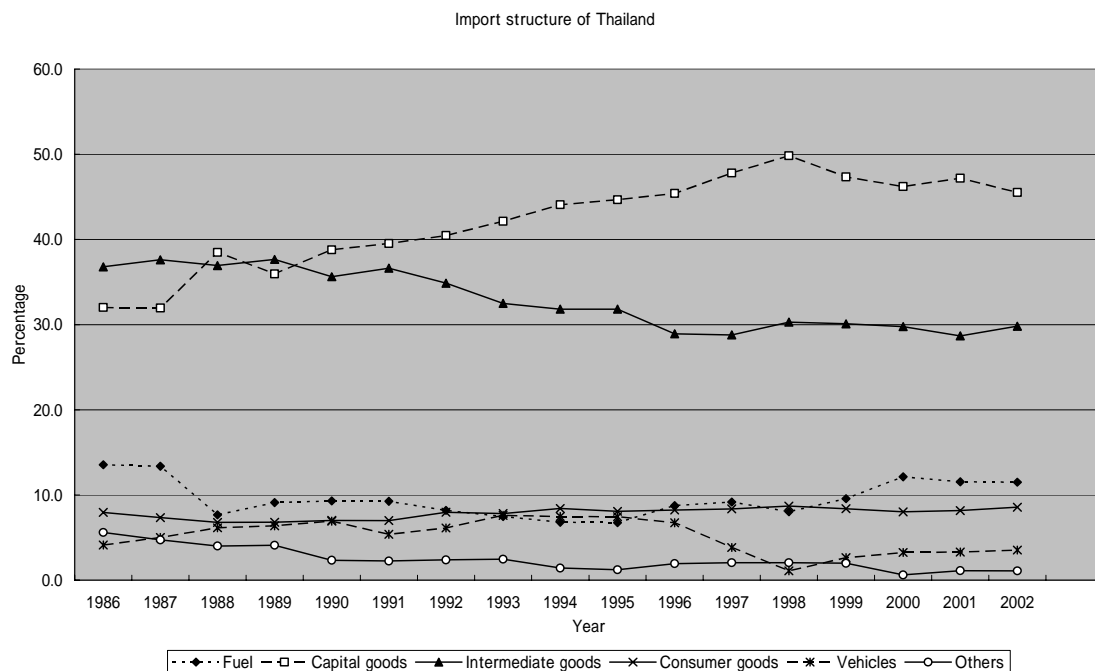
2.2. Import dependence: a sign of FG development illusion?

While industrial output and manufacturing exports grows, trade deficit keeps widening. (see Figure 9) Among imports after Thailand switched to export-promotion campaign, mostly are intermediates and capital goods; both of which combined for nearly 70-80% each year. (see Figure 10) This stunning number shows that production structure of Thailand is not yet well-developed and Thailand is heavily import-dependent. The real valued-added of Thai exports could be only fraction of its price as large percentage of them are foreign imported funds, parts, technology. A real *Made in Thailand* part of each good is simply unskilled labor cost used in assembling products.

The heavily import-dependency casts doubt over Thai development in the FG pattern. According to FG model, in domestic production period, country should be able to acquire some extent of independent production structure. Although foreign dependence (on imports or FDI) is allowed to take place, such dependence (which leads to a surge of imports) should be only temporary. During domestic production, country's learning curve has to be established and import-dependent as well as import-led trade deficit must gradually be faded away. In Thailand's case, both trade deficits as well as

heavily import-dependence persists even two decades have passed. Growth without a real domestic development could only be an illusion of the FG-style shift of industrial production. This external reliance for domestic production shows that Thai development pattern contrasts with the original FG model argument particularly on the self-reliance of economy before shifting to export stage.

Figure 10: Import structure of Thailand



Source: Custom Department, Thailand

2.3. Foreign capital inflows: the real engine of Thai economic growth

Trade is not only the engine of Thai economic growth. In fact, the more Thailand involves with the international trade, the more she suffers from trade deficit from growing imports. Fortunately, while Thailand suffers plaguing trade imbalance, continual flows of foreign capitals, particularly in form of FDI, helps keeping the country’s balance of payment in surplus. Foreign capital inflows, namely private direct investment and loans, official development assistance (ODA), non-ODA and grants, help fill in the domestic saving and investment gap which became problematic since late 1970s.

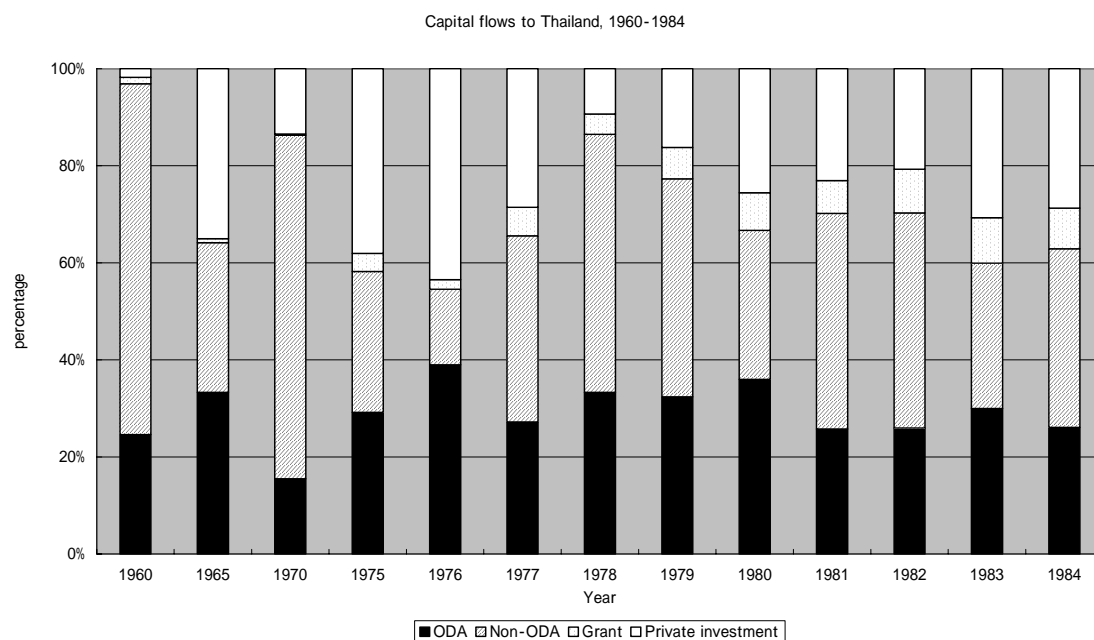
The largest component of overall foreign inflows is non-ODA lending from

official sector. Private investment, however, increases the share after 1960 when Thai government promotes private investment in successive five-year national plans. Particularly in manufacturing sector, FDI has been the main financial source⁵².

Table 10: Capital flows to Thailand by type, 1960-1984 Unit: millions USD

Year	Total receipts net	ODA	Non-ODA	Grant	Private investment
1960	173.8	42.8	125.6	2.3	3.1
1965	121.3	40.4	37.4	1.0	42.5
1970	399.3	61.9	282.6	1.1	53.7
1975	232.6	67.9	67.5	8.6	88.6
1976	183.1	71.4	28.5	3.6	79.6
1977	378.9	103.1	145.3	22.2	108.3
1978	598.4	199.5	317.9	25.2	55.8
1979	959.2	310.7	430.8	62.0	155.7
1980	927.1	333.5	284.7	72.1	236.8
1981	1,268.9	326.9	563.6	85.9	292.5
1982	1,037.7	269.2	459.9	93.5	215.1
1983	1,175.3	352.5	352.0	109.9	360.9
1984	1,404.0	366.4	516.8	117.3	403.5

Figure 11: Capital flows to Thailand, by type and percentage



Source (Table 10 and Figure 11): Akrasanee (1991) "Foreign Aid and Economic Development in Thailand," p.84, partly recalculated by author

⁵² Akrasanee (1991), "Foreign Aid and Economic Development in Thailand," p. 84

Table 11: Source of aid and capital flows to Thailand, 1960-1984 Unit: millions USD

Year	Largest Bilateral Donors					Multilateral Donors						Total
	France	Germany	Japan	UK	US	IBRD	IDA	IFC	ADB	EDF	IMF trust	
1960	0.00	0.24	1.12	0.00	149.83	25.09	-2.44	0.00	0.00	0.00	0.00	173.84
1965	0.00	27.20	12.87	2.10	87.10	-8.00	0.00	0.00	0.00	0.00	0.00	121.27
1970	-1.72	10.12	215.20	47.18	132.18	50.86	0.00	22.99	4.71	0.00	0.00	481.52
1975	34.63	-4.44	121.35	-1.90	20.70	41.53	4.27	13.54	55.40	0.00	0.00	285.08
1980	1.05	115.84	274.74	71.49	190.00	117.18	4.13	30.00	75.96	2.10	44.65	927.14
1984	30.10	22.01	614.46	20.63	253.95	257.37	11.09	-5.16	107.47	14.05	0.00	1,325.97
1960-1984	433.06	803.82	3,868.56	419.29	2,600.22	2,170.16	99.98	82.88	729.98	36.51	190.88	11,435.34

