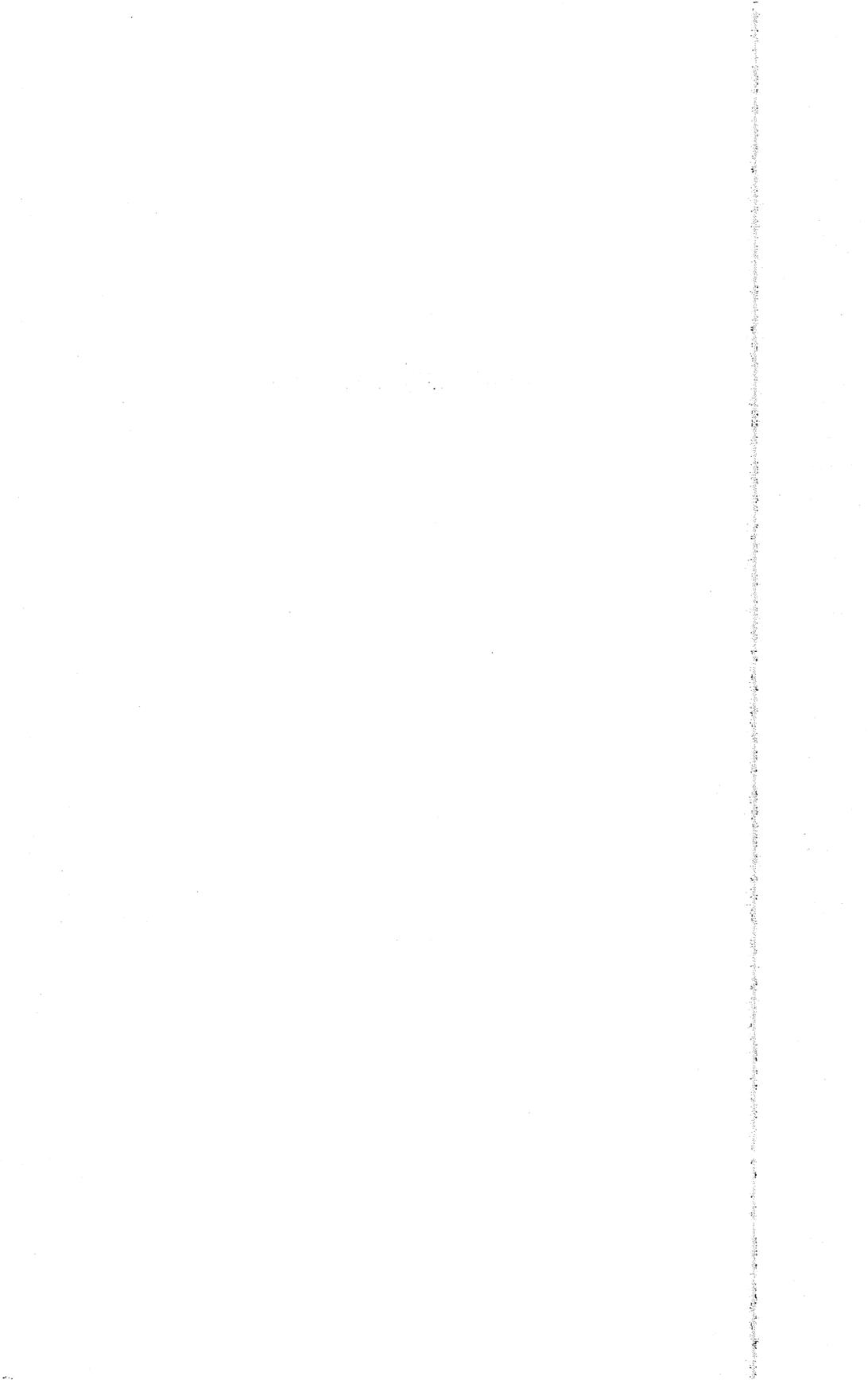


# **U.S.-Thailand Relations**



# U.S.-Thailand Relations in a New International Era

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EDITED BY

Clark D. Neher and Wiwat Mungkandi



INSTITUTE OF EAST ASIAN STUDIES

UNIVERSITY OF CALIFORNIA AT BERKELEY

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## Preface

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The essays in this volume were originally presented at the Third United States–Thailand Bilateral Forum held in San Francisco, April 4–7, 1989. The forum was sponsored jointly by the Institute of East Asian Studies of the University of California at Berkeley, the Faculty of Political Science and the American Studies Program at Chulalongkorn University, and The Asia Foundation, San Francisco. Financial support was provided by The Asia Foundation.

The forum organizers included Robert Scalapino, director of the Institute of East Asian Studies; Harry Kendall, conference coordinator for the Institute; Allen Choate, executive director of the Center for Asian Pacific Affairs, The Asia Foundation; Catharin Dalpino, The Asia Foundation representative in Thailand; Kramol Thongdammachart, dean of the Faculty of Political Science, Chulalongkorn University; Wiwat Mungkandi, director of the American Studies program, Chulalongkorn University; and Scott Christensen, of the University of Wisconsin, conference rapporteur. Clark Neher, Northern Illinois University, and Wiwat Mungkandi serve as joint editors of the volume.

Haydn Williams, Asia Foundation president; Wiwat Mungkandi; and Robert Scalapino came up with the idea of the forums five years ago, when they foresaw the increasing importance and complexity of relations between the United States and Thailand. Following the third forum, Professor Scalapino noted in his letter to the conference participants:

When the series of bilateral forums between the United States and Thailand was conceived, we had high hopes but no real assurance that by bringing together some of the major participants in U.S.-Thailand relations they could, through their discussions of the principal issues between our countries, offer workable solutions to responsible officials on both sides. Now, following the conclusion of the Third U.S.-Thailand Bilateral Forum, I think we can say we have successfully achieved that objective.

As was brought out during our San Francisco meeting, each of the forums has focused on issues of current importance, be it security or

textiles, agricultural exports or intellectual property rights; and the debates, though heated at times, have been conducted without rancor, with each side recognizing the validity of the other's arguments. Essential aspects of these debates have found their way through various channels into the decision-making process in Washington and Bangkok and thus have contributed to promoting good bilateral relations. We could hardly ask more. Nevertheless, I believe that the published proceedings of each of these forums have contributed to broader knowledge of U.S.-Thailand relations in both countries and will continue to do so as specialists in this field draw upon these volumes in the years to come.

The success of the forums has resulted from the active involvement of all the participants, as academics and officials of the two governments, in foreign and domestic policy formulation and implementation. Led by group leader Thanat Khoman, former foreign minister of Thailand, the Thai delegation to the third forum included former and present ambassadors to the United States, senior advisors to Prime Minister Chatichai Choonhavan, a member of the Thai Parliament, a provincial governor, high-level officials in the Ministry of Foreign Affairs, representatives of the military, and the kingdom's most renowned scholars of international relations.

The American delegation was similarly distinguished. Representing the government were the outgoing and incoming directors for Asia of the National Security Council, the Assistant U.S. Trade Representative for Asia and the Pacific, staff members of the U.S. Congress, and the outgoing and incoming Deputy Chief of Mission at the American Embassy in Bangkok. American scholars with decades of experience in Thailand, economists, business executives, and journalists rounded out the forum's participants.

The Thai and American delegations respectfully dedicate this volume to Dr. Haydn Williams on the occasion of his retirement as Asia Foundation president and to Professor Robert A. Scalapino with appreciation for his organizational and intellectual leadership of the U.S.-Thailand Bilateral Forums.

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# Introduction: U.S.–Thailand Relations in a New International Era

SCOTT R. CHRISTENSEN, CLARK D. NEHER,  
and WIWAT MUNGKANDI

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The Third U.S.-Thailand Bilateral Forum was an outgrowth of the two previous forums, with a clear consensus of the participants that Thai-U.S. relations have continued to change significantly since the first forum met at Berkeley in March 1985. Although a few participants stressed policy continuity, the more obvious focus of the April 1989 forum was the onset of a new era in Thai-American relations. The new era has arisen from domestic developments in Thailand and the United States as well as a new state of international relations.

Robert Scalapino's introductory remarks set the tone for the conference, as he outlined the new era of international relations and its impact on Thai-U.S. relations. He emphasized that throughout the world economics has taken command, in contrast to the post–World War II era when politics and security were the dominant international concerns. The contemporary theme of development and economic growth, a prevalent issue for Thai leaders, emerged as a principal focus at the forum sessions on the U.S. and Thai economies and those on bilateral trade affairs.

Scalapino's second theme was the surge of political openness demanded by the world's citizens. He cited the Philippines, South Korea, Taiwan, China, the Soviet Union, the Eastern Bloc nations, and Thailand itself as examples of countries in which the people are demanding political freedoms. As new technology and communications provide new options, the nations of the world become increasingly porous and interdependent. There is a realization that national economies cannot grow if people are kept mute and isolated. Thus, although there may be temporary setbacks and failures, the broad trend has been established.

The theme of openness leads logically to Scalapino's third theme of interdependence among nations. The chapters in this volume deal with

## 2 *Introduction*

two aspects of interdependence in the 1980s. One is the impact of American macroeconomic policies on the world economy, especially the effects of the U.S. budget deficit and American interest rates on world trade and financial flows. These issues are addressed by Richard Drobnick and Albert Fishlow, who evaluate the prospects for international trade cooperation and currency stability and their relation to Thai trade concerns. The second aspect of interdependence is the political side, which in Thai-American affairs is marked by a move away from traditional patron-client ties to more equal relations. This adjustment is taken up in the chapters by Clark Neher and Wiwat Mungkandi.

Interdependence implies two potential outcomes in international relations, and recent trends in Thai-American relations exemplify both. One is a movement away from unilateralism to cooperative policy making among governments, marked by a search for lower-cost and lower-risk foreign policies. As world leaders recognize the risks of military confrontation and the potential gains of economic collaboration in the post-World War II era, trade and financial interests play an increasingly influential role in shaping foreign policy. Although economic issues may play a decided role in statecraft, the need for security collaboration among traditional allies in a rapidly changing world remains critical. The chapters by Richard Childress and Sarasin Viraphol regarding regional security affairs emphasize the steadfast convergence of U.S. and Thai security interests relative to recent developments in Indochina.

The other reality of the new international era is that interdependence produces a clash between the need for international economic cooperation, on the one hand, and the political autonomy of modern states, on the other. Nationalist responses to interdependence challenge world leaders to balance their foreign policies against domestic political pressures and complicate international efforts to coordinate economic and security priorities among states. Often, this conflict produces tension among erstwhile allies such as the United States and Thailand. The principal questions behind the chapters in this volume include the following. Are governments willing to subordinate their national autonomy and short-term political interests to the interests of long-term international economic cooperation and stability? Will immediate frictions in economic affairs threaten longstanding security collaboration regarding regional issues crucial to both the United States and Thailand? During the forum Thanat Khoman emphasized how relations between the United States and Thailand epitomize these seemingly contradictory tendencies—unilateralism and cooperation—and stressed the importance of accepting and managing this emerging equality in Thai-American affairs.

Ambassador Vitthaya chose to focus on Scalapino's theme of openness,

arguing that parliamentary democracy is “firmly on the ground” in Thailand. He argued that Thailand’s maturing democracy has afforded a stronger role to new players in public policy making, giving American officials a different political landscape in Thailand to take into consideration. These recent trends are analyzed in the chapters by Suchit Bumbongkarn and Thawatt Mokrapong.

Current political and economic issues in both countries must also be considered when assessing the state of Thai-U.S. relations. A strong military ally of the United States since the inception of the Southeast Asia Treaty Organization in 1954, Thailand now finds itself emerging as a formidable power in its own right. Thailand is growing fast economically and playing a pivotal role in regional security, trade, and financial affairs. It is a leading player in regional efforts to find peace in Cambodia and to establish a peaceful and constructive dialogue with Vietnam. Although Thailand has recently moved unilaterally to resolve tensions in Indochina, Thai-American security interests still converge on the issue of restraining Vietnam while finding a lasting route to genuine independence for neighboring Cambodia.

Economic and political transformations during the 1980s have reshaped the political economy of Thai-American relations. After the American economy recovered from the recession of 1981–82, a combination of anti-inflationary monetary policies and expansionary fiscal policies kept U.S. interest rates high and drove up the value of the dollar on world currency markets. The resulting overvalued dollar had an eroding impact on American exports and on large sectors of American industry, spurring powerful protectionist forces that reacted to the burgeoning trade deficit. By 1985, producer lobbies on Capitol Hill were upset over the massive inflow of foreign products and the “export” of American jobs. Partly because of these pressures and partly because of the surge of exports to the United States from West Germany, Japan, and the newly industrialized countries (NICs) of Asia, the Bush administration announced its determination to reverse the trade deficit through a more aggressive trade diplomacy that, first, aims to open foreign markets and, second, encourages U.S. trade partners to restructure their domestic economies. This intention to establish a “level playing field” in trade has become Washington’s number one objective in the current round of multilateral trade negotiations (MTN) of the GATT (General Agreement on Tariffs and Trade).

Some foreign officials, including many Thai policy makers, have perceived this strategy as increasingly protectionist and inimical to international economic cooperation. Many Thais deplore this American strategy, which comes at a crucial stage when Thailand’s own growth strategy

demands a favorable trade climate that will support the drive toward export-oriented industrialization. Some observers, represented in the chapters by Surakiart Sathirathai and David Lyman, see an aggressive American trade strategy as a strain on U.S.-Thai relations and believe that a more accommodating negotiating style on the part of Washington officials would remedy emerging tensions in the bilateral relationship. Moreover, rapid industrial expansion and the recent export boom in Thailand have rejuvenated Thailand's confidence in asserting Thai positions in the face of American interests and demands on a range of economic and trade issues.

For Thailand, the period since the world recession has brought relatively high and steady growth. By 1986–87 oil prices had dropped and agricultural commodity prices had firmed up to boost Thailand's external accounts. Building on a foundation of rich natural resources, open trade and investment regimes, and a strong private sector, the Thai economy has entered a new phase of long-term growth, yet it faces many short-term challenges such as inadequate infrastructure, savings shortfalls, and natural resource degradation. These issues are the topics covered in the chapters by Jeffrey Race, Likhit Dhiravegin, Somjai Phagaphasvivat, and Medhi Krongkaew. Furthermore, the 1980s saw a transformation of Thailand's "bureaucratic polity" into a more pluralistic political system with new groups playing a greater role in public policy making. This trend was reinforced by the general elections of July 1988, which resulted in the peaceful transfer of power to an elected parliamentarian and leader of the Chat Thai party, Chatichai Choonhavan. Prime Minister Chatichai surrounded himself with officials and academics representing diverse interests and points of view. The result has been a more vibrant, open polity supported by the key political forces.

The forum was divided into seven sessions: (1) Regional and Great Power Impact on Thai-U.S. Relations, (2) Political Aspects of Thai-U.S. Relations, (3) Global and Regional Economic Impact on Thai-U.S. Relations, (4) Trade Aspects of Thai-U.S. Relations, (5) The U.S. Domestic Scene, (6) Bilateral Issues on Investment, the Service Sector, and Science and Technology, and (7) The Thai Domestic Scene. At each of these sessions, papers were presented, followed by critiques by selected discussants and then an open forum. In this volume, the papers are presented in full followed by excerpts from the discussants' remarks and the open forum.

### **Regional and Great Power Impact on Thai-U.S. Relations**

Indochina issues and a discussion of great power involvement in regional security affairs are the themes presented in the opening chapters. The chapter by Richard Childress commends Thailand for its flexible

foreign policy toward neighboring countries. Referring to the easing of great power tensions in the region, Childress focuses on the prospects for a settlement in Cambodia and the repercussions of that settlement for Thai and American foreign policy. On Thai policies, the author argues that the plan to transform Indochina "from a battleground into a trading market" shares continuity with previous Thai initiatives toward Vietnam. A similar plan was proposed in the late 1970s by then prime minister Kriangsak but was frustrated by the Vietnamese invasion of Cambodia in 1978, which put Thailand on the defensive as the frontline state to the ensuing conflict. The present initiative and the recent reception of Cambodian premier Hun Sen in Bangkok are signs of greater Thai involvement in bringing normalcy to the mainland.

Although he commends Thailand's diplomatic agility, Childress stresses that coordination of policies is critical given the international nature of conflicts in Indochina. On the American role, Childress refutes the view that the United States is in decline as an Asian power, but he admits that it is experiencing adjustments in its relations with the Asia-Pacific region. He suggests that the United States refrain from direct involvement in the Cambodian affair but support efforts to prevent the Khmer Rouge from returning to power in Phnom Penh. Childress also argues in favor of continuing U.S. pressures that would ensure a full Vietnamese withdrawal from Cambodia. The discussant notes that the United States has been engaged in peace efforts all along and that the Vietnamese are now withdrawing from Cambodia because of the combined efforts of the United States, ASEAN, and the People's Republic of China. The discussant sees this as a sign of positive American involvement in Southeast Asian security affairs and commended the United States for playing a responsible role in the region.