Source: Akrasanee (1991), p.84, partly recalculated by author

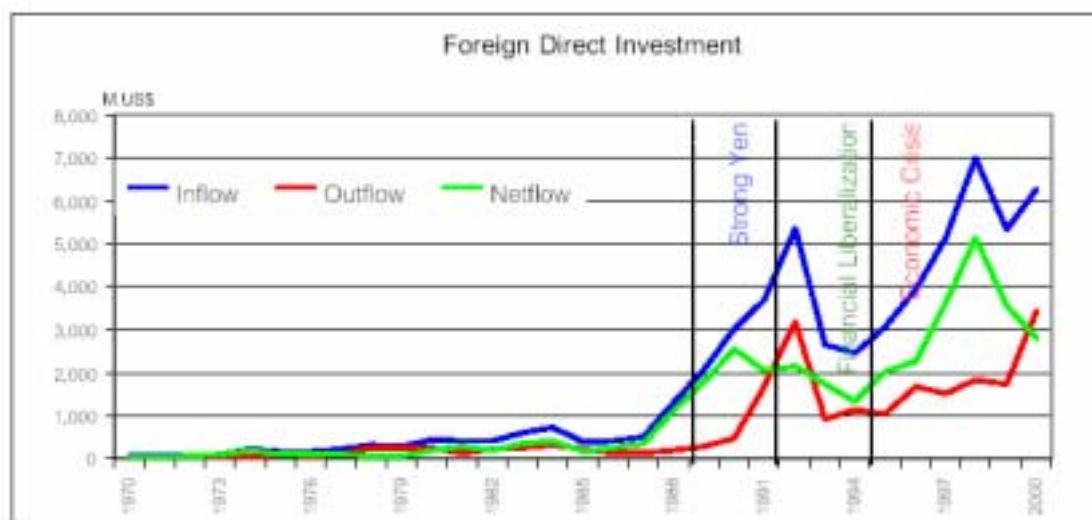
The United States, Japan and the World Bank are three major sources of foreign capital flows into Thailand. In earlier years, the United States inflows are the largest. This fact may be explained with political reasons. Thailand after the WWII is known as one of strategic countries amid the emerging Cold War. The United States poured lots of its resource, many of which were military aid, into Thailand⁵³. However, after the failure of Vietnam War in mid 1970s, the United States inflows significantly decrease as it shifted policy focus to elsewhere. Meanwhile, Japan has been called to assume for global responsibility as her economy quickly recovered from WWII defeat and started to gain stronger economic power. With growing business interest in Southeast Asia and abundant capital surplus, Japan took over the United States position as early as the beginning of 1980s. During the same period, as Thai economy is getting better with higher GDP, loan conditions from multilateral sources became less concessionary and thus less attractive. Under this reason, the World Bank which used to be the major source of foreign inflows also lost its significance in Thai economy.

Different from other Asian countries which colonial experience caused the anti-foreign investor feeling, Thailand has long welcome foreign direct investment as a means towards economic development. Foreign investment during the 1960s and 1970s is considered a small portion compared to the size of that in 1980s. (See Figure 12) Regarding nationality, the US was the main investors before mid 1985 but later its position is taken over by Japanese whose investment amount grows significantly since later half of 1980s. Hong Kong and Taiwan as well as ASEAN countries' shares also increase during the same period, reflecting the shift in regional industrial production. Meanwhile, American and European investment was put aside. The situation again changes after the 1997 crisis hit many Asian economies and forces many Asian

⁵³ During the 1960s when the United States was active in Southeast Asia, economic aid amounted to \$522.6 million and military aid was as high as \$741.4 million. Akrasanee (1990), p. 85

investors to scale down their overseas business activities. Accordingly, American and European take larger investment share in Thailand in recent years. Despite some slowdown during first period of financial liberalization, FDI flow started to rise again after the crisis since many Thai companies seek out foreign investors, either by selling out or seeking joint-venture, to help their business' survival.

Figure 12: Foreign Direct Investment to Thailand, 1970-2000



Source: Bank of Thailand (www.bot.or.th)

Figure 13: FDI to Thailand, by country 1970-1987

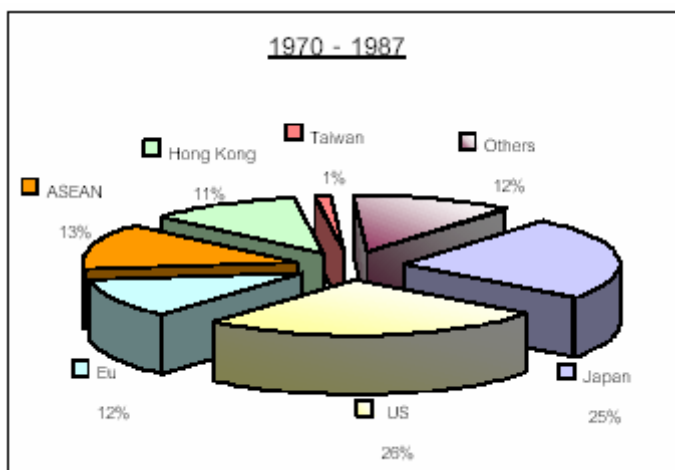


Figure 14: FDI to Thailand, by country 1988-1996

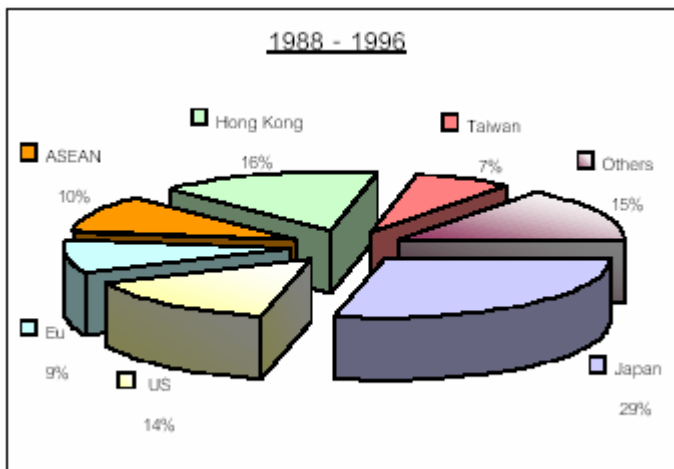
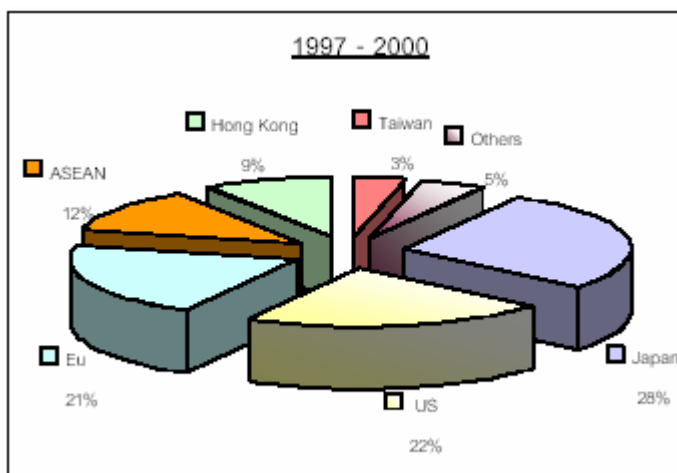


Figure 15: FDI to Thailand, by country 1997-2000



Source: Bank of Thailand (www.bot.or.th)

2.4. Free hand policy and its implication: a comparative view on Thai and Japanese governments' role

Since 1960s, the clear line of public and private role is drawn. Thai government invests in infrastructure and other economic facilities while encourages private sector investment. In addition to provide public facilities, government maintains the domestic economic stability. Different from Japanese government which is famous for its economic developmental role in actively guiding private sector in investment, Thai government gives private sector full freedom in investment decision.