Another major theme of Part 1 is China's enhanced role in the region during the 1980s. The chapter by Sarasin Viraphol argues that this change is one of the lasting outcomes of the Cambodia imbroglio. The ascendancy of Deng Xiaoping has afforded China a more constructive and involved role in regional affairs. That role has been facilitated by a greater tilt toward the West and a more intense focus on balancing China's relations between Moscow and Washington. China has normalized its bilateral relations with many countries around the Pacific Rim, and Thailand has been a major focus of Beijing's plans to "bleed Vietnam white" in Cambodia. As a result, military affairs dominate Sino-Thai relations. Thai military strategies thus have become more reliant on Chinese military supplies for force planning and deployment. The proposed stationing of a Chinese weapons stockpile in Thailand indicates that such collaboration is likely to continue even after a settlement in Cambodia is achieved.

Both authors agree that the emerging entente among the great powers

is opening new opportunities for regional peace and for Thailand's enhanced role in the region. The tone of the chapters suggests that regional peace efforts should not place excessive expectations on rapprochement between China and the Soviet Union. Sarasin is especially dubious of the regional impact of Soviet leader Gorbachev's Asia policy, arguing that changes in Moscow's posture have not generated a greater commitment from Hanoi to finding a regional solution to the Cambodian crisis. Childress also points out that Cambodia will probably remain a "sideshow" to the Soviets and that Moscow will have a limited impact on Vietnamese policies.

The Thai participant in the discussion argues that Moscow has downgraded the role of conventional seapower in its overall defense posture, implying a substantive reversal in Soviet strategy that would lessen the significance of Vietnam as a security outpost in the region. That posture, which would dilute the backing behind Vietnam's erstwhile hard-line position, would enhance the prospects of maneuvering Hanoi into a regionally negotiated agreement. On this theme, Sarasin recommends that the United States should consider carefully its position in the Pacific Rim, because countries like Thailand are looking at the Soviet Union and China with a more positive attitude as those countries adopt a less antagonistic and more flexible strategy in the region.

### **Political Aspects of Thai-U.S. Relations**

The chapters in Part 2 address the changing perceptions of U.S.-Thailand relations in their political perspective. Both authors argue that the stature and interests of each country are being redefined as global alliances become more fluid and Asian economies become ever more dynamic. Wiwat Mungkandi divides the bilateral relationship into a "matrix" of four interlocking components, namely, security, trade, mutual outlook and understanding, and personal ties between the peoples of each country. In a changing world, tensions in some components are causing strains in others. He stresses that many Thais have become ambivalent toward the United States. Trade frictions especially have made the Thais feel that the United States is no longer sensitive to Thailand's national interests at a time when "geo-economics" displaces traditional alliances as the guiding blueprint of world politics. Moreover, democratization in Thailand has made it increasingly difficult for Thai leaders not to be more sensitive to popular sentiment. Just when the importance of exports has become particularly acute in Thailand's development strategy, the United States has become more resistant to supporting the kind of trade climate preferred by the Thais.

Whereas Wiwat focuses largely on perceptions, Clark Neher places the relationship in the context of the "international sweep of change" emerging in the 1980s. Stressing the transformation of foreign policy priorities and decision-making processes in Thailand, Neher analyzes the intellectual property rights issue as an illustration of one salient adjustment required as a consequence of the new world order.

The discussion that follows highlights much of the debate regarding the issue as various options are presented for plausibly resolving the dispute. It also stresses the importance of internal political factors. In Thailand, the outcome of the July 1988 general elections injected strength and confidence into the Thai political system while generating greater plurality in policy making. The present rift between the Ministry of Foreign Affairs and the prime minister's advisors is an example. In the United States, Congress has been increasingly pressed by special interests that often conflict with those of Thailand. One noteworthy example is the political circumstances that motivated the U.S. Farm Security Act of 1985. Advocates of copyright protection, who insist that American policy makers enforce copyright protection on countries that do not conform with their preferred standards, are another example. Moreover, these special interests are strengthened by the American trade deficit, which has widened drastically since the early 1980s.

Both chapters illustrate that the United States and Thailand are becoming more like economic partners. Wiwat argues that many Thais now reject the notion of a patron-client relationship between the two countries. For example, Prime Minister Chatichai remarked earlier in the year that Thailand was "coming of age" in response to the American Generalized System of Preferences (GSP) cuts of January 1989. In the American view, Thailand is no longer seen only as a frontline state dependent on American largesse. Neher notes that, as an economic "partnership" evolves in U.S.-Thai bilateral relations, the two nations are prone to become economic competitors as well. Moreover, he suggests, although the U.S. trade deficit with Thailand was only one billion dollars in 1988, that deficit had an acute symbolic significance in the eyes of U.S. policy makers, who view the overall trade deficit with Asia as a major source of America's present economic woes. The chapter authors' and the participants' remarks acknowledge that although perceptions of the relationship have changed irrevocably, there still exists a vibrant bilateral relationship from which both countries stand to gain. The conclusion drawn is that a moderation of domestic political pressures would ease tensions in bilateral relations.

## **Global and Regional Economic Impact on Thai-U.S. Relations**

Whereas Parts 1 and 2 focus almost exclusively on strategic and security issues, Part 3 highlights those aspects of the world economy that are causing adjustments for the United States and Thailand. Richard Drobnick's chapter champions one of the premier themes dominating the volume, that "economics is in command" of world affairs. Drobnick faults the trade, fiscal, and monetary policies of the major industrial countries for the present imbalances in the world economic order. He suggests that U.S. economic policies have distorted world trade and finance during the 1980s, calling the American trade and current account deficits partly consequences of fiscal mismanagement. An appreciating U.S. dollar during the early 1980s helped to turn the Asia-Pacific region from the largest source of demand into the principal source of supply in the world economy. Now the United States may seek to "manage" a reversal of that trend if it does not alter its macroeconomic policies first. Drobnick forecasts a reversal of the deficits and the likely appreciation of the dollar as key factors that will bring world trade and investment conditions into balance by the early 1990s.

Among several important global trends, including reform in the Soviet Union, European integration, and discord within the GATT, Drobnick identifies two core issues relevant to U.S.-Thai economic affairs for the coming years. The first draws upon the discussion from Part 1 on the implications of U.S. trade policies for Thailand. In Drobnick's view, the United States is not singling out Thailand for engaging in unfair trade practices but is pressing all of its trade partners in response to pressures building at home on both the political and economic fronts. Although the United States may appear to lean toward managed trade, an issue alarming to Thailand, the United States actually is "becoming a little more like its trading partners." The second salient trend is the emergence of Japan as the world's main hub of international capital, paired with the restructuring of the Japanese economy. This trend will offer Asian economies an ever more fluid wellspring of investment capital, in turn quickening the pace of economic integration in the Pacific Rim. As a result, Thailand can expect Japan to continue in its role as a principal investor in the Thai economy and may look increasingly to Japan as a market for its exports. Despite these promising trends, Drobnick recommends that Southeast Asian countries should rely less on exports as the engine of growth and, taking lessons from Japan, should encourage more sustainable domestic demand-led growth.

The chapter by Narongchai Akrasanee evaluates the implications of Pacific integration for ASEAN economic cooperation. ASEAN was conceived originally in the 1960s as a political grouping, but recently the

export-oriented strategies of the ASEAN nations have put economic issues in the spotlight. The paper concisely summarizes the history of the economic dialogue within ASEAN since the inception of the organization. The thesis is that ASEAN as an organization is a secondary issue when considering the factors most important to regional integration. The real impetus to integration lies in the market-based development strategies of the member states themselves. ASEAN provides a useful forum in which to agree on collaborative schemes, for example, industrial joint ventures, and will continue to serve this purpose in the future as Pacific integration accelerates the pace of growth among the ASEAN states. Narongchai stresses the central importance of export-led growth, in contrast to Drobnick, arguing that future economic cooperation in ASEAN will demand adherence to outward-looking economic policies among the member states.

The American discussant points out that the United States is not likely to follow a path of "managed trade" and that reference to that strategy misrepresents the aims of the U.S. Trade Representative. Moreover, the discussant makes a distinction between "managing trade" and "managing conflicts" and suggests that trading states should not be hobbled by disputes but should keep world trade expanding so that all states will gain. At the conference, Drobnick's presentation was well received, as most participants agreed that a reduction of the U.S. budget deficit is necessary for a healthy world economy and growth in American exports. That reversal would ease the trade deficit by removing the factors that distort the exchange rate and interest rates. In addition, by freeing up funds for the American private sector and shoring up America's productive capacity, reduction of the deficit would check protectionist pressures as well. Thailand and other U.S. trading partners share an acute interest in supporting Washington's efforts to redress the American national budget.

### **Trade Aspects of Thai-U.S. Relations**

The chapters on trade issues in Part 4 delve deeper into the differing perceptions of trade disputes and the legal workings of international trade practices relative to U.S.-Thai trade in agriculture and industry. Surakiart Sathirathai reviews trade issues on rice, textiles, steel, and other goods traded between the United States and Thailand. He also relates aspects of Thai-U.S. trade to antidumping laws, countervailing duties, and GSP codes as they stand in the GATT charter. His argument focuses on the legal aspects of the intellectual property rights (IPR) issue from the Thai viewpoint and relates the evidence in the dispute to the GATT laws. His thesis is that Thailand has abided by international copyright standards through its adherence to the Berne Convention since 1931.

Surakiart argues that trade frictions have arisen from different interpretations by each side of the GATT laws and differing approaches to trade negotiations as well. He defends the Thai position by arguing that American “retaliatory” actions against Thailand are unfounded since Thailand does not adhere to “unfair” trade practices that would harm America’s trade position. Surakiart argues for a GATT solution to current trade frictions, because GATT is the only medium of cooperation that can promise to manage resolutions and secure compliance on international trade issues. In particular, Surakiart wants to see a greater clarification, or even a rewrite, of the laws governing the use of subsidies in Article 16 of the GATT charter. On negotiations, Surakiart suggests that a comprehensive “package” negotiation would facilitate a resolution to the trade frictions. He argues, “It may be more beneficial if all issues of major concern for both sides are included in the negotiation so that it will be more fair and all issues will be covered.” Such a package will require immense political will on both sides to overcome, manage, and resolve the issues in question.

David Lyman’s commentary illuminates the perceptions of the American business community in Thailand regarding the recent trade conflicts. Lyman argues that in dollar terms the dispute over pharmaceutical patents was not significant. The real issue traces back to the U.S. Farm Security Act of 1985, when U.S. subsidized rice flooded the world market and temporarily caused a drop in the world price for most rice grains. That issue more than any other, in the eyes of Americans in Thailand, tarnished the “special relationship” traditionally enjoyed by the two countries.

The American discussant notes that Thailand, although adhering to the Berne Convention on IPR, is the last Asian country to comply with the standards put forth by the American negotiators. Moreover, so long as Thai exports to the United States grow annually nearly five times faster on average than exports from other U.S. trade partners, the Americans will find it difficult to treat Thailand as a special case meriting extreme preferential treatment. Many of the participants’ remarks acknowledge that aspects of U.S. trade policy in the recent past and the suddenness of American stringency have caused consternation on the Thai side. At the conference, many of the Thai participants called for more flexible negotiations over these issues in order to yield more options for an agreement.

### **The U.S. Domestic Scene**

Part 5 focuses on the U.S. economy and the foreign policy decision-making process in Congress and the new administration. Economist Albert Fishlow provides a summary of the competitive American views on the state of the economy. He argues that the new administration is partial to an optimistic view that sees the trade and current account deficits as signs of

strength while domestic demand grows and foreign capital moves in to take advantage of a healthy investment climate. A differing perspective, that of the academy, sees danger lying ahead. That view argues that the 1980s' impulse in demand was charged by lower taxes, higher defense spending, and foreign debt. This has led to an expensive dollar abroad and overly high real interest rates. Fiscal policy is the key to rebalancing supply and demand. A third view scrutinizes the loss of American competitiveness. That view sees a future of deindustrialization in which service industries would displace manufacturing, condemning the American economy to lesser and more passive economic performance. Its proponents fault management and the public sector for emphasizing finance over production and technology.

Following this summary, Fishlow provides his own evaluation of the current state and future implications of trends in the world economy in general and the American economy in particular. In spite of the Bush administration's optimism, Fishlow identifies fiscal deficits, the poor domestic savings rate, and the unstable exchange rate as negative factors of the American economy having a distorting impact on conditions at home and abroad. In addition, he emphasizes that productivity growth is vitally important, arguing that growth in overall industrial output plus higher rates of investment "are essential to prevent adjustment from occurring through diminishing growth of real income in the United States." Growth should be a crucial concern for the new administration as well as America's trading partners, since, at a political level, "the slower growth rates may put the liberal trading system under even more pressure."

### **Bilateral Issues on Investment, the Service Sector, and Science and Technology**

The last two sections of the volume deal with issues regarding the Thai economy and polity. In Part 6, the chapters on the Thai economy address Thailand's economic development over the past few decades, focusing on current trends and significant policies regarding Thailand's drive to become Asia's next newly industrialized country (NIC). On the general success of the Thai economy relative to other Southeast Asian countries, all participants conceded that Thailand's open market strategies and relatively low incidence of state economic intervention have benefited the kingdom greatly. Jeffrey Race stresses that Thailand's golden economic performance, recent and past, may be attributed to two general features characteristic of Thailand. He refers to the first as the "hardware" of development, including factor endowments such as land, labor, and capital. The second feature he calls the "software." In this area, Race commends

Thailand's flexibility in accepting new ideas, nurturing "human capital," developing a sound legal system, and opening the country to trade from as early as the Bowring Treaty of 1855. He recommends that Thailand not allow its legal system to be shackled by red tape and foot dragging, since a sound legal infrastructure is necessary for prudent business practice and no less for the evolution of a stable and open political system.

Likhit Dhiravegin, in his chapter on science and technology, argues that Thailand has performed poorly in building a technological base. In sum, he suggests, industrial development in Thailand has no firm domestic foundation. He argues that the market has not developed domestic know-how successfully and that technology has been "transplanted" rather than transferred from abroad through the presence of direct foreign investment. Unless a research and development policy is forged with engaged public support, Thailand is likely to become an export platform at the expense of building a modern and self-sustaining economy. In Likhit's view, factor endowments will not provide Thailand a sound economy in the absence of a comprehensive effort to improve the education system and Thailand's managerial expertise.

Somjai Phagaphasvivat concentrates on the service sector. He points out that trade in services is taking a rising share of the total GDP (gross domestic product) in that sector, up from around 17 percent in 1977 to over 26 percent in 1988. In turn, Thailand needs to nurture service-related investments at home and emphasize service issues in the current round of international trade negotiations. He argues that where trade is concerned, Thailand could make a nascent industry claim and employ safeguards if necessary. His chapter points out that Thailand supports the United States in principle on liberalizing trade in services but that Thailand's need to safeguard the sector makes it difficult to support Washington's timeline. Echoing the sentiment of Likhit, Somjai suggests that the service sector is one area where Thailand could exploit an emerging comparative advantage as Thailand's favorable investment climate attracts new heights of investment in that sector.

In the discussion one commentator suggests that the tone of Likhit's argument is too alarmist. Thailand is absorbing, perhaps inadvertently, a "spillover" of technology and worker and managerial expertise from foreign firms, especially Japanese industries. The participant argues that this spillover will play a valuable role in creating an "industrial awareness" that should create a spin-off of valuable domestic know-how. In contrast, Likhit suggests that the immediate task facing Thai leaders is to put substantial resources into producing scientists and engineers if Thailand is to join the ranks of the other new industrial superstars of Pacific Asia.

## The Thai Domestic Scene

In the final chapters in Part 7, there is further discussion about the course of development that Thailand may take in the future. Given Thailand's rich natural resource endowments, many analysts are now questioning whether it is appropriate for Thailand to follow the model of resource-poor South Korea and Taiwan, despite the conventional wisdom of those who claim that Thailand is on its way to becoming Asia's "fifth tiger" following the Northeast Asian development model. Economist Medhi Krongkaew applauds the course of the Thai economy, citing rises in manufactured exports, tourism, foreign direct investment, and growth in agriculture as the driving forces behind the 11 percent growth rate achieved in 1988. Medhi points out that a "switchover" from agriculture to manufacturing and services has now occurred, and with this the government should be wary of the economy overheating. In contrast to Likhit, Medhi argues that Thailand should build on its natural endowments and focus on agriculture and labor-intensive manufactures to keep exports growing. In so doing, Thailand might avoid fierce competition in technical wares that are traded by the other Asian NICs. In sum, Thailand should aspire to become a "NAIC," or a newly agro-industrialized country, given its natural endowments and comparative advantage in agriculture. Medhi also warns that Thailand needs to mobilize domestic savings and attenuate growing income disparities. Thailand should also be wary of natural resource degradation, since most of the expansion in agriculture and forestry over the past two decades has extracted a heavy toll from Thailand's natural forests. Public spending should focus on preserving the environment, and agriculture might gain from intensifying production rather than expanding cultivation onto presently forested lands.

The chapters on Thai politics bring out two major issues concerning the Thai state—its degree of strength and its degree of stability. With respect to the role of the state, Thailand can be differentiated from South Korea and Taiwan, where the intervention of a "strong state" in the economy in large measure encouraged rapid industrial development. Many observers have argued that traditionally policy making in Thailand has been considerably less decisive, marked in many instances by incoherence, lack of coordination among planning ministries, and ineffectiveness in realizing objectives. In sum, policy making in Thailand's "weak state" has yielded a muddling-through approach to economic policy.

In contrast, governments in South Korea and Taiwan were able to form coherent objectives and development proposals in a wide range of policy issues and consistently incorporated private sector forces within strategies dictated by the state. Moreover, both East Asian states built a modern manufacturing sector through ambitious subsidies to export-oriented

firms and massive investments in large-scale public enterprises. Through aggressive marketing and pricing strategies, they carved out a comparative advantage for various industries in markets abroad. Adhering consistently to conservative fiscal and monetary policies since the late nineteenth century, the Thai state has played more of a regulatory role than a developmental role in Thailand's industrial development.

Elsewhere, such as in Indonesia and the Philippines, governments have tried to copy the ambitious strategies modeled by the Northeast Asian NICs. The result, however, has been less than satisfactory, as reflected in spiraling debts, inefficiencies, and, in some instances, corruption, as seen in the closing years of the Marcos regime. The Thai state, however, has refrained from extensive intervention in the economy both in terms of levels of public investment and price setting in industry, and in terms of the participation of state agencies in directing policy and guiding investments in ventures and industrial projects. The low degree of state activity in industrial development and the initiatives of the private sector operating in a relatively *laissez-faire* economy have led many analysts to argue that Thailand's economic growth has been achieved in spite of the state, not because of it.

The chapters in this volume suggest that Thailand's relatively open political system, characterized in Myrdal's *Asian Drama*<sup>1</sup> as a "soft authoritarian" system in contrast to the "hard" regimes of South Korea and Indonesia, has for some time afforded a role for a variety of actors in public policy making. This has been true especially since the three-year interim of prodemocracy rule that was ushered in by the student movement of 1973. In turn, this relative openness has put constraints on the latitude of state involvement in the economy and a check on corruption. One example cited during the conference was the Eastern Seaboard Project, where, one participant pointed out, a large fertilizer plant proposed originally by the Prem cabinet was scaled back owing to the efforts of various business groups involved in negotiating that phase of the project. The policy reversal relieved the possibility of incurring a large debt during the world recession to finance the plant's construction.

On this theme, the chapter by Suchit Bunbongkarn stresses the rise of business groups in public policy making, noting especially the changes occurring since the general elections of July 1988. Suchit emphasizes the political significance of businessmen and business associations in supporting parliamentary institutions and transforming the political system during the past decade. The enhanced role of business groups illustrates, first, the

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<sup>1</sup>Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Twentieth Century Fund, 1968).

outcome of Thailand's economic boom and industrialization and, second, the new prime minister's effort to consolidate his power base both inside and outside the parliament.

Moreover, Suchit points out, the rise of this new political elite is challenging the power of the civil servant corps and technocratic agencies. Suchit cites the National Economic and Social Development Board (NESDB) as an example: "This agency, which played a key role in directing economic policy during the Prem administration, now has to listen more to the demands of the politicians. Several programs that were opposed by the NESDB before are now being adopted or reexamined by the government." On the future stability of the parliamentary system, Suchit notes that the continued importance of individual contacts between businesses and members of political parties may damage the strength and obstruct the institutionalization of the parties themselves. Such a weakening would leave the military as the strongest and most coherent political force in the Thai polity.

The chapters in Part 7 echo a recurring theme of this volume, namely, that the strengthening of parliamentary democracy in Thailand is transforming decision-making patterns and foreign policy priorities. Thawatt Mocarapong discusses in his chapter the durability of the new coalition, arguing that it already has lasted beyond the forecasts of many critics. In particular, the coalition's strong footing in the parliament and collaborative rapport with the military lend it abiding legitimacy and stability. Suchit also stresses the importance of the new coalition's responsiveness to the demands of the military. Both chapters suggest that recent trends in Thai politics signify a lasting displacement of the bureaucracy's supreme authority in political life as extrabureaucratic groups make an indelible mark on Thai politics. Moreover, such groups are now being firmly institutionalized in the country's processes of government and public policy making.

The last session, represented by the chapters in Part 7, nicely capped the overall theme of change. In Thailand especially, the movement toward more inclusive political processes is producing new patterns of managing foreign policy and diplomacy. In the United States, transitions in world trade and investment have brought about significant adjustments in American economic and trade priorities. The need to manage a reversal of the U.S. fiscal and trade deficits has now become the cornerstone of Washington's diplomacy abroad. Events in both the United States and Thailand are imposing changes on a bilateral relationship once dominated by a singular tradition of alliance and security concerns. In addition, Thailand's dynamic economy and the mobilization of new interests and elite groups into the

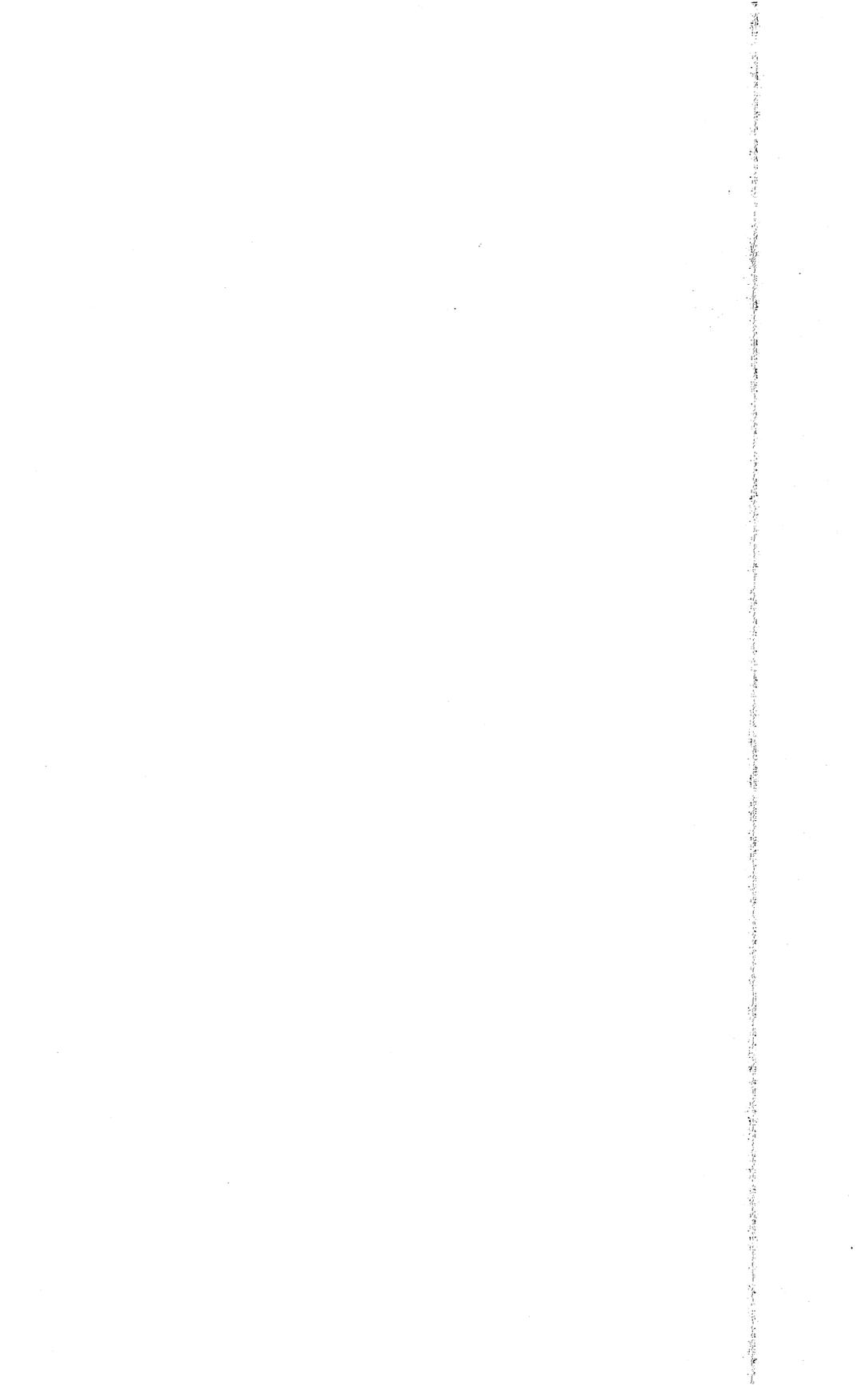
political process make Thailand more assertive in acting on these transitions and present new challenges and policy options to American policy makers.

Internationally, broad changes have occurred in areas that give context to U.S.-Thai relations. The primacy of economics, reduction of immediate security threats against Thailand, and fundamental changes in China and the Soviet Union have encouraged the emergence of a more flexible, independent Thailand. The result is a move away from the traditional client-patron ties Thailand once had with the United States toward more equitable relations.

At the same time, Thailand is assuming a more active role, in many ways a leading role, in regional affairs. As the parties to the negotiations over Cambodia move closer to a lasting peace, Thailand hopes to integrate Indochina and Burma into a peninsular trade and finance market. That plan, if successful, could help bring normalcy to a region troubled by war for many decades. In such a scenario, Thailand could play a part in integrating Vietnam into the efforts of the other Southeast Asian countries to forge regional peace and economic cooperation. Moreover, the intensified presence of Japan in the region's economic affairs will accelerate the pace of economic interdependence in the Pacific Rim and enhance Thailand's economic role in the region.

Although the outcome of these trends is tentative, it is clear that the role of the United States will continue to undergo the sort of transition already incurred over the past decade. These adjustments, whose implications for U.S. and Thai policies are discussed throughout this volume, are characteristic of the issues that will dominate the new international era. The chapters in this volume and the shared ideas and viewpoints on these issues should make a lasting contribution to our understanding of relations between the United States and Thailand as well as broader changes in U.S. relations with the Pacific Rim for the decade to come.

**Part One**  
**Regional and Great Power Impact**  
**on Thai-U.S. Relations**



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# 1. The Thai Challenge: Balancing the Superpower Triangle Through a Period of Regional Change

RICHARD T. CHILDRESS

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Shortly after the events of October of 1973, Sanya, the interim prime minister of Thailand, said, "Thailand will take steps to further good relations with all countries which are friendly toward Thailand, including countries into different political ideologies, and will promote and strengthen friendly relations and understanding with neighboring countries."<sup>1</sup>

In the spring of 1974, Thailand normalized relations with Rumania, Mongolia, and Czechoslovakia and opened trade talks with the People's Republic of China and North Korea. Current Prime Minister Chatichai visited China during this period as both vice minister and foreign minister, and, on July 1, 1975, Thailand established diplomatic relations with the People's Republic. Also during this period, Prime Minister Kukrit stressed an independent course—peaceful coexistence and friendship with all countries professing good intentions to Thailand, regardless of political ideology. China, in turn, pledged to respect Thai sovereignty and support ASEAN goals. While in Beijing, Kukrit claimed that Thailand and China had almost identical views on Indochinese issues, and on Thai radio he said the Thai people should not fear certain "small countries after having made friends with such a big country."<sup>2</sup>

Phichai Rattakul, as foreign minister, emphasized a flexible Thai foreign policy and said that on this basis, "the top priority is to reach proper understanding with the countries of Indochina with whom we desire good, friendly and harmonious relations, and to realize the tremendous potential in economic collaboration between us." He also emphasized the

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<sup>1</sup>L. Edward Shuck, Jr., "Thailand: In Search of the Lost Trail," *Current History*, December 1975, p. 230.

<sup>2</sup>Foreign Broadcast Information Service (FBIS), *Daily Report—Asia & Pacific*, February 27, 1976, p. 31.

importance of ASEAN to Thailand, calling it the “other main pillar” of Thai foreign policy.<sup>3</sup> General Saiyud Kerdporn, deputy chief of staff of the Royal Thai Army, in an extensive *Bangkok Post* article of November 26, 1977, emphasized that ASEAN was the “only hope” for Thailand.

The general’s statements followed the U.S. withdrawal from Vietnam, where Thailand had been aligned with the United States, had provided vital facilities to U.S. forces during the war, and had viewed the United States as a counterbalance to the external communist threats represented by China and the Soviet Union externally and Vietnam regionally. The threat had internal credence in Thailand as well because of the Thai insurgency, directly supported by the communist powers.

Many observers have noted and much has been written about the remarkable flexibility of Thai foreign policy, which saved them from colonial domination earlier and superpower domination later. The statements and events above are illustrative of how quickly the Thais can adjust to changed regional and international circumstances. In the above case, the adjustments were prompted by the sudden normalization of relations by the United States with China and the U.S. retreat from Indochina.

The similarity of Thai statements during a later period of needed adjustment, the Thai shift in its approach to Vietnam led by the Thai prime minister, is important. Following Prime Minister Chatichai’s public statement that the battlefield should be converted to a marketplace, he provided an aide-mémoire to President Bush during their meeting in Tokyo that proposed common endeavors in “expanding economic relationships with Thailand’s neighbors, political and diplomatic circumstances permitting.” He continued: “The Indochinese countries and Burma are opening up, and a combination of Thailand’s geographical advantages and U.S. technological know-how would be an irrepressible one in taking advantage of the evolving situations in these countries and, more importantly, in strengthening the issue of peace and prosperity in this region.”<sup>4</sup>

The prime minister’s new public stance combined with his surprise meeting with Hun Sen in Bangkok generated much ink about differing views inside the Thai government concerning Cambodia. General Chatichai has stated that the aide-mémoire represents no change in policy but only a change in method. Further, he claims he never meant to persuade the United States to join Thailand in exploring trade and investment opportunities in Indochina.<sup>5</sup> The Thai Foreign Ministry has also gone to great

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<sup>3</sup>Pichai Rattakul, interview on Thailand’s policy objectives, in *Far Eastern Economic Review*, July 23, 1976.

<sup>4</sup>FBSI, *Daily Report—East Asia*, 89-037, February 27, 1989, p. 61.

<sup>5</sup>*Ibid.*, p. 62.

pains to insure that everyone understands that Thailand's basic objectives in regard to Cambodia have not changed and that the only acceptable solution is the full withdrawal of Vietnamese military forces and the emergence of a neutral, nonaligned, and independent government in Phnom Penh controlled neither by the Khmer Rouge nor by the Vietnamese. These words of reassurance by the prime minister and the Foreign Ministry were welcomed by the United States, China, ASEAN, and others, in view of the tremendous diplomatic and material capital which had been expended over the past ten years to fashion and maintain a coherent Cambodian strategy that keeps pressure on the Vietnamese to fully withdraw, restores self-determination to the Cambodian people, and signals Hanoi that under such circumstances their integration into the world community would be welcome. The United States, ASEAN, China, Japan, and the European Economic Community (EEC) have, in various degrees, recognized the unique frontline status of Thailand in Southeast Asia since the Vietnamese invasion of Cambodia. The perceived change in Thai policy, lacking a political agreement to insure Cambodian sovereignty, raised eyebrows in conference rooms around the world.

The question asked by many was "why now?" In the eyes of most, the consolidated strategy was just beginning to pay off. Vietnam had begun the long-sought withdrawal from Cambodia, their forces were leaving Laos, dialogue among the external powers and the Cambodians was increasing, Vietnam was turning inward to economic reform, and record votes in the United Nations supporting the ASEAN position were recorded each year. The answer relates both to past political experiences of the new Thai government and to their interpretation of external relations between and among the superpowers.

Many in the new government and former government had been required to go through a painful readjustment after the departure of the United States from Indochina. The United States was viewed as the primary security guarantor, and its departure was viewed as abandonment by some and good riddance by others. Prime Minister Chatichai, at the eighth ASEAN meeting in May 1975, paid great attention to strengthening ASEAN as a prelude to neutrality. His sentiments were with the integration of Indochina even when Hanoi was "feeling her oats" and had characterized the 1976 ASEAN summit conference as prompted by the United States in a new scheme of intervention and aggression and claimed that ASEAN was an "American stalking horse to rally all pro-American reactionary forces against the revolutionary movement in Southeast Asia."<sup>6</sup> Thailand was compelled, given the circumstances, to make necessary adjustments to the

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<sup>6</sup>*Quan Doi Nhan Dan* (Hanoi), February 22, 1976.

new realities. Its patron, the United States, had departed, leaving instability on Thai borders and across those borders the first and second largest armies in Asia, both communist.

Given this history and the personalities involved, it is not surprising that the initial thrust of the new Thai government would be preventive diplomacy in an attempt to reposition the Thai regional and international posture. Circumstances today, however, are quite different. Thailand is not isolated but supported by a strong ASEAN strategy, backed by the United States, Japan, and the EEC. In addition, the Chinese posture toward Vietnam influences Hanoi's decisions concerning Thailand. Thus, any unilateral shift that is not coordinated fully with the international community carries the risk of weakening the Thai position rather than strengthening it.

The United States has recognized the regional and international changes taking place, has welcomed the initiation of the Vietnamese withdrawal, and supports eventual Vietnamese integration into the region, as does Thailand. Thailand and the United States also share the same objectives in Cambodia. The Thais are rightfully sensitive to their border and the manner in which events over time will be influenced by the Soviet Union, China, and the United States, all of whom have vested interests as players.