Looking back in historical perspective, however, such limited economic role of

Thai government, particularly the lack of proper guidance to private sector, may contribute to import-dependence and the underdevelopment of Thai industrial sector today. Although both countries experience a similar development pattern through imports and learning from foreign investment, Japanese government wisely promotes the “catching up” process by supporting rationalization of adopted foreign technology. (See Box 7) Laws and government institutions are created to revive the economy. Resources were pulled in selected industries⁵⁴. Financial supports were given to R&D activities. This, however, does not mean to protect domestic industry from competition since the aim of government policies is to help accelerate the international competitiveness within domestic firms. The government’s strategy is to “help Japanese companies compete effectively with established foreign giants” and doing so “requires government support and coordination⁵⁵”. The government active policy allows Japanese firms to take full advantage from FDI and strengthen its international economic position, proven by international competitiveness in export. By entering the stage of independent production, the country fully enters the domestic production period stated in FG model. With strong government support, Japanese private sector could upgrade its industry accordingly and soon not only be able to stand on its own but also proceed along FG development model by exporting its production technology to other countries too.

Box 7: Example tools of Japanese developmental state in national development⁵⁶

1. *The Foreign Exchange, Foreign Trade Control Law and Foreign Investment Law*: These laws control all foreign trade and investment activities. Under these laws, foreign technologies are imported into Japan at low cost.
2. *The Japan Development Bank*: This is financial source for marketing new products as well as acquiring manufacturing technologies which would upgrade Japanese product quality, particularly in export-oriented industries. The aim is to increase international competitiveness of domestic production.
3. *Export Goods Regulation*: Aiming to maintain high quality level, this regulation put Japanese export goods under strict inspection of designated agencies. This is another fact

⁵⁴ After WWII when country needed to rebuild its basic infrastructure, basic industries such as steel, coal, chemicals transportation and production equipment were given priority and received large portion of government aid. Once the country could recover later in 1950s, the policy focus shifted to heavy and chemical industries in order to increase earning from processing raw material imports into high value added export.

⁵⁵ William R. Boulton (1998) “Japan’s Model of Economic Development: Will it Work in the Future?,” in Steve Chan, Cal Clark and Danny Lam, eds. *Beyond the Developmental State: East Asia’s Political Economies Reconsidered* London: Macmillan p. 118

⁵⁶ *ibid*, pp.116-118

that keeps Japanese export highly competitive in world market.

4. *Agency for Industrial Science and Technology (AIST)*: Functions of AIST is to supervise industrial technology laboratories, to identify technology needs and to develop and promote quality control among Japan's industries.

In Thailand, despite the strong FDI promotion, the government lacks similar law or institution to facilitate the technology transfer. Facing competition within the region to attract foreign investors, Thai government promotes FDI aggressively by offering various incentives, including 100 percent ownership rights and tax-free zone. This is a short-sighted promotion policy which can only increase number of foreign investors as well as amount of investment; however, it does not help industrial upgrade or national development strategy in the long run. Not surprisingly, domestic production is flooded with import parts and technology and real domestic production dependence has never been developed. This domestic weakness cannot be a foundation to proceed to another step of FG development. For Thailand and many other developing countries, active government maybe recommended rather than an extreme free market principle.

The basis of Free Hand policy that Thai government firmly holds is one example of extreme liberal economics influenced by the US and the World Bank since 1960s. In the name of economic efficiency, firms have to compete with each other in order to survive free-market competition. As a result, only the most efficient one will survive and only by that means that economic resource will be taken the most advantage. However, the assumption is wrong since in the real world economic competition is not fair. Government of many countries intervene the market in various ways. Thus, it is difficult for domestic private sector to compete in such environment. Without government help, Thai private sectors have to do the business on their own. Lacking fund and inadequate technological levels, FDI is seen as helping hands. However, as foreign firms operate for their own interests, only minimum of technological transfer can be expected. Relied on their fund and technology, Thai firms cannot negotiate for a better terms of economic cooperation. Supporting Thai firms in acquiring technology to upgrade domestic production is what government should have done to strengthen industrial structure.

Although it is understood that government has a role to promote development by supporting essential facilities, in practice, those necessary sectors such as R&D and education have not been sufficiently emphasized. Research and Development is another

sector that government can directly support. Only recently that Thai government is serious is establishing its own technological think tank. Throughout the economic planning, growth and high export number is given priority more than factors which directly affect actual development such as R&D and human resource development. It is hard to say whether government should take a leading role in economic activities. However, as seen in comparative case between Thai government and Japanese government, it appears that government's guidance, when used properly, can benefit the economic development. It is one of the lessons that developing countries should learn in catching up process.

3. Japan as Thailand's Economic Partner

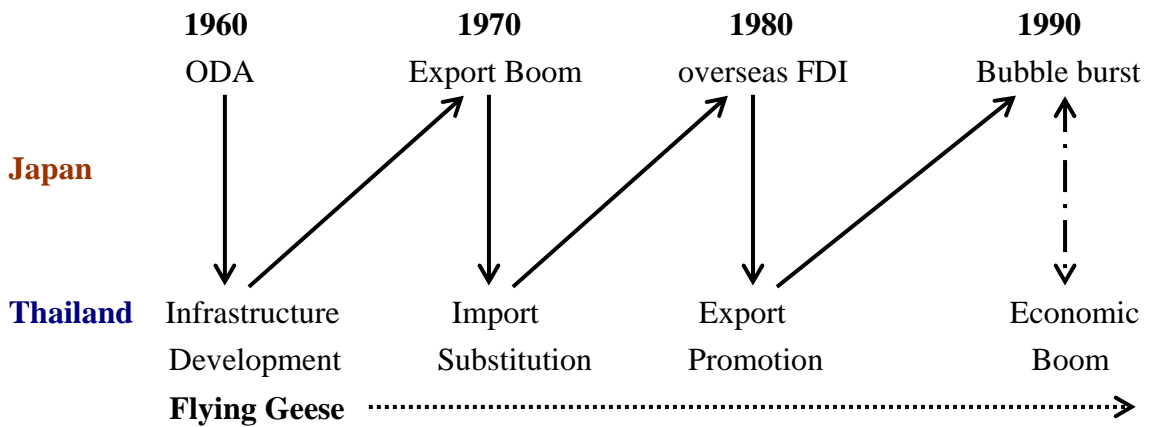
In Thai modern economic history⁵⁷, Japan has become both the largest investor and the most important trade partner of Thailand. Japan has gradually taken leading role from other bilateral and multilateral actors, particularly the US and the World Bank. This sub-section analyzes the factors of growing Japanese existence in Thai economy and its implication.

3.1. Flying Together: Thailand-Japan interdependent partnership since 1960

Countries are normally introduced into FG pattern of economic relations by imports. It can also be said that Thailand entered the flying geese flock leading by Japan since **late 1950s** when Japan started to give out its war reparation, which later becomes ODA. The capital and goods given under war reparation and ODA have not only brought Thailand into an interdependent relation with Japan but also tightened the relationship between the two countries. How Japanese war reparation and ODA are connected to Japanese goods and service procurement is believed to expand overseas markets for Japanese exports. On the other hand, Thailand, as the lesser developed country, enjoys new import goods. The increase trade volume, in turn, contributes to the export boom in Japan during **1970s**.

⁵⁷ Thai modern economic history started from the domestic economic reform and the introduction of the first five-year economic and social development plan in 1961.

Figure 16: Bilateral relation interdependence outline



In the same time, as ODA is used to build infrastructure which is fundamental to economic development, Thailand also benefits from such investment. Owing to those investments, domestic economy prospers. With an established basic infrastructure, Thailand could successfully progress into import substitution in the same period. Thai import substitution policy also caused Japanese companies to move to Thailand to avoid higher tariff and other trade barriers, which can be called a *market-led FDI*. More Japanese companies invest in local plants in order to maintain their local markets. During that period, number of Japanese companies started to increase. With capital and technology which Japanese companies bring, Thailand could expand its domestic production base.

The number of Japanese investment shot up again in **1980s** when domestic cost in Japan became higher, particularly after yen appreciation following the 1985 Plaza accord. The 1980s increase of Japanese investment coincides with the change in Thai government's economic policy from import substitution to export promotion. The growing number of export as well as change in export structure shows the success of export promotion policy. During this period, the bilateral relationship is strengthened by greater trade flows between the two countries. In **1990s**, as Japan's economy began to show sign of weakness, Thai economy is affected from fewer investment and ODA decrease.

Box 8: Asian Destination: 1980s Golden Age of FDI

Although Japan has long been an active investor and trade partner of Asia, the situation from mid 1980s turned to be a major catalyst for a sudden surge of her FDI Boom. In mid 1980s, oil prices slumped and exports slowed down. To fix their balance sheet, Southeast Asian tried to attract more foreign investment and promote more exports by offering many incentives for investors. Such change in policy direction coincided with the *endaka* phenomenon which causes the loss of comparative advantage in Japan. It forced Japanese manufacturers to move their production base to other low cost regions which Southeast Asia became their main destination.