To use a familiar phrase, Cambodia is a "side show" to the Soviet Union, but it is important in relation to its goals with regard to China and the bustling economic nations of Asia. Secretary General Gorbachev's Vladivostok speech of July 1986 set the Soviet Union in the direction of pursuing commercial, diplomatic, and political ties with East Asia and the Pacific. The Soviet Union has recognized that it cannot support its large military establishment, deployed in competition with the West, without a change in policy, and its East Asian policy figures heavily in those changes. It recognizes the strategic and economic importance of its eastern flank and that development of the Siberian Far East will require greater trade with the Asian nations. It also recognizes that a policy based solely on massive support of a few authoritarian allies, such as Cuba, Vietnam, Afghanistan, and Syria, will not achieve its objectives. However, long-term Soviet aims have not changed. The Soviet Union clearly wishes to preserve earlier gains, while changing the world's perception of the Soviet Union as a single-dimensional military state. Gorbachev noted that changes in the world required "new approaches, methods and forms of relations between different social systems, states and regions,"<sup>7</sup> but the party platform of

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<sup>7</sup>U.S. Department of Defense, *Soviet Military Power, 1988* (Washington, D.C.: U.S. Government Printing Office, 1988), p. 18.

1986 still emphasized the historic competition between socialist and capitalist systems in which the victor would inevitably be socialism.

In the Asian context, the Soviet Union finds itself supporting the world's fourth largest army in Vietnam, the site of its largest naval base outside of the Soviet Union. That base is viewed as a threat by many of those with whom the Soviet Union wishes to expand ties, including China and the successful Asian economies. Thus, for the Soviet Union Cambodia is a nuisance that needs to be resolved in a way that preserves Soviet interests in Vietnam while removing it as an obstacle to Sino-Soviet normalization and access to Asian markets. The Soviet urging of Vietnam to settle the question of Cambodia must be viewed in this light rather than as a benign move with a goal of self-determination for the Cambodian people. The larger motivation of Soviet behavior should be apparent to the Vietnamese leadership and in the longer term could lead to an important reinforcement of Vietnamese nationalism and independence, because the Cambodian outcome is of vital importance to Hanoi.

For China, Cambodia represents both a test of Soviet sincerity and a problem that symbolizes a historical imperative of the Middle Kingdom. To Beijing, Hanoi has behaved like an ingrate by aligning itself with the Soviet Union after China's substantial support for Vietnam against the French and the Americans. China was aware of the Soviet Union's attempt to "encircle" it, and Vietnam's alignment represented an unforgivable betrayal. Cambodia became the ground on which China would teach Vietnam another historical lesson. Although China's presence is more compelling to most Southeast Asian leaders than that of the Soviet Union, Chinese influence has grown remarkably in Southeast Asia because of the Vietnamese occupation of Cambodia. In an emotional test of wills, China aimed to return the Khmer Rouge to power and to "bleed Vietnam white" with seemingly little regard for regional or international sensitivities. Over the past ten years, China has moderated its position considerably and in so doing gained greater credibility in the region.

With the Vietnamese army at its borders, Thailand accepted China as a regional guarantor of its security along with the United States. As the Thai-PRC relationship grew closer in the mid-1980s, internal Thai political debate became heated, and some concern was expressed in ASEAN as well. Much of the current posture to "balance relations" and strike an equidistant stance stems from the debate over Thai-PRC relations and the economic interests of some Thais. A particularly concrete manifestation of the evolving Thai-PRC relationship has been the sale of Chinese military equipment to Thailand. The sales, at "friendship prices," have been on such favorable terms that they are a de facto aid program. Thai military planners accurately point to declining U.S. military assistance in the face of the

Vietnamese threat as well as the high cost and slow delivery of U.S. equipment. American military assistance to Thailand tripled from 1981 to 1985, with a high of \$100 million per year. Because of unbalanced congressional earmarking and budget constraints, it has declined to \$22 million in fiscal year 1989. Initially at least, the Thai military viewed the provision of Chinese equipment as a temporary measure to fill gaps in its modernization program until the Vietnamese threat receded. In the absence of increases in U.S. support, however, standardization and interoperability will suffer. ASEAN-wide, nonspecialized ammunition is relatively standard because of the preponderance of U.S. supplies in the past; larger specialized systems in the region came from a variety of sources.

The Sino-Soviet rivalry and, by extension, the Sino-Vietnamese rivalry have insured that Vietnam would not become a dominant hegemonic power in Southeast Asia. This dynamic has provided some stability pending a decision by Vietnam to fully withdraw, but that stability has come at some expense to the Cambodians themselves. If one presumes an acceptable settlement in Cambodia and a corresponding reduction of Sino-Soviet tensions, in the future threat perceptions in ASEAN could return to a more sharply focused pattern of concern over China's long-term intentions. Presumably, territorial and maritime claims, the question of overseas Chinese, and obvious economic competition would become more pronounced issues involving ASEAN and China.

Although China downplays expectations for Sino-Soviet relations, except for a resolution in Cambodia, movement has been apparent. Statements before the May 1989 summit by the Chinese foreign minister to the effect that problems would remain but the summit would be significant with or without signed agreements were remarkably bland compared to the Chinese posture of only a year before, when Cambodia was an obstacle of such magnitude that a summit was not possible. Li Peng's visit to Japan was also confirmed in the Chinese statements, and PRC-Indonesia normalization was characterized as essentially solved since the late February meeting of the Chinese with President Suharto in Tokyo.<sup>8</sup> Both events were a reminder of movement in Asia that is not particularly comforting to Moscow, which still remains, in a relative sense, outside. China's recent crackdown on political dissent and the country's economic readjustments have not fully played out yet on regional affairs.

For the United States, the Vietnamese invasion of Cambodia was an event that refocused attention on the region after a period of "licking its wounds." It was also a watershed for Thailand and ASEAN. For Thailand, it

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<sup>8</sup>PRC Foreign Minister Qian Qichen, press briefing, Beijing, March 27, 1989.

removed a historic buffer and demonstrated to the noncommunist nations of the region that Vietnam was willing to overtake a neighbor by force of arms. Regardless of the brutal nature of the Pol Pot regime, which certainly deserved to fall, the invasion threatened the strategic balance in the region. ASEAN stood firm in resisting such a precedent, and the United States joined China in support of the regional initiative. U.S. policy until 1982 focused almost solely on the occupation of Cambodia, and one could discern little difference between the positions of Beijing and Washington. Later, specific U.S. emphasis in support of the ASEAN lead and recognition that Chinese goals with regard to the Khmer Rouge differed from the position of the United States helped to moderate the Chinese position, strengthened the ASEAN hand, and helped focus international opinion on the Khmer Rouge question.

United States policy has been fashioned on the assumption that a regional settlement is the most stable kind and that direct involvement by the U.S. as a protagonist could be counterproductive. Such a posture allowed the U.S. to provide direct support to Thailand, as the frontline state, and material aid to the noncommunist resistance through ASEAN. In addition, the U.S. was able to give strong diplomatic support to ASEAN and deal directly with Vietnam on humanitarian issues, while bringing diplomatic pressure to bear to help prevent the return of the Khmer Rouge to power. Individual ASEAN states were occasionally frustrated by the U.S. stance and called for a more active posture, as did Vietnam. In the ASEAN context, however, the required posture was defined differently by each state and ranged from moving toward interest sections in Hanoi and Washington to calls for *direct* U.S. provision of lethal aid and advice to the noncommunist resistance. Unilateral U.S. moves under the circumstances would have generated intra-ASEAN tensions and weakened the strongest ASEAN card, their unity.

The ASEAN search for a lasting political settlement in Cambodia that provides for the complete withdrawal of the Vietnamese and assurance against the return of the Khmer Rouge will require strong U.S. support for the establishment of an international presence along with continued lobbying in Beijing and Moscow for these goals. The Vietnamese announcement that their forces had withdrawn was welcomed, but notes of caution were issued as well. Neither Hanoi nor Phnom Penh acknowledged the need for genuine self-determination for all Cambodians, and there is no provision to verify the Vietnamese withdrawal. U.S. policy makers have stated that they look forward to full diplomatic and commercial relations with Hanoi in the context of an *acceptable* settlement, under the assumption that substantive cooperation on the issue of prisoners of war and the missing in action will be ongoing at the time. Should such circumstances

develop, a U.S. presence in Hanoi would be welcomed by ASEAN, as it would provide greater stability to the region.

After Prime Minister Chatichai reassured Prince Sihanouk of Thai support and reiterated that the prince is the most suitable person to bring about national reconciliation, dialogue between Prince Sihanouk and Hun Sen resumed. The Sino-Soviet summit, the deepening Thai-Lao relationship, the growing economic reform impulse in Indochina, and Soviet-Vietnamese dialogue clearly indicate regional change is underway. It remains to be seen whether such change will positively move all parties toward a Cambodian settlement that will provide self-determination to Cambodia and greater stability to the region. The direction Thailand takes will be affected by superpower actions, but Thailand knows that ultimately it will have to live with the outcome as will the long-suffering Cambodian people.

Movements in Thai policy begun during the Prem administration were responses to Hanoi's taking the long-awaited step of beginning a withdrawal. Fashioning a settlement that recognizes the legitimate security needs of both Vietnam and Thailand while simultaneously insuring self-determination for the Cambodian people is the current challenge. Most observers agree that in the absence of international supervision and peacekeeping, the requisite assurances to prevent the return of the Khmer Rouge to power and to validate a Vietnamese withdrawal do not exist. Thus far, the reluctance of Phnom Penh and Hanoi to deal seriously with the peacekeeping issue is worrisome. They may be taking a tactical position, or the reluctance may reflect continued factionalism in Hanoi. However, should Thai impatience result in actions that would disenfranchise a large percentage of the Cambodians and negate international efforts over the past ten years, future instability is predictable, to the disadvantage of the entire region, especially Thailand and Vietnam. Such a scenario would confront the Thai with even greater complications in their relations with China, the United States, and ASEAN as well as Japan.

A great reserve of goodwill exists between the United States and Thailand. Some of it has been eroded by declining aid cuts (military and developmental), the protectionist U.S. farm bill, intellectual property disputes, tension over refugees, and internal political fractures in Thailand; but in the final analysis, the bonds established over the years between Thailand and the United States provide a reference point that Thailand does not share with China or the Soviet Union. Ironically, because of past bonds, despite an atmosphere of regional tension with superpower stakes, the United States is viewed as relatively benign, as a friend and ally.

The previous discussion relates to security, but economic factors also argue to Thai policy makers that their long-term economic national

interest lies in support for a settlement in Cambodia that brings real stability to the region. Japan, for the first time, has exceeded the United States in overall foreign assistance levels, and its outward thrust and priority is to invest in the United States and Southeast Asia. In a recent Congressional Research Service report on Thai-U.S. economic relations, it is evident (although the sample of Thailand's elite is acknowledged not to be totally representative) that the United States comes across as insensitive, bullying, and lazy compared to Japan. The Japanese are viewed as sensitive to Thai consumer needs, patient, and flexible.<sup>9</sup> Clearly, the findings relate to Thai disappointment over protectionist sentiment in the United States, beginning with the gradual reduction of foreign and military assistance and the influx of Japanese capital investment. The Japanese realized that sensitivities toward them were real in Southeast Asia, and they needed to "reach out and touch someone."

Japan, to sustain its economy, requires that the overwhelming majority of its raw materials come from abroad. In percentage terms in ASEAN last year, the Japanese took 70 percent of the exports of Brunei and 50 percent from Indonesia, with an ASEAN low of 10 percent of Singapore's exports. Such statistics point out the Japanese paradox—Japan's strength could become its weakness. Japanese investment leads the way in Thailand, followed by the Asian NICs, and then the United States.

The Japanese recognize that a passive role in international affairs will not insure the viability of their nation. It became obvious in the early 1980s that Japan would assume greater responsibility internationally and that its emphasis would be on the United States and the noncommunist countries of Asia. The fiscal year 1988 Japanese budget for overseas development assistance is \$5.4 billion, and 70 percent of that assistance is focused on Asia. With such dramatic numbers come complaints that such assistance is tied to Japanese investment rather than pure aid. Such complaints have validity in certain programs, but significantly for the region, Japan has made it clear that its aid was intended to implement and enhance U.S. programs. Joint studies, both official and unofficial, are underway to rationalize such complementary programs between Japan and the United States. In 1988, Prime Minister Nakasone pointed out that 40 percent of the world's share of the gross national product rests in the United States and Japan. He also strongly endorsed ASEAN peace efforts toward a comprehensive settlement in Cambodia, supported Prince Sihanouk, and called for the withdrawal of Vietnamese forces. Nakasone also felt that the United States and Japan should begin to consider external cooperation for

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<sup>9</sup>Raymond J. Ahearn, "Thai-U.S. Economic Relations: Some Views of Thailand's Economic Elite," Congressional Research Service report for Congress, January 17, 1989.

reconstruction and development in Indochina *after* a peace settlement.<sup>10</sup> This Japanese stance on Cambodia recognizes the importance of a stable and comprehensive settlement to Japan's economic future.

At the March 1989 Economic and Social Commission of Asia and the Pacific (ESCAP) meeting, Prime Minister Chatichai said the most immediate threat to the nations of the region is the rise of protectionism. He urged developed nations to liberalize trade. Foreign Minister Siddhi called for stronger economic ties in the Asia-Pacific region as a solution, noting that cooperation was needed to resist protectionism and lessen the disparities of wealth. By defining the most immediate threat in economic terms alone, however, Thai policy concerns could become self-fulfilling.

A simple description of the security and economic dimensions of Thai policy demonstrates the pressures, perceived, real, and imagined, that the Thai body politic copes with over time in its relations to the external powers. An objective evaluation of these pressures leads one to the conclusion that Thai policy should maintain a "moving equilibrium," but to do so will require as the first priority a complex network of consultations with ASEAN, the United States, Japan, and China. Such dialogue cannot artificially separate the security and economic dimension. To do so would risk the balance Thai policy makers seek. Through such consultation, Thailand can conduct a genuine dialogue with Vietnam, paced with Vietnam's sincerity in creating the conditions for a settlement in Cambodia, that Thailand, the international community, and the Cambodian people can endorse together.

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<sup>10</sup>Yasuhiro Nakasone, *Japan-U.S. Cooperation for Peace and Prosperity in the Asia-Pacific Region: Toward a Pacific Initiative*, second Ellsworth Bunker Memorial Lecture (San Francisco, Calif.: The Asia Society, 1988).

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## 2. U.S.-USSR-PRC Triangular Relations

SARASIN VIRAPHOL

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Major shifts in the triangular relationship of China, the Soviet Union, and the United States over the past decade and particularly most recently have had a dramatic impact on the strategic environment of the Western Pacific Rim. As the ties between Beijing and Moscow stabilize and as Washington's relations with Beijing and Moscow are redefined, this triangular relationship is reaching an equilibrium and, hence, moving toward a more stable state. Although the transfiguration is largely a result of the individual and collective actions and policies of the three major powers, the states of the Pacific Asian region are also playing an increasingly crucial part in shaping the strategic landscape of their region. In particular, they have adroitly exploited their newly acquired economic strength to enhance their relative political status, taking advantage of a strategic "stalemate" in the major powers' triangular relationship. Throughout the region, talk of power confrontation in its conventional sense is increasingly viewed as anachronistic, as governments, including the major powers, echo words of dialogue and peaceful interaction. These developments have brought forth the prospect of a reorientation in the regional power alignment, which will necessarily bring to an end the Cold War alliance system. Although it appears that the threat of power confrontation among the major powers is being minimized, they remain vital to the maintenance of stability and development in the region nevertheless. On the regional strategic scene, the other states are faced with an unprecedented challenge to take the initiative and increase their interaction with the major powers to help determine a future course.

### **The Chinese Equation**

Changes related to China probably constitute the single most vital factor affecting the regional strategic landscape. The "pragmatism" of Deng Xiaoping that has supplanted the legacy of the ideological revolution of Mao Zedong has been dictated by Beijing's evolving relations with Moscow and Washington over the past decade. At the peak period during which China championed the causes of the Third World and antihegemonism in

the 1970s, China found itself in a very vulnerable position vis-à-vis the Soviet Union and the United States. Its fear of and competition with the Soviet Union were expressed in Beijing's support for "wars of national liberation" and opposition of "social imperialism" (a code word for the Soviet Union). The chauvinism manifested during the Cultural Revolution was also a prominent factor causing Beijing to take an antagonistic stance against the two superpowers who posed the gravest threats to world peace—with the Soviet Union being decidedly the more dangerous. The Soviet attempt to encircle China could only confirm Beijing's prejudice. The emergence of Deng's pragmatist line did not mollify the longstanding Chinese perception of the Soviet threat, particularly when the subsequent Vietnamese invasion of Cambodia and the Soviet invasion of Afghanistan served to accentuate Soviet intentions toward China through Moscow's stationing of a million troops along the long and volatile Sino-Soviet border and in Mongolia. The difference was Deng Xiaoping's effort to tilt to the West—particularly the United States and Japan—in order to end the precarious power imbalance against China. This strategic rethinking was coupled with Deng's advocacy of China's self-strengthening through radical transformation of Chinese economic policies with the opening to the West—perhaps borrowing a historical lesson, however imperfect, from nineteenth-century China, which faced grave external threats at the nadir of its power. The calls for an end to the self-imposed isolation and the drive to catch up economically with the advanced Western nations (in the name of the "Four Modernizations" program first popularized by Zhou Enlai) were powerful justifications for normalizing relations with Washington (as well as strengthening ties with Washington's regional allies such as Japan and Thailand). The move toward Washington permitted Deng to deal with the external threat posed by Moscow on China's southern flank through the "lesson" against Vietnam in early 1979—a move that was accompanied by a strong expression of nationalism.

The 1980s have witnessed Beijing's continued attempts to balance its relations with Moscow and Washington. Deng was initially in favor of a strong Sino-American alliance, a sentiment that struck a responsive chord in some quarters in Washington in the final days of the Carter administration. The Reagan administration's pronounced anti-Soviet policy and its pledge to strengthen the U.S. Seventh Fleet, on the one hand, and its pro-Taiwan stance, which threatened to reverse the U.S. one-China policy, on the other, may have caused Beijing to halt its effort to seek a strategic alignment with Washington. Concurrently, as the situations in Cambodia and Afghanistan became protracted and as Moscow under Leonid Brezhnev began to make overtures to Beijing, the Chinese fear of the Soviet threat receded. Deng now found advantage in more balanced relations

with Moscow and Washington. This reorientation remained credible, permitting China to pursue more independent policies and actions.

Beijing at first demanded the removal of the so-called three obstacles as the price for normalization of political relations with Moscow but allowed the resumption of bilateral trade (which since 1982 has quadrupled). The steady positive Soviet response to Chinese demands has in turn created favorable conditions for Deng's continued implementation of his balancing policy by at least allaying Beijing's apprehension of the Soviet threat against China. Without completely altering traditional Chinese suspicion of aggressive Soviet intentions, Mikhail Gorbachev has nevertheless helped strengthen the Dengist strategy of maintaining a balanced triangular relationship. Gorbachev's *glasnost* and *perestroika* are, after all, an acknowledgment of Deng's restructuring policy, an admission of its correctness, as well as a refutation of Moscow's erstwhile critical attitude toward it. Perhaps Deng can now more readily relate personally to Gorbachev, as they seem to share similar views on the fostering of a more favorable climate in the major powers' relations. Gorbachev's readiness to make China a centerpiece of his foreign policy (particularly his Asian policy) is underlined by his willingness to address Deng's three obstacles. He has announced a substantial reduction of Soviet troops along the Sino-Soviet border and from Mongolia. The Soviet withdrawal from Afghanistan has already been accomplished. Now more than ever, the Soviet side appears willing to pursue the Cambodian question, which Deng has named as the "foremost" obstacle among the three. Furthermore, Gorbachev has expounded Moscow's most substantive Asian policy to date, as embodied in his Vladivostok speech of July 28, 1986, his July 21, 1987, interview with the Indonesian newspaper *Merdeka*, and his September 16, 1988, Krasnoyarsk speech, all of which reflect Moscow's interest in and emphasis on China. Even though such gestures by Gorbachev, which indicate Moscow's renewed responsiveness to China's sensitivity, have not led to any substantive Soviet concessions in issues that involve Moscow, they are convincing enough to Deng of Gorbachev's seriousness in improving the security situation around the region. (Deng's current perception of the Soviet Union is perhaps best described in the reaction of former president Nixon to President Reagan's characterization of the Soviet Union as an "evil empire" that the Soviet Union may be an evil empire, but one must learn to live with it.)

The expected summit between Deng and Gorbachev in mid-May 1989 will provide a pretext for the normalization of political ties between Beijing and Moscow—at both the government and party levels. Deng will fall short of his desired objective of getting Gorbachev to remove all three obstacles—in fact, it is projected that the foremost obstacle, the Cambodia

question, will still be far from resolution. However, the summit will provide a basis for Deng to claim his personal triumph in "bringing around" the Soviet Union. Beijing is likely to continue to believe that the greatest threat still emanates from the "north." (As Deng put it to President George Bush during a recent visit to Beijing, China's preoccupation following the May summit would continue to be the Soviet Union.) According to Deng, in strategic terms Beijing still sees Moscow as maintaining an encirclement of China. China's policies are an effort to break out of this encirclement. An altering of the triangular major power relations is one main approach. Hence, establishing close ties on the basis of the Five Principles of Peaceful Coexistence will allow Beijing to normalize relations with Moscow while asserting that such new relations will in no way revert back to what prevailed in the 1950s.

Likewise, Beijing can pursue expanded contact with Washington on a similar basis, which is further enhanced by the rationale of economic exchange. Publicly, Deng has announced China's intention to deal with both the Soviet Union and the United States without letting one relationship damage the other. In order to maintain China as the "third leg" of the strategic tripod of power, Beijing recognizes the need for a continued strong U.S. presence in East Asia. To this end, it prefers to see the retention of U.S. forces in Japan and South Korea as well as the U.S. bases in the Philippines. It is further interested in seeking closer military cooperation with Washington in developing its own military technology. Despite rows over the commercialization of Chinese weaponry developed with U.S. technical assistance, Beijing's immediate aim is fulfilling its own defense needs, particularly by improving its naval and aviation capabilities, deemed necessary, for instance, in exerting its claims over the Spratly and Paracel islands as well as dealing with any threat posed by the Soviet naval presence near Chinese shores. (It has been rumored that the Chinese navy is contemplating the construction of an aircraft carrier, which presumably would be used in supporting any effort by Beijing to exert claims over the far-flung Spratlys.)

As an essential part of strengthening the strategic tripod's third leg, Beijing has been consciously developing bilateral ties with the regional states. Japan is perceived to be a vital factor in the overall strategy. Besides the obvious economic role of Japan on China's modernization agenda, Japan has a strategic importance in the regional power configuration. From the standpoint of its technological advancement and strategic location, Japan figures importantly in the relationship between Moscow and Washington. In a new environment where Japan's relations vis-à-vis the United States and the Soviet Union no longer seem clearly defined as a result of the changes that have been introduced into these relations, Japanese policies

and actions are becoming increasingly relevant. Japan's strong identification with the United States is expected to continue, although in a less matter-of-fact fashion, but Tokyo's burgeoning political ties with Moscow are also being closely monitored in Beijing. Tokyo is anxious to be on better terms with Moscow as the triangular major power relationship undergoes an important transformation, and Tokyo must increasingly seek to deal with the Northern Territories question in the eventuality of normalization of its political relationship with Moscow. Specifically, Beijing is likely to be watching with concern the progress of the ongoing efforts by Tokyo and Moscow to clear the hurdles (including the Northern Territories question), the conclusion of a peace treaty, and the visit to Japan by Gorbachev. Meanwhile, any significant change in Tokyo's economic dealings with Moscow, such as the likelihood of Japanese investment in Siberia and the Soviet Far East as well as sale of sensitive high-tech items with possible military applications (such as in the Toshiba machine tools incident), would further heighten China's sensitivity about Japan's role.

Under the pretext of trade and economic development, Beijing has taken bold political moves in developing ties with other regional states, such as South Korea and Indonesia. Despite apparent risks of offending Pyongyang, Beijing has sanctioned the burgeoning informal Beijing-Seoul ties to encompass a U.S. \$3 billion two-way trading arrangement that will soon be conducted directly at the national level. Beijing's rationalization for direct contact with Seoul is the peace and stability on the Korean peninsula. Economic imperatives have also propelled the process of diplomatic normalization between Beijing and Jakarta, which the former has sought ardently in recent years. Premier Li Peng's enunciation in Bangkok in October 1988 of China's four-point policy toward the ASEAN countries had as its backdrop initial contacts carried out by Chinese and Indonesian officials at the United Nations to prepare the ground for the eventual normalization. The latest public gesture by President Suharto, giving a green light to the process, is considered a major diplomatic coup for Beijing, which can now look forward to normalization with the two remaining ASEAN countries. Similarly, Beijing has been able to move closer to Taiwan by developing a mutually beneficial economic relationship. The impending return of Hong Kong to China's fold, Beijing's confirmed modernization drive with a distinctive preference for the West, the lowering of the political temperature as a result of the changes within the triangular major power relations, not to mention Beijing's and Taipei's more relaxed attitudes toward each other are important factors contributing to the rapid development of direct economic contacts and increased movements of people between the two sides. It is anticipated that Taiwan

will become a sizable influence in China's drive toward modernization, initially through trade and investment in southeastern China.

Following the falling out between Beijing and Vietnam and the entrenchment of Soviet military and political influence over Indochina, Thailand has more than ever before figured importantly in Beijing's strategic planning. Bangkok's strong opposition to Vietnam's occupation of Cambodia has brought about strong political cooperation between Thailand and China, which has thus far denied Hanoi of a *fait accompli* in Cambodia and developmental opportunities in Vietnam because of international sanctions. Thailand has been seen by China as an effective counterweight against Soviet and Vietnamese "hegemonism." At the same time, Thailand has been seen as the bridge to the rest of ASEAN, which Beijing regards as an effective regional political voice against adverse power rivalries in Southeast Asia and an important opportunity for trade and economic cooperation.

As the Cambodian conflict appears to move closer to a settlement in the wake of the Sino-Soviet *détente*, China seems to be augmenting its presence in Southeast Asia with a somewhat modified approach. While Beijing continues to deal cautiously with the Cambodian problem, advocating the need to maintain a strong unified front by China, ASEAN, and Thailand to continue pressing for a speedy Vietnamese withdrawal from Cambodia and the establishment of an acceptable political arrangement in the country, it is also increasingly articulating postsettlement prospects entailing China's involvement in the ultimate development of Southeast Asia. In this respect, Beijing is not unreceptive to the current Thai thinking about various schemes of multilateral cooperative endeavors involving the countries of peninsula Southeast Asia—particularly Burma, Thailand, Laos, Cambodia, and Vietnam. Beijing has readily agreed to a leading role by Thailand in the current efforts to forge a closer role in trade and investment in Laos. It further admits to a strong potential for Thailand to lead in the reconstruction of Cambodia in the postsettlement era. Concurrently, Thailand is seen in Beijing as continuing to serve as a bulwark against expansionism by Vietnam and the Soviet Union. Hence, the affinity Beijing shows toward Bangkok serves an encompassing purpose consistent with the interests of both China and Thailand. Beijing's readiness to meet Thai requests for supplies of weaponry may entail, on the one hand, a commercial motive. But, on the other hand, it underscores Beijing's desire for strong political as well as economic cooperation to promote the collective interests of both countries, particularly at this juncture of shifting power patterns that promises an increasingly dynamic Chinese involvement in Southeast Asia.

Beijing is apt to claim that China wishes for a long-lasting peaceful

international environment in order to adequately complete its modernization tasks. Theoretically, Beijing has agreed that a “joint economic prosperity” between socialism and capitalism, which would promote world peace through cooperation, is in line with China’s goals of cooperating with all countries in accordance with the Five Principles of Peaceful Coexistence. Beijing, in this regard, has admitted that its experience of collectivization for economic development has not been satisfactory and sees the necessity of coopting the “successful” (i.e., capitalistic) models through interdependent economic relations. This policy serves China in good stead, having made China’s international standing not only more secure than any time in the past but also more enhanced and respected. Already Beijing’s involvement in various spheres of activities within the region is accelerating. In developing and strengthening bilateral ties with the two superpowers and the regional states and in heightening its profile within multilateral organizations and forums such as the Asian Development Bank (ADB), the Economic and Social Commission of Asia and the Pacific (ESCAP), and the Pacific Economic Cooperation Conference (PECC), Beijing wants the region to be fully conscious that China is indeed a power to be reckoned with in various spheres of activity in the region. A more active and involved China should contribute to regional stability and development at a time when China and the majority of the regional states welcome the prospect of confrontation giving way to dialogue and cooperation.

But at the same time, problems still exist that can upset Beijing’s agenda of peace. Such issues include the continuing territorial claims dispute over the Spratlys and the incident involving the Philippine legislature’s attempted *de facto* recognition of Taiwan as a state. There is further the ever-present apprehension among several regional states of an expansionist China, despite Beijing’s attempt to dispel such an image.

### **The Soviet Union’s Equation**

Since Mikhail Gorbachev’s ascendancy as general secretary of the Communist Party of the Soviet Union (CPSU) in 1985, Moscow has increasingly made China the centerpiece of its diplomatic strategy in East Asia. From at least 1982, the Kremlin leadership has been trying to pursue policies that manifest its rationalization that the “abnormality” in the relationship between the two largest socialist countries must be speedily terminated. The bold initiatives taken by Gorbachev since starting to tackle in earnest the major sticking issues with Washington and Beijing have resulted in an unprecedented momentum that, on the surface at least, has ameliorated a political climate previously charged with the tension of confrontation.

In the 1970s, under the shadow of Leonid Brezhnev's Asian Collective Security System, Moscow's policy for the Asia-Pacific region was characterized by its anti-Chinese, anti-U.S. thrusts. This policy had been carried out through Moscow's unrelenting efforts to expand its Far Eastern forces, both on land and at sea, with the obvious intent at encircling China and rivaling the U.S. presence in the region. In spite of the U.S. military retrenchment following the Vietnam fiasco, Soviet naval strength continued to grow rapidly. Meanwhile, Moscow showed no hesitation in abetting Hanoi's deepening estrangement with Beijing. Its strong support of the Vietnamese invasion of Cambodia and its own invasion of Afghanistan shortly thereafter bared the aggressive Soviet intent in promoting regional conflicts.

The situation in the 1980s has seen a fundamental shift. For the first half of the decade, Moscow's foreign policy remained in a state of suspended animation under the Kremlin's gerontocratic rule by a string of incapacitated leaders from Brezhnev to Yuri Andropov to Constantin Chernenko. This political situation was coupled with further stagnation of the Soviet economy and an increasing distance between Soviet economic and technological development and that of the advanced countries of the West. At the same time, Moscow was facing renewed challenges from Washington and Beijing, specifically in response to Moscow's military buildups, and from an entire region whose economic dynamism was becoming increasingly manifested and where the Soviet Union was being denied an opportunity to partake of the benefits. The Soviet support of Vietnamese adventurism in Cambodia had further resulted in castigation by the regional countries, particularly the ASEAN countries, China, and Japan (which already found itself at loggerheads with Moscow over the Northern Territories dispute), and Moscow's political and military entrenchment in Indochina and the South China Sea (specifically with its acquisition of the strategic Cam Ranh Bay and Danang bases) had spawned anti-Soviet policies in the region.

The arrival of Gorbachev on the Soviet power scene seems to have shaken the Kremlin's traditional complacency regarding the "inevitable" triumph of Soviet socialism through relentless expansionism. His calls for *glasnost* and *perestroika* were tantamount to a shock therapy designed to break with past inflexibilities in Soviet policies and actions in response to a clearly changing international scene that saw the Soviet offensive position turning increasingly into a defensive one. Hence, Gorbachev had to resort to zero-sum initiatives to arrest and eventually reverse a deteriorating situation both at home and abroad.

To ensure the workability of his *glasnost* and *perestroika* strategy, Gorbachev's immediate concerns were relations with Washington and

Beijing. Seizing the opportunity afforded by the mounting economic difficulties faced by a Reagan administration which had overspent on defense buildups and overexpanded its economy, Gorbachev succeeded in engaging Washington in the first significant arms control and disarmament talks. The INF (intermediate-range nuclear forces) agreement and the ongoing talks on further reductions of other types of strategic nuclear weapons have delivered for Moscow a major political and diplomatic coup. Gorbachev achieved instant credit for being the first reformist Soviet leader in recent times and a man with whom others could "do business."

Having settled the question of the threat posed by Soviet intermediate-range missiles, which were also aimed at Asia, Moscow, through Gorbachev's bold Vladivostok and Krasnoyarsk proposals, challenged Washington to take parallel actions to lessen the superpower confrontation in the Asia-Pacific region. Moscow declared its readiness to curtail its deployment of naval forces in the Asia-Pacific and remove its bases from Vietnam in return for reciprocal U.S. actions, which would include the closure of Clark and Subic.

Gorbachev began to tackle the issue of Sino-Soviet rapprochement seriously by agreeing to address the Chinese apprehension of the Soviet threat as articulated in Beijing's three main obstacles. The Vladivostok speech made by Gorbachev in his second year in office highlighted East Asia as an important priority on his political agenda and portrayed his intention to alleviate the state of tension in the region and proffer cooperation in a new age of diplomacy. Specific to China, Gorbachev sanctioned the further heightening of regular political consultations, first at the vice foreign ministers' level, which eventually led to the meetings of the two sides' foreign ministers. Border talks were resumed in earnest with the new Soviet willingness to demonstrate flexibility in the outstanding border demarcation disputes, particularly along the Amur-Ussuri in the eastern portion of the Sino-Soviet border. Gorbachev further indicated Moscow's plans to reduce Soviet forces at the Chinese border and in Mongolia. Thus far, he has made a public commitment to pull back more than two hundred thousand troops along the Sino-Soviet border and three-fourths of the fifty thousand Soviet troops in Mongolia, presumably leaving behind only engineering units to support the Ulan Bator regime's infrastructure construction. Although there is still some vagueness regarding how such pullbacks and withdrawals will be implemented, the action when taken will not significantly alter the strategic balance of forces, which has been in the Soviet favor, given the one million Soviet regulars deployed along the Sino-Soviet border. Nevertheless, Gorbachev's declaration has created a substantial impact by underlining his readiness to resort to bold measures to bring about change.