Among exodus group, more and more are small and medium sized parts-suppliers. They are following the earlier exodus larger manufacturers, leaving Japan in previous decade due to the loss of comparative advantage at home. The *endaka* raises cost of parts imported from Japan so it dampens the sale of SME supplier in Japan while burdens the overseas factories. Moving out of Japan seems to be a right option. Indeed, there is no more perfect time as 1980s when host countries are welcoming them with lots of incentives ranging from tax break to permission for fully foreign ownership. Therefore, changes in 1980s benefit both host countries as well as Japanese companies of all sizes.

3.2. ODA: Gateway to Economy

As in many Asian countries, war reparation was the origin of Japanese ODA to Thailand. With the Japanese government's support, Japanese businesses saw the opportunity to be involved in such reparation payment and revival of Japanese post-war economy⁵⁸. The tied conditions attached to early period's reparation payment were particularly favorable for Japanese companies' economic expansion. Soon, Japanese companies resumed their regional operation through government projects. In the same time, they strengthen their position with two-way expansion; deepening relations with Japanese government on the one hand and with local economy in host country on the other hand. All acts are aimed to benefit their business sake⁵⁹. This allowed the long lasting and deep involvement of Japanese private sector in ODA process both in Japan and in host countries.

After the postwar reparation was completed, Japanese government still committed to the region through other forms of ODA, such as special yen program and yen loan programs. Philanthropic concern is certainly not the only motivation behind

⁵⁸ Ibid.

⁵⁹ Alan, (1980) pp.191-220 and Prasert, (1993) p.101.

the decision-makings on the aid allocations⁶⁰. Not surprisingly, journalists and scholars as May(1989), Pranee (1990) and Prasert (1989) cast a skeptical view on how the donor's interest is inherently involved in the process of ODA, particularly when ODA is provided by bilateral donor agencies. It is also true that dominant lender can have significant influence over borrower's policy. For Japan, such critics are particularly strong. As argued by Potter (1996, p.8-9), aid has been regarded as part of Japan's trade and investment strategy, particularly in ASEAN which is the raw material resource for Japanese export and host countries for Japanese overseas investment. Many of them are tied, thus require recipients to procure goods and service from Japan.

Thailand is always ranked within top five countries since early days. One interesting fact is that even though Thailand is not the top recipient on Japanese list, Japanese ODA per capita in Thailand is higher than that in other major countries. The significance of Thailand as major ODA recipient country as well as the notion that Japan is Thailand's top major lender is officially recognized in both sides. This led to two major questions: from Japanese perspective, among many developing countries, why Thailand is selected and can enjoy significant amount of loan from Japan? On the other hand, while there are many sources of ODA, both multilateral international organizations and other major countries' bilateral aid, why Thailand regards Japan as main source of foreign aid? The answer lies in historical perspective of bilateral relations.

Table 12: Geographical distribution of Japanese ODA loan commitments, 1966-98, selected countries

Country	Number of Commitment	Amount (million yen)	Share (%)	Population (1998, million)	ODA per annum (yen)	ODA per capita (yen)
Indonesia	589	3,345,859	18.6	203.7	104,558.09	513.29
China	239	2,260,873	12.6	1238.6	70,652.28	57.04
India	143	1,641,785	9.1	979.7	51,305.78	52.37
Thailand	220	1,631,196	9.1	61.2	50,974.88	832.92
Philippines	223	1,608,706	9.0	75.2	50,272.06	668.51

Source: OECF *Annual report*, 1999

⁶⁰ Ronald May, Dieter Schumacher and Mohammed Malek, (1989) *Overseas Aid*, p.5

3.2.1. Bilateral relations reconsidered: a political economic partnership

Thailand has been ranked highly as aspired investment destination of Japanese companies as well as has received large percentage of ODA from Japanese government. Apart from economic consideration, some socio-political factors have influence the bilateral good relationship between Thailand and Japan.

1) Strategic relationship among Japan-USA-Thailand

One of the explanations for consistent flows, especially government's part, is development of political economic changes in the region in general and the strategic relationship among Thailand, USA and Japan⁶¹ in particular. There are common political security concerns over the region. After the WWII, communist expansion in Asia is an important political factor that influences the international relations. The San Francisco Peace Treaty and the US-Japan security treaty, signed in 1951, placed Japan as Western democratic alliance against communist bloc of Soviet and China. The commitment towards the US led Japan to have close strategic relationship with Southeast Asia. This worked perfectly for Japan since the growing Southeast Asian economies have both resources and market to compensate the loss of access to communist Chinese market. In short, under the US security umbrella, the role of Japan in Asia is promoted and expanded over the region. The change of power after the US decided to downplay its role in Southeast Asia especially in 1970s increased the role of Japan as regional power, led by its leadership in aid donation. Japan has been transferred peace and security responsibility from the US. Increase of Japanese aid to Thailand, as an important strategic front line state, can be observed accordingly especially during the power transition period in 1970s. (See also Table 11)

2) Compensation of trade surplus

The trade conflict between Japan and other countries is also force Japan to assume more benign role as global economic leader in return. This led to overall increase in Japanese ODA budget. Combining with other factors, Thailand benefited from this increasing allocation too.

3) Domestic politics in Japan

Domestic politics in Japan also played significant role in selecting aid recipients. Apart from basic ministries involved, in some period, politicians especially

⁶¹ Prasert, 1993, p.95.

prime ministers also influence ODA decision making. For example, *Fukuda doctrine*, announced by PM Fukuda in 1977, emphasized a closer and stronger Japan-ASEAN relationship, including Thailand. Accordingly, there were increased aid to ASEAN, more active cultural activities, and strengthened political cooperation.

3.2.2. Japanese ODA: abundant source at hand

One common fact is donors always have more bargaining power in allocating their loans to recipient's country, while recipient's choice is much more limited. For Thailand, possible factors influencing Thai decision can be favorable conditions of Yen Loan as well as the amount which Japanese government is willing and ready to offer. Japanese loans carries low interest rate while allows longer grace and maturity period. (See Table 13) Besides, the availability and the use of Yen loan are more flexible for Thai government. This is probably due to Japanese government's policy not to intervene in recipient policy making. One particular character of Japanese ODA is how it is relatively separated from recipients' domestic politics. Good example is after Thai Coup d'Etat in 1991, the US and other donors, including Japan under the US pressure, suspended their assistance to Thailand. Japan, however, quickly resumed loan operation in few months. As such, Thailand has more freedom to use the fund in whatever sector that government sees necessary. Often, Japanese government is supportive for Thai government to invest those borrowing in large infrastructure projects. This helps explain why Thai government always look for Japan as major external financial source.

Table 13: Terms of loan from various sources to Thailand in 1984-85

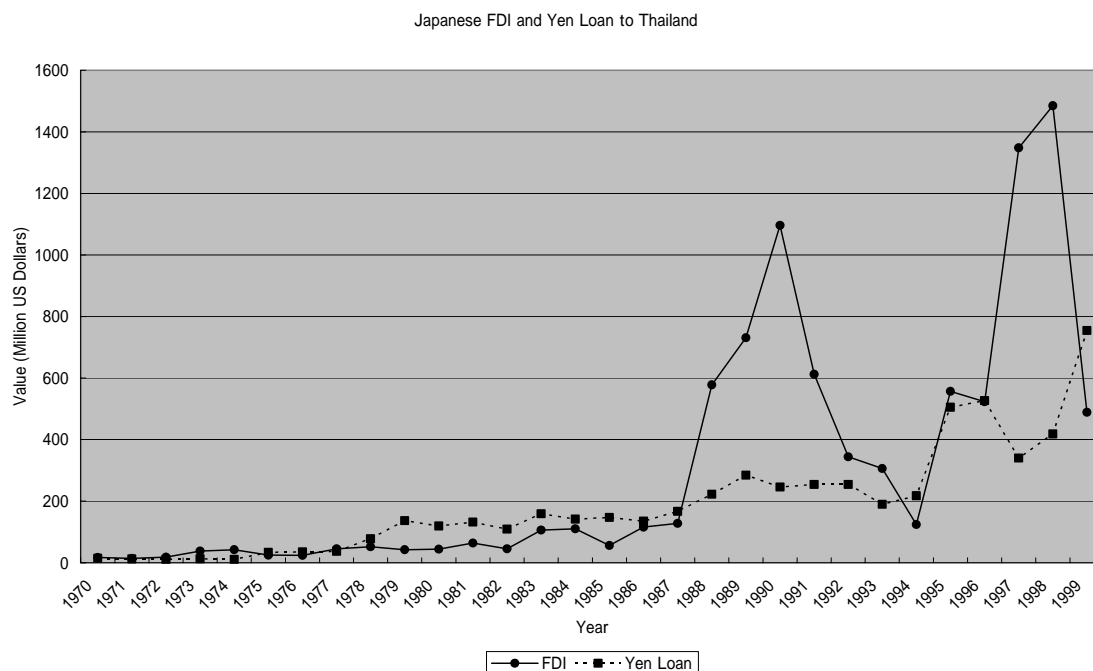
Source	Maturity (Grace)	Disbursement Period	Interest p.a.	Commitment Charge	Service Charge	Procurement Condition	
						Equipment, P	Consulting Service
1 Multilateral							
IBRD	20(5)	4...7	float	0.75	0	Untied	Untied
ADB	20-25(4)	4...6	9.65	0.75	0	Untied	Untied
OPEC Fund	20(5)	4	6	0	0	Untied	Untied
2 Bilateral							
2.1 Japan OECF	30(10)	3...7	3.5	0	0	General Untied	LDC Untied
EXIM Bank	12(1-3)	1...3	7.75-8.0	0.5	0	Tied	Tied
2.2 USA-USAID	40(10)	3	2.0(first 10 yrs) 3.0(last 30 yrs)	0	0	Partial Untied	Tied
EXIM Bank	10(1-3)	1...3	8.375-9.0	0.5	0	Tied	Tied
2.3 Belgium	30(10)	3	0	0	0	Tied	Tied
2.4 Canada	40(10)	6	0	0	0	Tied	Tied
2.5 Denmark	25(7)	3	0	0	0	Tied	Tied
2.6 England	20(5)	5	11.6	0	0	Untied	Tied
2.7 France	25(10)	1...2	2.5	0	0	Tied	Tied
2.8 Germany	30(10)	5	2	0.25	0	Partial Untied	Tied
3 Average Official Creditors	22.4(6.7)	n.a.	7.8	n.a.	n.a.	n.a.	n.a.
4 Average Private Creditors	11.5(5.6)	n.a.	9.5	n.a.	n.a.	n.a.	n.a.