Soviet commitments to Vietnam, based formally on the Soviet-Vietnamese Treaty of Friendship and Cooperation of November 1978, had previously appeared unassailable, particularly with regard to the Vietnamese invasion and occupation of Cambodia. Tactically, Moscow had until 1987 refused to acknowledge any Soviet role in the Cambodian issue, officially maintaining an air of aloofness. Following Foreign Minister Eduard Shevardnadze's whirlwind tours of the ASEAN countries, Australia, and the Indochinese countries in the spring of 1987, Moscow began to adopt a more flexible stand and increasingly agreed to play a role in the common effort to find a political settlement to the Cambodian problem. For the first time Gorbachev decided to respond to the Chinese challenge to work together to tackle the supposed main obstacle to the normalization of relations between the two giant neighbors. The response came on the heels of serious efforts by Gorbachev to end Moscow's ignominious role in Afghanistan, which was bleeding and splitting Soviet society and increasingly putting the Soviet Union in an untenable position both on the international front and inside Afghanistan, where the war appeared unwinnable for Moscow.

Gorbachev's move on Cambodia has been successful in prodding the Chinese leadership to seriously address the normalization question, which Gorbachev has all along deemed as the primary requisite for reinforcing the sagging Soviet position in East Asia and discouraging any attempt by Beijing and Washington to forge a strategic relationship. Gorbachev's position on Cambodia is also related to Moscow's overall attempt to adjust its image and influence through ties with the regional states—particularly ASEAN—which have all along insisted that the Soviet attitude toward Cambodia would determine the extent of the political relationship Moscow could expect to develop with them.

Although Gorbachev seems to have "yielded" by agreeing to discuss the Cambodian problem with Beijing with a view to a possible Soviet contribution to its settlement, Moscow has also stepped up its coordination with Hanoi concerning the "proper" diplomatic course of action. Moscow has been obliged, in deference to Beijing, to show certain flexibilities, but there has yet to be any sign of a radical departure of the Soviet line from that of Hanoi other than the appearance of a greater degree of demonstrated reasonableness. The decision to "take on" the Cambodian problem has yielded much for Moscow in its continuing efforts to improve ties with Beijing and the other regional states and in changing its overall image. Whereas Beijing had until recently insisted on the removal of this most serious "obstacle" as a prior condition for holding a Sino-Soviet summit (which it is presumed would lead to the normalization of the bilateral relationship), the Chinese have admitted now that such a barrier no longer

exists, and the summit has been set for mid-May 1989. Beijing now says that although it expects the Soviet Union to deliver its promise of pressuring the Vietnamese to expeditiously withdraw their troops (by September 1989), it also recognizes a "limitation" in such a Soviet endeavor. Thus, it seems at this juncture that the inevitable Sino-Soviet rapprochement will eventually be realized through its own dynamics, although the Chinese side will no doubt continue to press the Soviet side, by using the strength of the normalized bilateral relationship, to behave "constructively" in helping to determine the outcome of the Cambodian problem.

It would be unrealistic to assume that Gorbachev has abandoned the advantages of the Soviet strategic relationship with Vietnam and the Indochinese countries for better ties with the other regional powers and a better image. In fact, Moscow has sought to assure Hanoi that it is not seeking an improvement in relations with Beijing at the expense of Vietnam's interests. On the contrary, by asserting its role in East Asia, Moscow's objective is to strengthen its position by building on its gains as well as tapping other economic and technological benefits from the region. Gorbachev has selected an effective *modus operandi* by exploiting the current desire within the region to concentrate on economic development and cooperation. At the same time, Gorbachev has continued to call for the creation of a system of collective security in Asia, which would not be confrontational against any state (as was the obvious intention in Brezhnev's case) but rather reflects a further Soviet effort to improve its bargaining position *vis-à-vis* China and the United States.

At home in the Soviet Union, Moscow has been making moves to decentralize its foreign trade decision making and to open up the eastern part of the country for eventual economic interactions with the East Asian region with Vladivostok serving as the gateway. A new Pacific Studies department has been established in the influential Institute of Western Economic and International Relations (IMEMO) and a new Pacific Ocean and Southeast Asia Bureau created in the Soviet foreign ministry. The Soviet Union has also been trying to upgrade its status in the PECC, where it has participated as an observer in certain forums. Meanwhile, Soviet officials have stepped up contacts with their counterparts from other regional countries to discuss both political and economic issues with a view to broadening bilateral relations. The Soviet strategy is to create a "tacit understanding" that existing political issues that remain unresolved should not stand in the way of expanded bilateral cooperation, particularly in the economic field, because such problems are on their way to resolution as mutual trust and confidence develops.

Soviet-Japanese relations are a good illustration of such a Soviet move. Despite the continuing dispute over the Northern Territories and the

conclusion of a peace treaty, Moscow has encouraged bilateral economic cooperation based on Japanese needs for natural resources and markets and Soviet needs for credit, machinery, and technology. Toward this end, Moscow has offered Tokyo the opportunity for joint development in Siberia and on the island of Sakhalin. Although the new climate of bilateral economic cooperation has been mostly atmospheric, the Japanese have already set up some small joint ventures concentrating on lumber, food processing, fisheries, chemicals, electronics, auto parts, and hotels. A proliferation of such activities would strengthen the perception in the region that the Soviet Union has abandoned its traditional expansionist pursuits in favor of genuine bilateral and multilateral economic cooperation, thus contributing to peace and development in the region.

Another target country for Moscow is South Korea, which presents a unique case of Moscow's exploiting political as well as economic opportunities. Opening up to one of Washington's strong allies is a political coup for Moscow. At the same time, economic and technological benefits are substantial. South Korea is poised to provide needed loans and consumer goods, and to serve as possible conduit for technology transfer to the Soviet Union. Apparently, Moscow believes there is very little political cost—in offending North Korea—involved here.

Nevertheless, at this juncture several basic questions are left unanswered—or inadequately answered—concerning the real meaning of the Soviet policies under Gorbachev, which to some seem basically motivated by the Soviet awareness of the need to address its strategic weakness. In the first place, how genuine will the reorientation of the Soviet policy be in terms of making the Soviet Union a less threatening and more cooperating power in the region? To what degree has Moscow abandoned its traditional proclivity to use force and subversive tactics to achieve its objectives, as was particularly evident in the Brezhnev era? It has been argued that so far there is little evidence of actual change in the Soviet military structure, doctrine, or deployment of Soviet forces despite Soviet withdrawals from Afghanistan and pledges to reduce Soviet forces confronting China. Meanwhile, Gorbachev continues to strengthen ties with Moscow's Asian allies, namely, India and Vietnam. The strategic importance of these countries, particularly in the case of Vietnam, is unmistakably upheld as Moscow shows no sign of committing itself to any move deemed to adversely affect the interests of Vietnam in a substantial way. On the contrary, Soviet moves on the Cambodian problem seem well coordinated with those of the Vietnamese, and publicly Moscow has maintained the Vietnamese position with only slight variations. Moscow in stating its readiness to resort to dialogue on the use of military force and offering to take a more constructive and responsible stance as a superpower appears

to be advocating for a greater and more effective U.N. role in resolving regional conflicts.

In analyzing the Soviet "new look" policy and commitment to change in East Asia, which some term "lost cost, low risk," one should consider to what extent the Gorbachev reformist effort is only a short-term strategy, whether it is genuine or tactical, and whether the Gorbachev line is, after all, substantially endorsed or followed by the Kremlin hierarchy, particularly the military establishment. But by downplaying the military factor in Soviet foreign policy, Gorbachev has forged a new image for a Soviet Union intent on promoting economic cooperation, particularly with nonsocialist countries, despite a clear recognition of the limitations of Soviet economic capabilities. Gorbachev's volte-face is startling even if his moves turn out to be politically motivated. Still, there is a tremendous attractiveness in the bold strategy that can be admired even by his critics.

### **The U.S. Equation**

The 1970s and 1980s have seen shifting policies and actions by Washington on the western Pacific Rim, where U.S. interests have interacted with those of China and the Soviet Union. Richard Nixon scored a major diplomatic coup when he normalized relations with erstwhile enemy China, taking advantage of the Sino-Soviet split, although Washington subsequently suffered serious diplomatic and psychological setbacks with the "loss" of Vietnam. Ronald Reagan managed to recoup substantially the American credibility and position in the region through his drive to build up the U.S. military presence on an anti-Soviet pretext that was popular at home. In the process, the United States began to suffer from an ever-increasing military budget and overemphasis on economic growth based on borrowed assets, leading to the biggest budget and trade deficits in U.S. history. Since then, the United States has come to enjoy the reputation of being the world's biggest debtor when not long ago it had been the world's biggest creditor.

Washington has traditionally had strategic advantages in East Asia that are military, ideological, economic, and political. The United States has enjoyed alliances with Japan, South Korea, the Philippines, and Thailand. It has been aligned with ASEAN and more recently with China. This comparative advantage has been denied to the other two major powers. Psychologically, the United States has been seen as a permanent fixture on the regional scene by the regional states, and its multifaceted role may have been challenged, but its importance has never been refuted.

Nevertheless, it has become apparent that during the past few years the United States has grown less responsive to the rapidly changing political and economic scene in the region, in spite of repeated pronouncements by

Washington that the United States has been sensitive to the significance and development of the region.

Washington had been accustomed to its political and economic clout in the region until the belief in its ascendancy was shattered by the retreat from Vietnam. Yet, Washington's perceptions of the region have remained essentially security-oriented, based on the predominantly military role the United States had played in the postwar period. Hence, ironically, the current difficulties faced by Washington in East Asia stem not from its relations with Moscow or Beijing but from relations with its main allies and friends: Japan, South Korea, Taiwan, the Philippines, and Thailand.

Washington-Moscow relations during the past decade have been shaped essentially by security considerations. In response to the massive Soviet naval buildup in the 1970s, the Reagan administration attempted to seek military parity by building a five-hundred-ship Seventh Fleet to meet the threat of an increasing Soviet military posture, which had been extended to include Moscow's active support of the regional conflicts in Cambodia and Afghanistan. Relations with Beijing developed during the same period based on a similar assumption of containment of the Soviet Union despite initial signs of a possible Sino-Soviet détente. Nevertheless, Sino-American relations were impeded by questions of technology transfer, human rights treatment, and close strategic alliance between the two powers. As noted, Reagan's visibly anti-Soviet stance and the apparent recession of the Soviet offensive convinced Beijing to eventually become more receptive to Soviet moves for rapprochement with China. In addition, the subsequent Soviet-U.S. INF accord contributed further to the coming together of Beijing and Moscow.

Over the years, Washington and Beijing have drawn closer to each other in their strategic outlook as a whole, which continues to accentuate the Soviet threat and the need to contain it. Under George Bush, Washington has also adopted a closer position to that of Beijing on the Cambodian problem, where both continue to see the Vietnamese hegemonism as the problem. They also acknowledge that the United States must remain in the region to maintain the equilibrium in the triangular arrangement among the three powers.

So long as Moscow's policy toward the region was also singularly security-oriented, confrontational, and expansionistic, Washington could always rely on the Soviet threat to rally regional support for its anti-Soviet posture. The introduction of the Soviet "new look" diplomacy under Gorbachev, however, has shifted overnight the position of the United States from offensive to defensive. This shift has occurred at a time when Washington has begun to face troubles in its bilateral relations with

regional allies over essentially economic problems. No doubt, Moscow has been quick to exploit this growing anomaly in Washington's relations with its regional friends, thus further complicating the situation for the United States.

Gorbachev's peace-seeking activities pose perhaps the greatest challenge for Washington, which thus far has appeared capable only of reacting or responding to the various initiatives launched by Moscow. Gorbachev has attempted to carve out a strong Soviet position in a region that not only is increasingly recognized as being the most dynamic but also has traditionally been regarded as Washington's domain of influence. In spite of the lack of clarity in Gorbachev's regional initiatives, which have yet to be tested, they have generally been well received as "progressive" and "imaginative." Whereas Gorbachev seems capable of churning out one proposal after another "daring" the United States to take him on, in the field of arms control and reduction, the scaling back of nuclear forces at sea, and the mutual dismantling of U.S. military bases and Soviet facilities in Vietnam, the responses from Washington have been either dismissive or unenthusiastic in tone. Gorbachev's peace activism—without referring to any alteration of Moscow's own force structure and deployment—has further eroded the once undisputed argument for a strong U.S. military presence in the region. There is also less urgency to maintain the U.S. bases within the region from Japan to South Korea to the Philippines without the rationale of deterrence against the once ominous Soviet threat. Above all, Washington is still adjusting to Moscow's new image and calls for dialogue and cooperation, in contrast to the old notion of an expansionist Soviet Union. The problem is compounded by the mood of most of the regional states, which seem to consider the new Soviet approach to be genuine.

The present difficulties faced by Washington in relation to its policy toward Moscow are compounded by mounting difficulties in Washington's relations with its traditional friends, particularly over the question of protectionism. The root of the problem is, of course, the growing huge imbalance in the trading relationships Washington has maintained with the regional states, which has resulted in the double deficits that, in turn, have undercut U.S. capabilities. Furthermore, in a region where the regional states are becoming increasingly capable of asserting themselves, appropriate adjustments must be made in the bilateral relationships with them. Japan and Korea are the most outstanding cases. Now the world's biggest creditor with substantial financial clout, Japan is facing the pressure to forge a more independent posture for itself. Washington has been prodding Tokyo to assume a greater role in defense and to become more "responsible" as a major world trading partner. However, Washington has

yet to formulate definitive and realistic plans for realizing such adjustments, and Tokyo, for its part, has also found it difficult to effect a change, particularly when relentless pressure is being applied by Washington. Enjoying the fifth largest budget in the world, Japan is expected to shoulder a greater share of the burden of providing developmental assistance to other nations. Also at issue is what role Japan would be suited to play in any eventual partnership with the Soviet Union, particularly in the development of Siberia. The future relationship between Washington and Seoul as well will prove increasingly problematic. There is ongoing pressure for Seoul to voluntarily reduce exports to the United States and correspondingly open the South Korean market to American goods. The longstanding defense cooperation between the two sides will be facing problems ranging from the increasing need to share the cost of maintaining the U.S. troop presence to an eventual U.S. troop pullout from the Korean peninsula. The expression of nationalist sentiment among a growing number of Koreans will also prove problematic in future defense cooperation between the two countries. In the long run, South Korea may gradually assume a greater part of its defense burden as reductions of U.S. forces are effected.

Another issue likely to be contentious will be the growing economic links between Seoul and Moscow (and other socialist countries), including the transfer of high-tech equipment and knowledge. Moscow's interest in developing economic ties with Seoul has led to an exchange of trade representative offices in Seoul and Moscow. Bilateral trade has grown rapidly to around \$300 million in 1988. Seoul is also making loans to and investments in the Soviet Union. This economic relationship is expected to grow significantly as South Korea is increasingly seen not only as an important source of supplies of manufactured goods but also as a source of technology that is more difficult to secure elsewhere. It is apparent that the new Gorbachev approach is multifaceted, aimed at taking advantage of the fluid political and economic situation of the region.

Washington's relations with Bangkok, its treaty ally in Southeast Asia, have experienced some uneven periods. The ripple effects of protectionism in the disputes involving quotas, countervailing duties (CVD) on imports, the protection of intellectual property and pharmaceutical patents, the Generalized System of Preferences (GSP), as well as the competition in the export of farm products have been catalytic. The growing economic differences have been compounded by the recent reduction of the U.S. security assistance vital to the development of Thailand's defense capabilities. These actions by the United States have forced the Thai side to review the state of the Thai-U.S. relationship. Thailand's nationalistic reaction to the growing U.S. economic pressure, its growing doubts about

the continued U.S. security commitment in the region in light of the growing U.S. budgetary cutbacks, and the uncertainty of the future of the U.S. bases in the Philippines have made the matter more urgent. Correspondingly, positive feelings among the Thais are being developed toward China and the Soviet Union, undercutting the traditionally favorable attitude toward the United States. The general feeling that the U.S. role in the region is becoming less vital is increasingly calling Washington's credibility into question.

A variety of factors, including Washington's perennial problems of synchronization of policies and action among departments and between the executive and legislative branches and the lack of continuity of policies because of frequent change of the U.S. leadership, will determine the adroitness of Washington's handling of the U.S. relationship with Moscow and Beijing. Its success in handling those relationships, in turn, will determine the credibility of the U.S. role in the region.

### **A Fast Changing Region**

At no other time during the postwar period has the triangular relationship involving China, the Soviet Union, and the United States seen such a notable transformation along generally encouraging lines. China began the trend of radical change with its drive toward modernization through various economic imperatives. The Soviet Union followed suit and began its own revolutionizing change, the process of which is still unfolding. In both cases, strong-willed and imaginative leaders have been the principal forces behind the change, delivering shock therapy to lethargic societies. But their actions also have significant political overtones. In their common pursuit of change, they have discarded ideological constraints and have redrawn the perimeter of their relations. The ensuing process of drawing one another closer has made it possible to shed confrontation and cultivate dialogue. The slow but steady course leading to the eventual normalization of Sino-Soviet bilateral relations is becoming a reality and is serving as an impetus for the improved regional political climate and increased positive interplay among the regional countries as a whole. Faced with the changes affecting both Beijing and Moscow, Washington's role has been seen to be inadequately responsive, if not reactive. Nevertheless, it must be recognized that Washington has also experienced its own change. It has lost its long-held position of omnipotence and is in the process of adjusting to this new situation not only in its relations with the other two superpowers but also in its relations with the other regional players. In fact, as these other states become able to play an increasingly assertive role because of the economic clout they have been gaining, they in turn come to influence the triangular relationship of the major powers. A multilayered relationship is

developing steadily among the various states of the Western Pacific Rim, whose policies and actions are affecting one another in an increasingly integral and dynamic way and contributing to the further development of constructive ties among them. If this process continues, it would revolutionize the pattern of interstate relations in the region, alleviate tensions and conflicts, and promote the prospect of peace, cooperation, and development among the large and small states of the Asia-Pacific.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: Childress makes the point that some of the new Thai initiatives toward Indochina have not been unheard of in the course of the Indochina conflict. In the period from 1973 to late 1978, there was much discussion of equidistance and omnidirectionality and of the necessity of opening up economic aid and business channels as a way of ensuring that there would be a peaceful relationship between Thailand and its neighbors. However, these policies, which were successfully put forward in that earlier period, were abandoned because of the Vietnamese invasion of Cambodia, which changed the political landscape of Southeast Asia. From 1978 until the present, each Thai prime minister as well as Foreign Minister Siddhi Savetsila has emphasized several cardinal points in Thailand's foreign policy. The first is the full withdrawal of all Vietnamese military forces from Cambodia. The second is the creation of a neutral, nonaligned, and genuinely independent Cambodia controlled neither by the Khmer Rouge nor by the Vietnamese.

Both Childress and Sarasin address the critical role that Beijing has played together with Thailand, ASEAN, and the United States in denying Vietnam what Hanoi had thought of as a *fait accompli* in Cambodia. During these bilateral forums we have discussed at great length the question of whose side time is on in Cambodia. Is it on Thailand's side, or is it on Vietnam's side? The fact that we are still discussing the question is itself the answer. Six years have gone by since our meeting in Chiang Mai, and indeed Vietnam has not created a *fait accompli*. Its attempt to do so in Cambodia was, in fact, thwarted. The noncommunists, who were being overrun in their camps on the Thai border at the time of that conference, are stronger today than they ever have been. The Vietnamese are now beginning to leave Cambodia, and they are not in triumph. The policies set in place by ASEAN, China, the United States, and also by Japan are now bearing fruit.

Sarasin covers familiar ground with regard to Soviet foreign policy initiatives—the new initiatives under Gorbachev—and the new multidimensional aspects of the Soviet presence in Asia and the Pacific. That

policy is no longer the one-dimensional military approach that we have become so familiar with and complacent about through the years. Soviet diplomatic competition is becoming more astute as the Soviets enter the economic game. However, we should not overestimate the degree to which Soviet policy has really changed with regard to the Cambodia question. Both Childress and Sarasin agree that Moscow's flexibility has not led to any radical abandonment of Hanoi. The strategic relationship between Moscow and Hanoi endures. The Soviet Union views the Cambodian problem as, quoting Childress, "a nuisance that needs to be resolved in a way that preserves Soviet interests in Vietnam while removing [the problem] as an obstacle to Sino-Soviet normalization." The Soviet Union, far from abandoning its Vietnamese ally, has displayed greater verbal flexibility while increasing its assistance to the Vietnamese. It clearly favors winding down the Cambodian conflict but thus far only on terms that lopsidedly favor the Vietnamese-sponsored government in Phnom Penh. Sarasin concludes his chapter with a brief discussion of the United States and the economic frictions that are a real problem in our relationship with Thailand right now as well as the uncertainties involved with American budget cuts and the U.S. military facilities in the Philippines.

Finally, I find a bit more gloom and doom regarding the U.S. role in Asia than seems justified by the facts. There is a tendency to give far too much importance to the potential outcome of Sino-Soviet rapprochement or even to Gorbachev's geopolitical initiatives than I believe is warranted. We tend to forget that the U.S. economy and U.S. security forces have never been more powerful than they are today. America has a deficit and a balance-of-payments problem, but it is extremely premature to discount the continuing power and influence of the world's largest economy and the world's largest market. In regard to Gorbachev's initiatives both at home and abroad, I welcome these both for what they may do and because they are the crowning affirmation of the success of American foreign policy over the last forty years.

I do not fear Sino-Soviet normalization, because both China and the Soviet Union are turning outward to the West. They do so by necessity. I do not believe that we have to worry about the Soviets playing the China card or the Chinese playing the Soviet card in some triangular formulation. I think the triangular formulation is incorrect. Japan is now a leading world economic force, and you cannot talk about global power relations simply as a triangle. The West has never been in a better position since the post-World War II era. We should respond flexibly, keeping our own interests paramount. We should demand changes as the price of participation in the world community in which Thailand and the United States have been participating for years and years.

On Cambodia, we are in better shape than any of us would have imagined in, say, 1975 or even in 1979, 1982, or 1983. Vietnam is exhausted and bankrupt. It is leaving Cambodia and engaging in serious discussions about how to reverse what it used to refer to as an irreversible situation. Times now have changed. The irreversible is indeed irreversible. However, we must take care not to grasp defeat from the jaws of victory. We must seek a long-term and comprehensive solution to the Cambodia problem. That solution must be a political one and not a military one. It must involve a complete and genuine withdrawal of the Vietnamese troops from Cambodia. I am not referring to the kind of uniform changes that some friends in Beijing claim to see at present. And no less important, that solution must involve multiple means for preventing the return to dominance of the Khmer Rouge. These means must involve some combination of increased aid to the noncommunists, decreased aid to the Khmer Rouge, and a retirement home for the more obnoxious members of the Khmer Rouge, and it must lead to a Sihanouk-led coalition government that will hold genuine power during the period prior to an election. That is, there must be an interim government.

To achieve these ends we must maintain the unity of purpose that has served us so well over the past decade. This does not mean no change. The trick is in the timing of the changes. We might even say that the three “nos” must go—that is, no trade, no aid, no normalization. The trick is *when* the nos go. If we move ahead prematurely before the Vietnamese have genuinely withdrawn and before we are able to create an internal situation that is amenable to true peace and stability, we will serve nobody’s purposes and we will have squandered what we have achieved over the last ten years. We must avoid, as Sarasin argues, unilateralism and maintain, in Childress’s words, a complex network of consultation among ASEAN, the United States, Japan, and the People’s Republic of China in order to bring about the type of lasting peace that will permanently enhance Thailand’s security interests. We are closer to our goal than we have been in the past. We must not falter. We must keep the pressure on in order to bring a lasting peace to the Cambodian people.

THAI DISCUSSANT: Sarasin gives a very good overview of the overall strategic environment bearing on Thailand’s situation. However, had I written the chapter, I would have been less Sinocentric in my interpretation of the sources of these changes. Perhaps I would have given more weight to the initiatives made by the Soviet Union in recent years. I also would have given greater attention to a few propositions. One is the view that the positions of the Soviet Union are identical to those of the Vietnamese and the People’s Republic of Kampuchea (PRK). Another is the assertion that

“there is little evidence of actual change in the Soviet military structure, doctrine, or deployment of forces.” Finally, although I am not an expert on the Soviet Union, I believe there have been some interesting developments in the Soviet Union’s strategic doctrine over the past few years, such as downgrading for the first time in a quarter of a century the importance of conventional sea power. This development obviously may have an impact on the Soviet position in Vietnam and the role of Cam Ranh Bay in Soviet thinking.

Where the Sino-Thai relationship is concerned, I would have focused more on the role of China in the South China Sea. China’s claims were again demonstrated in a dramatic way by its recent actions over the Spratlys, actions that caused a great deal of anxiety in the other claimants’ capitals. But my disagreements are only a matter of nuances, because I agree with the basic thrust of Sarasin’s analysis of the changes taking place in great power relations and with his belief that in the international relations of the Western Pacific Rim region, politics and economics are intertwined inextricably. Great power relations cannot be looked at without recognizing that there has been and continues to be the steady development of a multilateral relationship among the various states whose policies and actions invariably influence one another in an increasingly integral way. As Sarasin says, this in turn contributes to the dynamism of the region as a whole and a constructive development of ties among regional states.

Regarding Childress’s chapter, I agree that arms procurement from China is bound to become a permanent feature of Thai defense policy. I also agree with him on the importance of the economic dimension of Thai-U.S. relations and that Thailand’s foreign policy directions must be put in a wider perspective, in a wider context, both in terms of chronology and issue area. Lastly, I would like to add that his advice and goodwill have been received with great appreciation. I also appreciate his idea that Thai policy should maintain a moving equilibrium but that to do so will first require a complex network of consultations with ASEAN, the United States, Japan, and China. Such a dialogue cannot separate the security from the economic dimension. To separate the two would risk the balance Thai policy makers seek.

Now I would like to offer some of my own views on the major developments in Thai foreign policy in recent years. I believe that the recent foreign policy initiatives undertaken by the Thai government, extending from the prime minister’s memoir to the U.S. president, to our stand on intellectual property rights, to the policy of reaching out to the Indochinese countries, which was manifested in our invitation and reception of Hun Sen in Bangkok, are adjustments to changing realities. These

adjustments have been long overdue, owing to certain entrenched perspectives within Thai policy-making circles. What are the changing realities? Some are those that Professor Scalapino has eloquently laid out for us in his introductory remarks. One is great power rapprochement. Another, which he did not point out, is declining U.S. influence. Third is the decrease in regional tensions and increase in dialogues without preconditions. Bangkok's contact with Hun Sen was a natural response in light of the fact that Hun Sen had already met with Prince Sihanouk four times before coming to Bangkok and also had been to JIMI (Jakarta Informal Meeting I). Fourth, the People's Republic of Kampuchea, for better or for worse, has been in power for over ten years. You cannot wish away a structure like that. Talking to Hun Sen was a natural adjustment to the fact that the PRK has been in power for a long time. It is the longest-ruling regime since Prince Sihanouk was deposed in 1970, and it is the only regime since 1970 that has provided a modicum of normalcy for the Cambodian people. The fifth reality is the growing importance of economics and the growing awareness of socialist countries both inside and outside Southeast Asia that economic wellbeing constitutes a crucial dimension of national security. These are realities that have to be taken care of and must be taken into consideration.

The manner of implementing Thailand's new foreign policy directions may be rather abrupt and it may be unilateral. But it was the only way that it could be done in Thailand because of entrenched thinking within the bureaucracy that monopolized the decision-making process in the past. One may look back to 1975, when the decision to normalize relations with the People's Republic of China was stalled for a very long time in the National Security Council, which was headed by none other than Field Marshal Siddhi Savetsila. In the end, to make normalization possible, the government had to bypass the National Security Council altogether, in a very abrupt manner. In Thailand, incremental changes are dangerous.

Despite the sudden manner of implementing the changes in Thai foreign policy, I believe that the new initiatives are deeply rooted in issue areas, in many long-term trends taking place in Thailand that cannot be ignored. The first is the growing strength of the parliamentary system, allowing interest groups and extrabureaucratic groups to participate more in the decision-making process. The second trend is toward increased public recognition of Thailand's growing strength relative to its neighbors in the long term and a greater sense of self-confidence. Because of the heightened self-confidence there is greater recognition that Thailand can, to a great degree, be master of its own destiny. This self-confidence is evident not only in terms of its foreign policy but also in terms of

designing, for example, its own technological future. A third long-term trend is a growing recognition, especially among the Thai military, that a continued hard-line posture toward the Indochinese countries may not only be inappropriate given the changing circumstances but also comes at great cost to Thailand. We must not forget that it is not only Cambodians who die but also Thai soldiers. Since the border incident on the Thai-Cambodian border in 1987 and the last incidence in 1988, Thailand has suffered over a thousand casualties. The recognition that a hard-line posture is not a costless one helps to push Thailand toward a more flexible position. It is not a coincidence that one of the foremost supporters of the present foreign policy directions is General Chaovalit Yongchaiyut, the supreme commander of the armed forces and army chief.

Thailand's present foreign policy initiatives have been taken by a leader who has long and wide-ranging experience in foreign affairs and who has firm beliefs about foreign affairs. First, where adversaries are concerned, Prime Minister Chatichai believes in the value of personal diplomacy as a means of alleviating tension and increasing the possibility of a compromise solution. His dictum is that in diplomacy you must be near enough to your adversaries to hear their voices but not near enough for them to kick you. The value that he places on personal diplomacy has been seen clearly over the past few months. Second, Prime Minister Chatichai has emphasized improved relations with our neighbors. A high international stature is important, but, in the end, good relations with neighbors is most important because they are nearest to you. Third, he believes in economics as a means of lessening tension. For this reason, in his public statements he separates questions of economics from politics. Fourth, he sees economic relations as a long-term guarantee of peace. When states trade, there is less likelihood of war. I believe that his initiatives are bearing fruit. A few months ago, the central bankers of Vietnam asked our central bank about the possibility of using the baht currency for trading. This is one of the most significant developments to take place in recent years. Hun Sen has also indicated on record that he would like to use the baht as his country's reserve currency.

Where friends are concerned, Prime Minister Chatichai believes in the need for partnership rather than patron-client relationships or neo-patron-client relationships. He also believes in diversification of one's friendships. To put all one's eggs in one basket would be a recipe for disaster. He was the deputy foreign minister and foreign minister successively in the days when the United States abandoned us to face the big and hostile outside world, and he has not forgotten that.

THAI PARTICIPANT: I would like to broaden our understanding of the use of American versus Chinese military equipment. Some of you mentioned that

the Chinese equipment is cheap. Cheap is not the thing that we ought to buy. If the equipment serves our purpose, we should buy it.

First, in the past, we used a lot of equipment made in the United States. It turned out that it was not very good. Much of the Chinese equipment is designed for rockets and rough terrain and is more durable than the American equipment. Moreover, it takes a long time to get American equipment, and there is much paperwork involved. We use Chinese equipment because we are sometimes short, and we can get it almost immediately. In addition, China is fighting the Vietnamese in the north, and we support the Chinese in that effort.

Second, in the long term, we are using up the budget for the army, a budget which is not unlimited. Our country is trying to develop its economy, not the military. Sometimes when we do not have enough money, we get credit from the Chinese. We can assemble the equipment in the country and pay later. With the Americans, we must put the money down in advance, and two or three years later the equipment arrives. Furthermore, if we use Western-style equipment the maintenance is more expensive. We would go bankrupt trying to maintain that equipment. The Chinese equipment is simple—simple to make and simple to use. It does not take so much time to maintain it. Thus, if equipment is not operational but it is cheap, we do not buy it. This contradicts the assertion that we buy Chinese equipment only because it is cheap. It must serve the purpose intended as well.

And third, the exchange must be made with an ally. The United States is indeed an ally, but it is too far away.

**THAI PARTICIPANT:** Why do Childress and Sarasin think that the Cambodian problem is so complex? It is not really that complicated. In recent times, the pace of resolving the problem has quickened. We have now entered a new period since Prime Minister Chatichai invited Hun Sen to visit. If you look at the problem now, you will see that only a few factors are important. First, the involvement of the United States has been minimized, as the U.S. government has continued to say that the United States will follow ASEAN policy. So we can limit the possible role of the United States and leave it to ASEAN. Second, from the Soviet angle at least, China and Thailand are the main factors in bringing about a solution to the problem. As for Thailand, I think its role is minimal. It serves now as a funnel between China and the resistance coalition. For the Soviet Union, its main concern is China. China is a threat to their security interests in Vietnam, which include access to Camh Ranh Bay and Danang. The real question, then, is when the Soviet Union will decide to redirect its policy and make a decision to cut off aid to Vietnam. I believe this will occur gradually. I think there will be a gradual shift after the May 1989 Sino-Soviet summit.

THAI PARTICIPANT: On the Vietnamese withdrawal, I agree with Sarasin that the Vietnamese hold the key to a resolution in Cambodia. I detect a sense of apprehension in Sarasin's chapter concerning the sincerity of the Vietnamese decision. In my discussions with the Vietnamese, they communicate a direct and immediate interest in dealing with the Cambodian conflict and bringing about a resolution by withdrawing their troops if not by 1989, then in 1990. Should we just forget what they say, or should we give them the benefit of the doubt?

THAI PARTICIPANT: What has taken place around the world in the last year or so has been very fundamental. The implications of the foreign policy initiatives adopted by all the great powers are important for our corner of the world. I am surprised that we have scarcely mentioned here today the recent Soviet decision to withdraw from Afghanistan. To me, that was the most important single event that bears on the attitude and the policy of the Vietnamese. The Soviet Union decided to withdraw unilaterally without even thinking about the consequences that might follow. This withdrawal has had an impact on the Vietnamese in the past few months.

I am impressed by the way that our prime minister has been perceiving changes along the way. I think great changes are occurring in the policy directions that the Asian powers are taking, bilaterally and multilaterally. A few years ago, I would have thought that a Soviet retrenchment from its facilities in Vietnam would have been impossible, and now I would not rule it out. Such measures can be taken in countries like the Soviet Union without the wide consultations of the sort you need in a Western democracy. There is a possibility that the Soviet Union will realize that its presence in Vietnam is really an irritant, a finger pointing directly at the Americans. If it thinks that it could regain some goodwill from the Americans, and if it is determined to forge better relations with China, we will have a different game altogether.

What will be the situation in Southeast Asia? It will have an impact on our bilateral relationship with China, obviously. Our present government along with certain dissidents in the foreign policy establishment are trying to anticipate future changes. I agree that changes must be made, but not suddenly. We live in a very exciting period right now. What triggered the changes in Southeast Asia during the mid-1970s, unfortunately, was the withdrawal of U.S. forces from South Vietnam. What is triggering the changes now is something that may be attributed to the basic inferiority of the communist system. Perhaps that is much more significant than any single event that has taken place.