Source: Pranee Tinnakorn (1990) "Japan's Economic Assistance to Thailand 1969-86"

3.2.3. ODA Influence over trade and investment

From the assumption that donor always expects some kind of benefit in aid giving, the patronage relationship between Japan and Thailand is even more interesting as Thailand seems to get various ‘gifts’ from Japanese government. Plain friendship is not the only key for such patronage. As discussed in various studies, aid from Japan is often commercial-oriented. It appears to be the case of Thailand as well. In Thailand, the increase of aid largely co-relates with the increase of trade and investment. (See Figure 17) Furthermore, most of aid went to infrastructure projects which are useful for Japanese economic activities in Thailand. Furthermore, there is a trend of closer link between JICA development studies under grant aid and the actual projects under OECF/JBIC loan. To some extent, this practice usually helps Thai government, which lacks budget to perform feasibility study by itself, in screening potential projects to be proposed for yen loan. The practice, however, faces criticism as JICA development studies, which mostly tied to Japanese consultant, can be written in a way that Japanese companies gain certain competitive advantages over other bidder and eventually lead to unfair higher percentage of contracts awarded to Japanese business under OECF loans⁶².

Figure 17: Growth of Japanese aid and direct investment to Thailand, 1970-1999

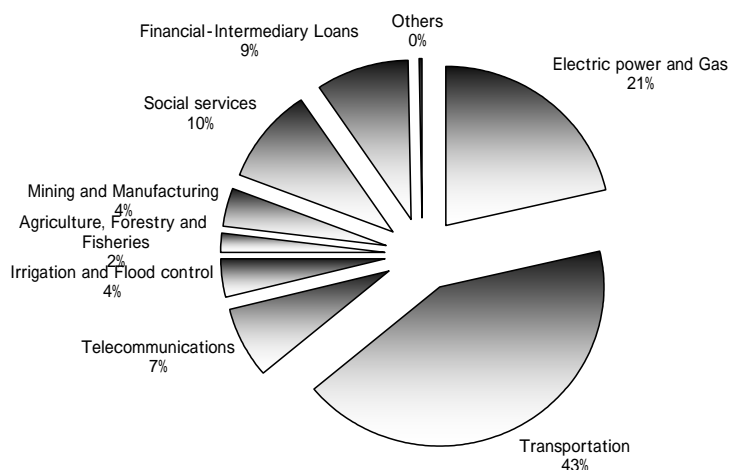


⁶² Marie Soderberg, “Road to Development in Thailand” in Marie Soderberg, ed. (1996) *The Business of Japanese Foreign Aid: five case studies from Asia*, p.95

Table 14: Conditions of Japanese ODA, percentage of tied and untied

Year	Amount Million Yen	Agency	Repayment	Interest	Tying
1968	10,800	Exim	15-18(5)	5.75	Tied
1968	10,800	OECF	20(5)	4.50	Tied
1972	1,821	Exim	20(7)	5.00	Tied
1972	4,179	Exim	20(7)	5.00	Tied
1972	6,000	Exim	20(7)	4.00	Untied
1972	17,000	OECF	25(7)	3.25	Untied
1972	17,000	OECF	25(7)	2.75	Untied
1972	10,000	Exim	20(7)	3.75	Tied
1972	8,000	OECF	20(7)	3.75	Tied
1975	9,550	OECF	20(7)	4.00	LDC
1975	7,290	OECF	25(7)	2.75	LDC
1977	24,900	OECF	25(7)	3.25	Untied
1978	32,500	OECF	25(7)	3.25	LDC
1979	10,300	OECF	25(7)	3.75	Tied
1979	26,536	OECF	30(10)	3.25	Untied
1980	15,536	OECF	30(10)	3.00	Untied
1981	10,536	OECF	30(10)	3.00	Untied
1982	15,000	OECF	30(10)	4.25	Untied
1982	10,536	OECF	30(10)	3.00	Untied
1983	67,360	OECF	30(10)	3.00	Untied
1984	69,638	OECF	30(10)	3.50	Untied
1985	68,018	OECF	30(10)	3.50	Untied
1985	4,059	OECF	25(7)	3.50	Untied
1987	4,915	OECF	25(7)	3.00	Untied
1988	75,818	OECF	30(10)	2.90	Untied
1990	81,154	OECF	30(10)	2.70	Untied
1991	84,687	OECF	25(7)	3.00	Untied
1992	34,375	OECF	30(10)	2.50	Untied
1992	93,000	OECF	25(7)	3.00	Untied
1993	104,462	OECF	25(7)	3.00	Untied

Source: MITI, *Keizai Kyoryouku no Genjo to Mondaiten*, selected years. Cited in Potter (1996), p. 31

Figure 18: OECF loan distribution**Total Sectoral Distribution of OECF Loan Commitments to Thailand, as of 1997**

Source: OECF (1998)

3.3. FDI: Japan the Major Investor

In Thailand, Japanese investment began to attract public attention since 1970s when Japan became the largest investor in Thailand. Wattanachai Atthakorn (1975) studies pattern of Japanese investment in Thailand since 1950s. Market-oriented objective is cited as major motivation of Japanese investment. Other possible reasons are low labor cost, good investment climate and attractive government incentives. These reasons are still valid nowadays.

During the period of 1970-1987, Japan is seconded to USA as major investor to Thailand. However, from 1988 onwards, Japan retains position as the largest investor to Thailand. (See also Figure 13-15) The main reason of a sudden FDI surge after 1988 can be explained by the yen appreciation which forces Japanese companies to move overseas. Increasing number of Japanese investment in Thailand supports this assumption.

Movement of foreign direct investment to Thailand corresponds well with Japanese economy as well as the regional FG structure. During 1970s, textile is the first

wave of Japanese investment in Thailand with high concentration of Japanese company number in textile sector. (See Table 15) The second wave of Japanese investment is owing to the strong yen in the latter half of 1980s. In the latter wave, investment concentrates in manufacturing industry, particularly electrical appliance and machine/transport equipment. (See Figure 19 and 20) Throughout the period of Japanese outward investment, Thailand has been one of the most popular destinations. It might also be argued that as number of companies has been established, larger and stronger local base of Japanese companies in Thailand also become an attractive factor to induce more Japanese investment.

Table 15: Japanese FDI to Thailand in industrial sector as of 1973

Type of industry	Number (companies)
Metal	12
Automobile	11
Electrical Appliance	9
Textiles	23
Chemical	15
Food	8
Mining	1
Others	1
Total	80

Note: only companies registered with Japanese Chamber of Commerce, Bangkok

Source: Japanese Chamber of Commerce, Bangkok (1973) *Jouho (Monthly newsletter)*, p.10 in Japanese, cited in Atthakorn (1975) p.32

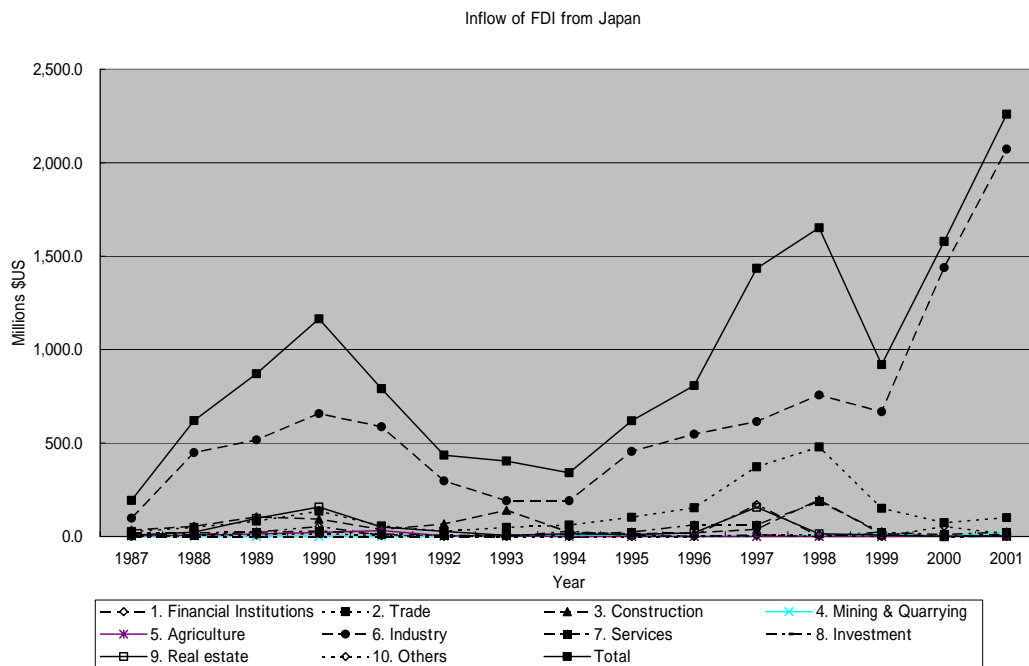
The number of Japanese companies in Thailand increases significantly in late 1980s after a boom in Japanese investment following Plaza Accord. The number continues to grow every year. As of 2001, the Japanese Chamber of Commerce in Bangkok has 1,165 registered companies and it is the largest one in among Japanese Chamber of Commerce located in foreign countries. This fact confirms the status of Thailand as favorable destination of Japanese investors.

Table 16: Number of companies registered with Japanese Chamber of Commerce, Bangkok

Year	1954	1985	1989	1995	1998
Number	30	394	696	1,028	1,978

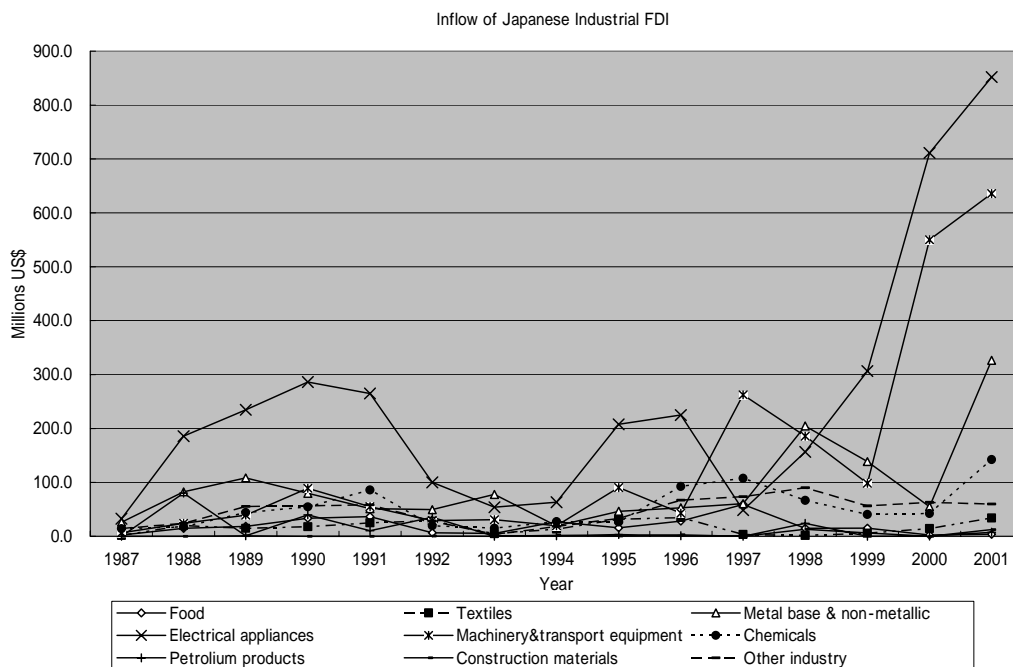
Source: Japanese Chamber of Commerce, Bangkok <http://www.jcc.or.th/eng/index.asp>

Figure 19: Japanese FDI to Thailand, by sector 1987-2001



Source: Bank of Thailand

Figure 20: Japanese FDI in industrial sector 1987-2001



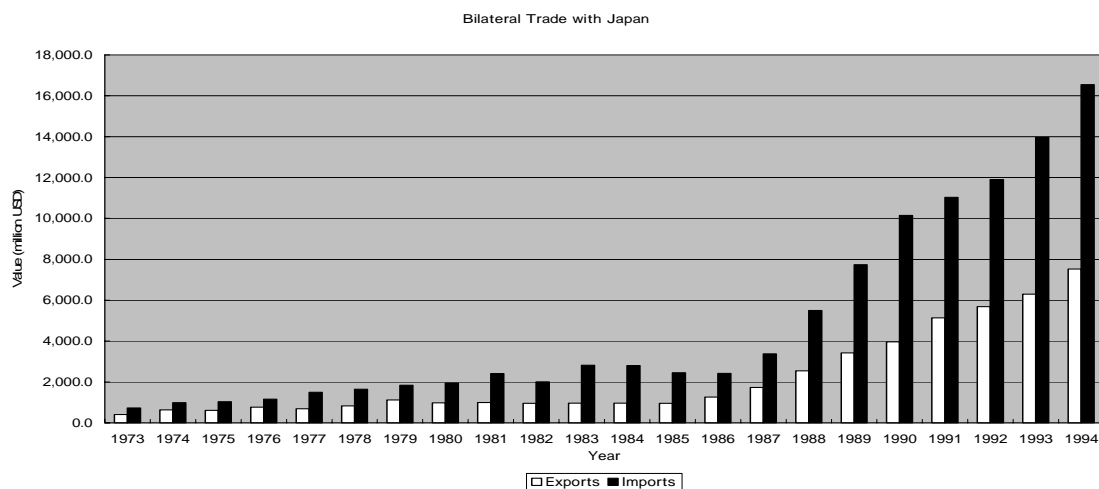
Source: Bank of Thailand

Many Thai scholars have expressed concern over Thai economic dependence towards Japan. Considering high percentage of Japanese shares as well as Thai limited participation in decision making level, Wiwatchai (1975) warns of Japanese dominance in Thai economy. In his study, many economic indicators (e.g. employment, monopoly power, use of domestic raw material, profit and environment) have been calculated to see the advantage of Japanese FDI to Thailand.

3.4. Trade: imbalance relation

From Thai perspective, it is clear that Japan is main trade partner of Thailand. Export to Japan between 1973-1994 is around 20% of Thai total exports. Most of export to Japan are basic commodities, particularly processing food or other raw material. On the contrary, imports from Japan are more value-added goods with large share of capital and intermediate goods to use in industry. With growing manufacturing sector, import from Japan grows even higher every year. From early transition period of Thai industrial structure until now, imports from Japan are around 30% of total imports. Even with this size of trade volume, Thailand's position in Japanese market is quite small. Export to Thailand accounts for merely two percent of all Japanese exports. Share of imports from Thailand is even smaller, only 1.38 per cent of total Japanese imports. Not surprisingly, Thailand suffers from severe trade balance with Japan. This bilateral trade structure also explains why this imbalance may persist in the future if Thailand cannot solve the problem of external reliance on intermediate goods for domestic industry.

Figure 21: Thai bilateral trade balance with Japan



Source: Data compiled by author from IMF, *Direction of Trade Statistics Yearbook*, various years

Table 17: Bilateral Export structure of Thailand (to Japan)

Items		1988		1992	
		Value	%	Value	%
1	Frozen shrimp	11,764.90	9.13	14,538.90	10.07
2	Para wood	24,842.00	19.28	9,875.80	6.84
3	Frozen chicken	8,975.00	6.97	8,551.20	5.92
4	Apparels	5,532.70	4.29	7,584.60	5.25
5	Gem and accessory	11,962.50	9.29	7,376.50	5.11
6	Computer and parts	1,175.60	0.91	6,866.20	4.76
7	Furniture and parts	3,724.50	2.89	5,165.60	3.58
8	Sugar	4,941.40	3.84	4,265.40	2.95
9	Canned and processed	3,365.40	2.61	3,759.80	2.6
10	Frozen squid	4,553.20	3.53	3,519.20	2.44
Total 10 items		80,837.30	62.75	71,503.10	49.52
Others		47,986.90	37.25	72,888.20	50.48
Total Exports		128,824.10	100.00	144,391.30	100.00

Source: Customs Department, Thailand

Table 18: Bilateral Import structure of Thailand (from Japan)

Items		1988		1992	
		Value	%	Value	%
1	Industrial machines	35,765.50	24.02	66,368.60	21.95
2	Steel	19,363.10	13.00	32,363.80	10.7
3	Electrical machines and parts	12,007.40	8.06	31,531.60	10.43
4	Auto-parts	16,446.10	11.04	23,799.70	7.87
5	Chemical products	12,222.40	8.21	23,148.70	7.66
6	Cars	2,786.80	1.87	13,279.90	4.39
7	Metal	4,745.80	3.19	11,815.50	3.91
8	Electronics circuit	1,737.30	1.17	9,997.50	3.31
9	Medical tools	4,429.90	2.97	9,898.60	3.27
10	Computer and parts	4,291.30	2.88	9,536.20	3.15
Total 10 items		113,795.60	76.42	231,740.10	76.64
Others		35,109.30	23.58	70,632.40	23.36
Total Imports		148,904.90	100.00	302,372.50	100.00

Source: Customs Department, Thailand

Table 19: Trade of Thailand

Year	Exports			Japan	Imports			Japan
	World	Asia	Japan	as% of world	World	Asia	Japan	as% of world
1973	1,563.3	516.4	408.1	26.11	2,032.3	191.4	732.2	36.03
1974	2,443.3	775.9	630.9	25.82	3,144.8	259.2	986.6	31.37
1975	2,207.6	683.7	609.3	27.60	3,189.5	287.8	1,034.6	32.44
1976	2,980.5	703.4	769.0	25.80	3,572.0	414.3	1,159.3	32.46
1977	3,489.1	880.6	687.7	19.71	4,615.1	552.9	1,493.6	32.36
1978	4,086.2	1,049.1	829.5	20.30	5,355.2	667.2	1,645.4	30.73
1979	5,300.9	1,431.3	1,125.7	21.24	7,164.3	1,144.9	1,843.2	25.73
1980	6,501.3	1,730.1	981.8	15.10	9,212.6	1,900.4	1,952.4	21.19
1981	7,026.9	1,855.2	995.6	14.17	9,954.1	1,806.0	2,413.6	24.25
1982	6,934.6	1,952.9	951.1	13.72	8,531.5	1,690.2	2,003.6	23.48
1983	6,367.7	1,760.8	960.3	15.08	10,282.9	2,403.3	2,815.6	27.38
1984	7,414.2	2,056.6	965.1	13.02	10,415.3	2,776.8	2,802.5	26.91
1985	7,122.9	2,069.9	951.4	13.36	9,259.5	2,645.6	2,450.3	26.46
1986	8,864.3	2,560.2	1,260.3	14.22	9,165.4	2,460.5	2,420.8	26.41
1987	11,563.5	3,103.6	1,731.7	14.98	13,002.6	3,796.8	3,376.3	25.97
1988	15,910.0	4,114.0	2,544.5	15.99	20,298.0	5,238.0	5,493.3	27.06
1989	20,175.0	4,877.0	3,422.0	16.96	25,373.0	6,845.0	7,736.0	30.49
1990	23,072.0	5,091.0	3,969.0	17.20	33,408.0	9,357.0	10,144.0	30.36
1991	28,811.0	6,476.0	5,135.0	17.82	37,925.0	11,293.0	11,038.0	29.10
1992	32,472.0	7,790.0	5,686.0	17.51	40,686.0	11,732.0	11,905.0	29.26
1993	37,158.0	10,597.0	6,300.0	16.95	46,065.0	12,292.0	13,963.0	30.31
1994	41,757.0	12,150.0	7,524.0	18.02	54,324.0	15,004.0	16,540.0	30.45

Table 20: Trade of Japan

Year	Exports			Thailand	Imports			Thailand
	World	Asia	Thailand	as% of world	World	Asia	Thailand	as% of world
1973	37,008	8,194	721	1.95	38,372	6,063	395	1.03
1974	55,514	11,445	951	1.71	62,064	8,376	685	1.10
1975	55,728	10,890	958	1.72	57,846	7,442	723	1.25
1976	67,320	12,746	1,072	1.59	64,891	9,672	849	1.31
1977	81,084	15,879	1,370	1.69	71,325	10,620	754	1.06
1978	98,338	21,723	1,541	1.57	79,900	12,522	849	1.06
1979	102,293	24,268	1,701	1.66	109,809	17,824	1,160	1.06
1980	130,435	31,518	1,925	1.48	141,284	34,693	1,125	0.80
1981	151,500	34,533	2,243	1.48	142,868	35,179	1,058	0.74
1982	138,443	31,500	1,903	1.37	131,566	33,284	1,036	0.79
1983	146,982	40,015	2,508	1.71	126,520	33,639	1,019	0.81
1984	169,748	44,577	2,420	1.43	136,142	38,218	1,037	0.76
1985	177,189	46,826	2,047	1.16	130,516	37,509	1,035	0.79
1986	210,718	52,914	2,045	0.97	127,660	36,081	1,401	1.10
1987	231,332	62,564	2,982	1.29	150,907	47,220	1,815	1.20
1988	264,957	77,443	5,164	1.95	187,460	58,886	2,754	1.47
1989	274,590	82,626	6,811	2.48	209,597	64,982	3,571	1.70
1990	287,664	90,146	9,150	3.18	235,289	68,074	4,164	1.77
1991	314,845	105,902	9,446	3.00	236,612	74,533	5,258	2.22
1992	339,864	117,620	10,384	3.06	232,809	76,112	5,950	2.56
1993	362,583	136,794	12,317	3.40	241,604	83,736	6,526	2.70
1994	395,201	158,396	14,700	3.72	274,123	98,036	8,181	2.98

Source : Data compiled by author from IMF, *Direction of Trade Statistics Yearbook*, various years

4. Case Study: The Eastern Seaboard Project

The Eastern Seaboard (ESB) has been the biggest and most important industrial development area in Thailand. The project area comprises of three eastern provinces: Chonburi, Rayong and Chachoengsao, covering the area of 13,000 km². All basic components of industrial area are developed, ranging from production facilities (a new industrial town with deep-sea port for lower cost of production and transportation) to a new community area with necessary infrastructure to permanently accommodate workers of coming business in industrial area.

The ESB has so far been the biggest and received the highest amount among thousands of projects funded by Yen loan in Thailand. As of 1997 when most of the projects were completed, 173 billion yen (approximately US\$ 1.5 billion)⁶³ has been committed to this project. This accounted nearly 10 percent of accumulative Yen Loan projects in Thailand. This confirms a strong commitment from Japanese government since initial stage to give full support for the project. Once the project completed, then and now, Japanese investors retain the top investment position in the area. Most of their investment is 'light industry' manufacturing products which turn to be the main exports of 'industrialized' Thailand in 1990s. Two main development poles are designated as priority area under Eastern Seaboard Development Programme (ESDP): Laem Chabang Complex and Map Ta Phut Complex.

1) *Laem Chabang Complex, Chonburi*

Laem Chabang is set to be modern port city with international standard deep-sea port. The area consists of three components, namely a deep sea port, an industrial estate (including export processing zone) and a new town. Industries being promoted in Laem Chabang are those of small scale, labor intensive and non-polluting types. Such industries are consistent with national development objectives under National Economic and Social Development Plans such as employment creation, export promotion and regionalization from Bangkok area. In consistent with the position of Thai economy in the FG pattern, many Japanese companies, mostly those in electric and automobile industries, have invested in this area.

⁶³ OECF, Bangkok Office (1998), "*OECF Contribution to Thailand*", pp. 24-27.

2) *Map Ta Phut Complex, Rayong*

Map Ta Phut is also composed of a port, an industrial estate and a new town. Since Map Ta Phut locates close to natural gas sources, natural gas-related industry such as gas separation, fertilization and petrochemical plants, is promoted as main area of development. In the future, Thai government plans to develop more secondary industry in this area as well. Because of the area focus which mostly devotes to petro-chemical industry, number of Japanese companies is relatively low in Map Ta Phut.

Table 21: Source of ESB finance

	Amount (million baht)
Thai Government investment	104,000
Yen Loan	63520.80 (62%)
Private Investment	1,200,000
Japanese Private Investment	632,000 (52.7%)

Source: calculated by author, based on JBIC and NESDB data

Table 22: Direct investment in ESB from foreign nationals, by country

Nationals	% of total
Japan	36.0
USA	13.0
EU (excl. Germany)	26.0
Singapore	7.0
Germany	3.5
Taiwan	9.0
Others	5.5
Total	100.0

Source: Office of the Eastern Seaboard Development Committee, NESDB (2002)

The ESB is said to be the win-win project for Thailand and Japan. Benefits from the project to both Thai and Japanese sides seem clear. The project, located few hours away from Bangkok, is one shot two birds plan for Thailand. It is hoped that the ESB will be the bridge to bring foreign exchange to boost internal economy. In other words, FDI is expected to help fill the domestic saving-investment gap. Another goal expected is that the project would add momentum to government's effort to regionalize the industrialization and economic development to outside Bangkok area. The implementation of the ESB was on the right time since it coincided with the period which Japanese investors are finding new location for export-oriented investment in

1980s. Theoretically, all investors from any nations are welcome in original government's promotion plan and thus they all can benefit from infrastructure construction of ESB. In practical, however, as Japanese investors are the most active to seek overseas investment location in that time, Japanese became the largest investor in the ESB. As a result, the project's success directly goes to their profit. As one of critics on Japanese ODA simply puts, "*Thais welcome investment from any country, but it is only Japanese companies that respond.*"⁶⁴ This provokes criticism on motivation of Japanese government to use ODA in financing the ESB. However, even Japanese government did have such economic interest in mind, there is no doubt that the ESB brings in benefit which Thailand also enjoy in a large extent.

The completion of Eastern Seaboard Project is said to be the springboard of Thai industrial expansion. Industrial estates in Eastern Seaboard area are the first attempts of Thai government to create a favorable location specifically for industrial investment. With this regards, the ESB has fulfilled government's target to relocate industrial sector from Bangkok area. The concentration rate in Bangkok dropped to 72.5 in 1991 and to 61.8 in 1996. Furthermore, the relocation also expands outside Eastern Seaboard area to nearby provinces such as Prajinburi, Srakeaw and Chacheungsao. Currently, industry in Eastern Area accounts for 17.5% of national industry, increasing from 10.7 in 1991.

In term of micro-economic, development in the ESB increases per capita income of provinces in the project area. As of 2001, per capita income in Rayong ranks number one of national ranking at 262,372 baht. Chonburi comes third at 229,241 baht and Chacheongsao is the twelfth at 89,320 baht per head. Unemployment in ESB is also significantly lower than national average. In 1998, ESB unemployment is 1.3% while national level is 4.37%. Thus, it can be concluded that the ESB contributes to a better economic well-being of the ESB area. This also confirms the benefit of industrialization and success of government's regionalization plan. The economic expansion in ESB is clearly attractive for Thai labor too. Increasing number of labor migration comes to ESB each year. Migration rate is 20%, second only Bangkok area⁶⁵. Despite this high migration rate, increasing investment can absorb such migration well and

⁶⁴ Marie Soderberg, "Road to Development in Thailand" in Marie Soderberg, ed. (1996) *The Business of Japanese Foreign Aid: five case studies from Asia*, p.93

⁶⁵ NESDB (2001), Progress Report and Guideline for Eastern Seaboard Area development

unemployment rate in ESB is still low, at 1.3%, compared to national level of 4.37%⁶⁶.

Despite the project success, there is a sign of problem. Most of labor in ESB is still unskilled. This shows that although the country's production structure seems to move gradually up the production sophistication line, there is a significant lack in labor quality improvement. Jobs which most Thai labors can do are concentrated on labor-intensive level. Skilled labor is much needed. Thai government is well-aware of this issue and is currently implement various skill training programs for local labor, particularly in the three core provinces in eastern seaboard area⁶⁷. If Thai government can successfully upgrade labor level through these skill training programs, there is a chance for Thai to firmly progress further in FG step. The pressure from lower advanced countries with much lower labor cost like China and Indochina will be felt more in the near future. Following the dynamic economic pattern of Flying Geese, Thailand is unavoidable to shed away labor intensive industry and move on to capital or technological concentrate sectors.

External reliance and trade imbalance problem is also represented in ESB. Currently, various incentives are available for investors, ranging from import duty exemption to different types of tax holiday. This import-duty exemption incentives, both of machines and raw material, offered by Thai government, results in fewer use of domestic raw material. With generous offers such as full exemption on import duties, many companies import large contents of product and use Thailand simply as final station of production assemble. Although in the short run, many foreign companies find these incentives very attractive and come to invest in Thailand, in the long run, however, the policy does no good to Thai local production development. With current infrastructure and many cluster industries already concentrate in the ESB, it is a pity that Thai government does not take an opportunity to develop domestic supporting industry. The first step which can be done now is that Thai government puts more effort by encouraging more use of local contents like what Malaysian and Chinese government have done⁶⁸. Then, serious promotion of supporting industry formation

⁶⁶ Ibid.

⁶⁷ Government's policies include establishing training centers, arranging cooperation for curriculum preparation with local colleges, and promoting joint-training between academic centers and local business. However, the number of graduates is still below the market demand.

⁶⁸ Malaysian government is one of the most active governments to promote FDI while learning from foreign capital and technology. It has a clear policy in investment that requires concrete technological transfer such as the responsibility to train local workers and allows local supplier to access to the investors' most advance technological. Furthermore, under the MADE IN MALAYSIA (MIM) rule,

should be taken. In so doing, ODA and FDI from Japan can help in training program. Thailand should learn from the Japanese ODA principle of self-help and adjust to her development strategy. With a clear development direction, ODA and FDI can be used as national means to self-reliance economic success.

The ESB plan is the symbolic point of Thai industrialization and well represents a good cooperation between Thailand and Japan. Lessons regarding ODA and FDI can be learned from the ESB project and may apply to the future direction of Thai economic development.

5. Conclusion

The second section focuses on Japanese-Thai politico-economic relation in the context of the FG framework. Japan has been Thailand's most important economic partner since 1970s. Thailand clearly benefits from Japanese FG-style economic flows which shifted Thai industrial structure from agricultural base into industrial base in a quite impressively short time. Japanese investment is believed to be the accelerator of Thai economic boom in the latter half of 1980s to 1997 before the crisis.

Influenced by the FG pattern, Japan has special interest in Asia and increases her economic power over times. ODA has been smartly used by Japanese government to open the gate to enter to each country in the region, including Thailand. Working in harmony, ODA flow led by Japanese government has prepared the necessary infrastructure to later welcome commercial flows from private sectors. Much of infrastructure investment in Thailand is financed by Japanese Yen Loan. It may not be exaggerate to say that Japanese ODA has firmly prepared a strong base for economic development in Thailand. As a result, Thai industrial production development pattern is consistent with what stated in the FG model, e.g. moving from import to domestic production and export. With highly praised success based on beautiful record and impressive export, Thailand became one of rising star of Asia in early 1990s.

Not only geographic proximity but also other political economic factors encourage successive Japanese business influx to Thailand. Japanese economic presence

Malaysian government clearly set the percentage of local contents in most of products producing in Malaysia. Doing so allow local companies to increase their sell and in turn encourage foreign companies to help developing local raw materials. See more details of investment guide to Malaysia from Malaysia Industrial Development Authority (MIDA) from www.mida.go.my

in Thailand is, as seen in other countries, not the effort of business sector alone. Arguably, the FG theory-influence form of activist government, which post war Japanese governments have strictly followed, has long paved way for strong and increasing Japanese economic presence in Thailand. A tightly bound economic relationship results in a continuing flow of ODA through the years and thus further strengthening the bilateral ties of the two countries.

The Eastern Seaboard Project (ESB) represents a fruitful bilateral cooperation. It is one of projects financed by Yen Loan and its success is owing to consistent Japanese investment. The ESB becomes the country's most advanced industrial base in which large parts of Thai exports have been originated. Thus, ESB case supports the claim about significance of Japanese ODA and FDI over the developing countries' industrial upgrading process. However, with a closer look, economic success is only an illusion. Thai astonishing export success is actually made up of equally high intermediate goods imports, particularly those from Japan. High volume of bilateral trade with Japan is dominated by overwhelming imports, putting a strain on Thai balance sheet. The division of labor created by Japanese investment network is in fact inducing Thailand to be dependent on Japan both in terms of capital and technology. As such, FDI which was expected to help accelerate the industrial shift has turned to be a negative impact on strengthening and developing process of Thai domestic industry. In contrast to the FG argument, Thailand's proceeding from domestic production to export stage is not internal-based and thus can cause external over-dependence and industrial development is questionable in a long run. Despite the export-promotion policy and increasing exports value, shift from domestic production toward export stage along FG-line is not benefit to Thailand. In other words, the FG development can occur only when domestic industry is established with self-reliance production.

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