Regarding Cambodia, we seem inclined to search for a Western solution as we tried to employ in the case of Laos. Is it realistic to believe in the

slogans we have been hearing over the last ten years concerning self-determination, democracy, independence, and neutrality? We are not dealing with a nation-state. We are dealing with a nation that has not been at peace for the past three or four decades. Ideally, we would like to have Prince Sihanouk as the head of government, but are we being realistic? The present government in Phnom Penh has not really made that good an impression on us, and how old is Sihanouk now? Are we deluding ourselves into thinking that, through a Western solution, we can restructure Cambodia as a nation and structure a new government? To my mind, that is not our business. And what about the noncommunist resistance? Having been out of the business so long, how will they know how to govern once they take power? All of these people have been out of the country for ten years.

AMERICAN PARTICIPANT: On bringing about a Vietnamese agreement to a settlement in Cambodia, the question of generational change in Vietnam is critical and goes right to the heart of the discussions we are having on Cambodia. In the discussion of procrastination on Cambodia, I think the point is being overlooked. The movement today is the result of changes in Hanoi that the world sought. What is called procrastination, or no movement, was a result of Vietnamese intransigence. Then the Vietnamese started to move. Now the world is responding because they are moving in our direction. And if the changes taking place are favorable to Thailand, they are also favorable to the West and favorable to a settlement. If these changes are being caused by all the factors we have analyzed, then why are we so anxious to rush and meet them halfway? Why don't we let the changes happen? Inexorable changes are causing Vietnam to change as well, based on the principles that we have espoused for ten years. Let us welcome the change, and let's let it happen.

We should respond when these changes lead to the serious negotiations that we need to have for the Cambodian people and for stability. Are freedom, neutrality, self-determination and elections all slogans? Of course they are. They are slogans of principle, and they are not just generated out of the blue. They are the kinds of principles that the United States has endorsed and Thailand has endorsed, and they are the kind that we should set up as the goal. Of course, there are practical arrangements on the ground that must be set up as we move toward negotiations. But if we compromise our principles before we get Vietnam to the negotiating table, I submit to you that you do not understand Vietnamese negotiating style. Let them come, and let's make sure that the Vietnamese feel good about the future before they come. Let's make sure those guarantees are there. One such guarantee may include their integration into ASEAN. Let these changes we are talking about bring them there.

THAI PARTICIPANT: We do not need to go back and ask why Thailand has been involved in the Cambodian problem for the last ten years. Instead, we need to ask ourselves if, in fact, it was Thailand who was spearheading efforts in the international community to pay attention to the problem in Cambodia. Was it not Thailand together with ASEAN that has been monumental in backing this concerted effort? If we say this has been a waste of time, we are being too harsh. With all the difficulties involved, we are expressing doubts about whether we should continue with the strategy we have been using. But that is different from saying the effort has been one of chasing after rainbows.

If we accord the Hun Sen regime legitimacy, we must be cognizant of the realities. What makes it possible for the Hun Sen regime to govern 90 percent of Cambodian territory? Should the Vietnamese withdraw, tomorrow that regime may find only 10 percent of the territory in its possession. We must deal with this problem in a practical sense. We do not believe that any one big solution will have to carry the day. We are after a compromise arrangement. And Thailand has been supportive of such a settlement. But it is Thailand, with ASEAN, that is making all the concessions. One is our acceptance of Hun Sen. Another is agreeing to separate the so-called internal and external aspects of the problem. These are two major giveaways made by ASEAN in recent years. The Vietnamese have yet to discuss specifics. The Vietnamese will only withdraw on Vietnamese terms. So far they have said they will withdraw, but they are not very specific on how they propose to withdraw. All they say is that they will talk once we meet their conditions.

On the question of comparing Cambodia and Afghanistan, I think the two situations are entirely different as far as withdrawals are concerned. The Soviet Union withdrew in a position of weakness. But what Vietnam is doing today does not reflect a position of weakness, despite growing pressure on the economic front.

AMERICAN DISCUSSANT: The important question here is what it will take to bring Vietnam to an acceptable settlement in Cambodia. The most difficult thing for Vietnam to accept will be the idea that power must be shared inside Cambodia. The noncommunists would play a part, and other factions, including the Hun Sen group, would play a part. One of the hardest things for Leninist systems to contemplate is power sharing. Will it take a generational change to bring about that attitudinal transformation? A few years ago I would have said yes, but now I am more optimistic. The Vietnamese are feeling economic pressures and the need to recover a lost decade of development in Vietnam. The nationalism evident in Vietnam in

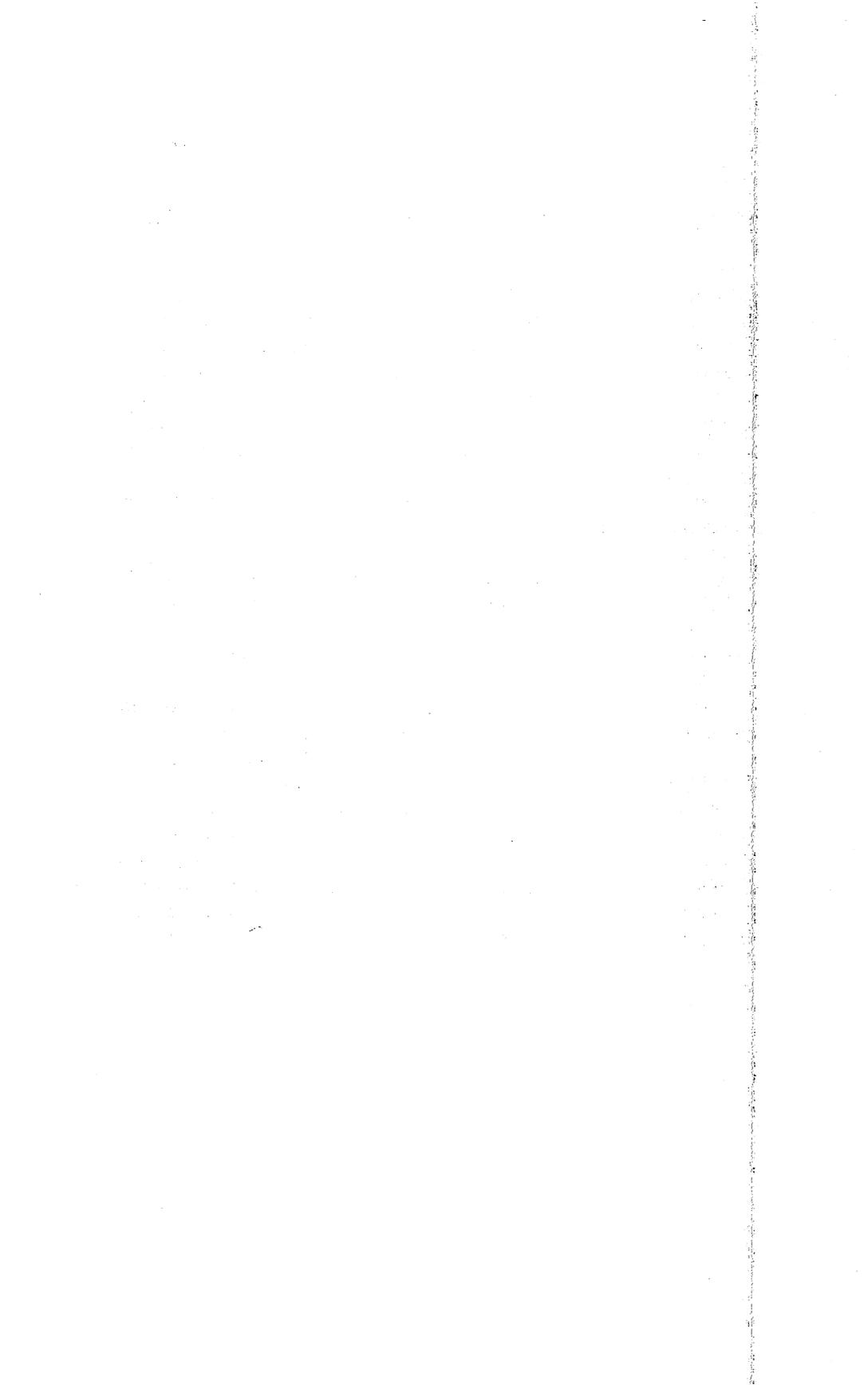
earlier decades has become less substantive than before. Perhaps there is some realization of the need for change in Hanoi.

What else would be necessary to bring the Vietnamese along? Certainly, some incentives would be necessary. All of us have talked about what some of these incentives might be—the carrots that would woo Vietnam—such as acceptance into the international trade system, the financial system, and so on. There are other necessary building blocks that must be put in place as well. One is to have a set of opponents with whom they can feel comfortable about making a deal. That is the real logic behind the assistance to the noncommunist resistance. So long as Vietnam has only the options of supporting the present regime or making a deal solely with the Khmer Rouge, Vietnam will have a difficult time achieving a withdrawal no matter what the Vietnamese say.

Finally, for the withdrawal to move further than it has will require changes in policy in Hanoi. The Vietnamese will have to begin to make local compromises on the ground inside Cambodia in order to have the withdrawal turn into anything other than chaos. Such compromises could serve to bring the problem forward and expedite a solution.

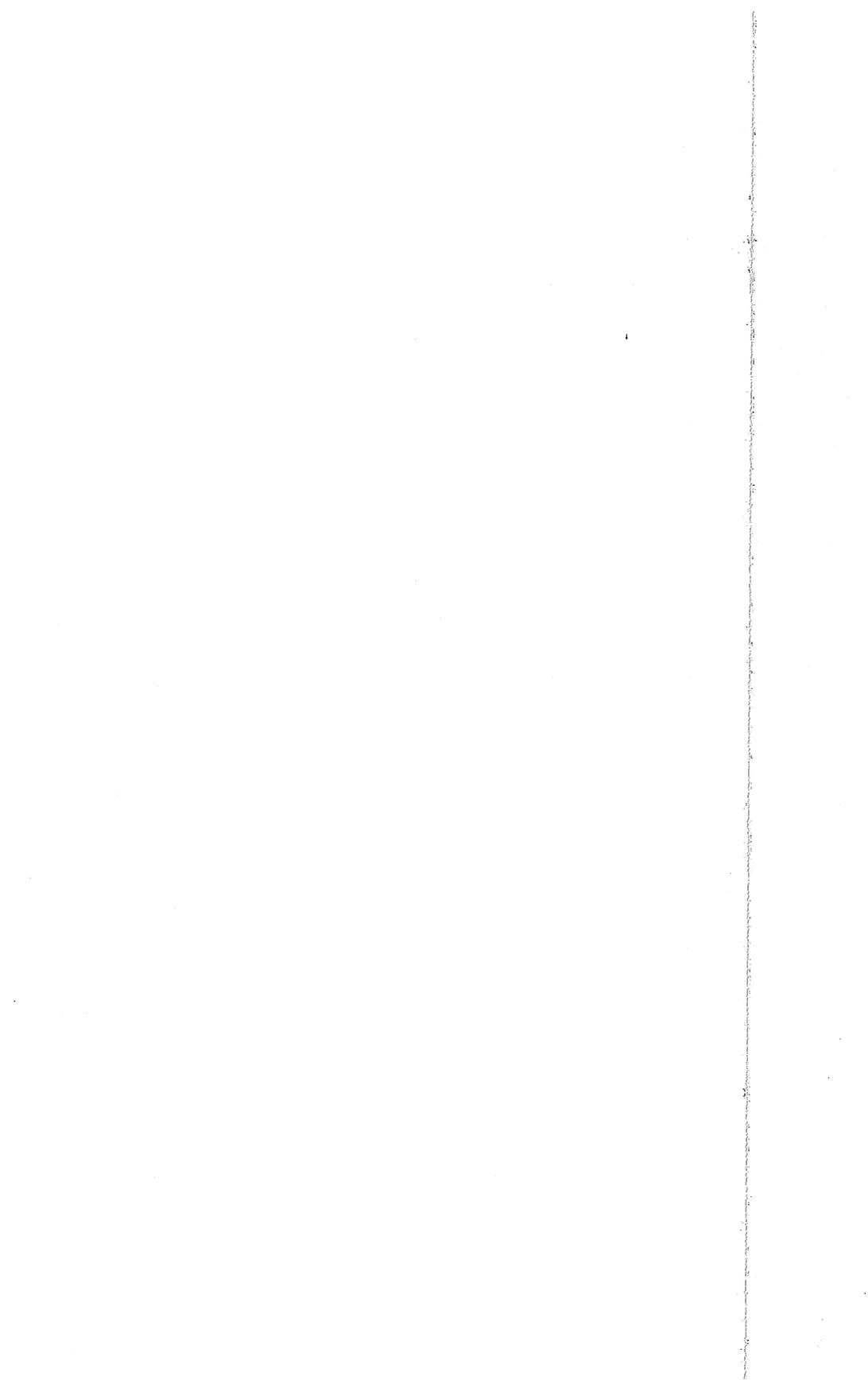
THAI DISCUSSANT: Many people would consider Vietnam's promise to withdraw in 1990, if that ever happens, a concession in the long term. Many people would also consider Vietnam's proposal to withdraw by September 1989 and negotiate a political settlement a concession.

Our prime minister has never thought that Thailand alone could resolve the Cambodia conflict. There are four factions, and until recently we were talking to three of them. Now we have spoken with the fourth. This is a step toward the prime minister's initial goal when he took power of rapprochement with the Indochinese states. Now that we have adjusted to the realities next door, it is up to the great powers to do so as well.



**Part Two**

**Political Aspects of Thai-U.S. Relations**



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### 3. Changing Perceptions of Thai-U.S. Relations

WIWAT MUNGKANDI

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This chapter proposes to determine the extent to which changing perceptions of Thai-U.S. relations reflect actual changes in the relationship and how such perceptions might influence the future shape and direction of the relationship. The chapter will focus on Thai perceptions of the current state of Thai-U.S. relations. These perceptions are now particularly ambivalent. The ambivalence is closely related to significant changes and adjustments taking place in the relationship, largely in response to changing internal and external environments. Because of this ambivalence, the Thai perception of a deteriorating relationship will not necessarily lead to a deterioration of the Thai-U.S. relationship in the future. If those relations are properly managed, and certain positive developments occur, such deterioration could be averted, and the perceptions would in turn become more favorable and lead the relationship in a more positive direction.

Thai-U.S. relations during the latter half of the 1980s have been most notable for their economic overtones. This does not mean that economics alone determines the overall shape and direction of the relationship but that Thai-American relations, which were transformed from a friendship into an alliance in the post-World War II period by common security concerns, have now thickened to embrace an extensive range of cooperative undertakings in many other areas of mutual interest.

There have been four major components in this matrix of relations: security ties, trade and economic links, political understanding, and individual or personal connections. Together these components have nurtured a cooperation and understanding that have made postwar Thai-U.S. relations somewhat "special," particularly from the Thai perspective. Thai-U.S. links have for several decades been the most intense of all the longstanding external relationships Thailand has maintained.

This special relationship seems to have become much less special during the past decade or so. Following the U.S. withdrawal from Vietnam in 1975, the security overtones of the postwar relationship drastically

declined. During the immediate post-Vietnam War period, U.S. credibility came into question. More recently, not only has the focus of the relationship shifted from security and strategic cooperation to trade and economic transactions, but these latter activities have given rise to increasing friction between the two countries. From this perspective, two of the most important components in the matrix seem to have been significantly weakened, perhaps so much so that they could have unfavorable repercussions for political understanding if not personal sentiments between the peoples of the two nations.

### **Changing Thai-U.S. Relations**

During the past decade Thai-American relations have been significantly influenced by transformations that have taken place in both Thailand and the United States. In Thailand, the most important developments have been the growing export-oriented economy and movements toward democratic rule. As the contribution of industrial production to the country's gross domestic product (GDP) increases, Thailand's prospect of becoming the next Asian newly industrialized country (NIC) appears promising. The country has for many consecutive years recorded impressive economic growth. In 1987 the growth rate was 10 percent—the first double digit growth rate ever registered.

Given its increasing dependence on the export market, however, this growing economy has become more vulnerable to external pressures and fluctuations. It is significant that this vulnerability has arisen just as Thailand is advancing toward a fully democratic government. Indeed, with the growth of domestic economic interests that have increasing influence on policy making, the Thai government has also become more and more sensitive to domestic demands and pressures—demands and pressures that, needless to say, could profoundly affect its external orientations.

In the United States, a great transformation is also taking place. On the one hand, the United States is undergoing painful adjustments in its transformation into a postindustrialized service economy. On the other hand, it is also facing formidable challenges by industrial powers such as Japan and the European Community as well as the world's new economic forces, the Asian NICs and other emerging economic hopefuls. Hence, along with increasing budget and trade deficits, there have been growing protectionist pressures in the United States, which has already transformed itself from the world's largest creditor nation into the world's largest debtor nation.

Important changes and developments have occurred on the international scene as well. Most notable are the reduction in tensions among the major powers and more intense economic competition. In short, on the

international front, the game of geopolitics seems to be giving way to one of geo-economics.

It is against this backdrop of internal as well as external changes and developments that the current state of Thai-American relations can be fully understood. The relationship must be dealt with comprehensively in terms of the dynamism of the components in the relational matrix. It is, in short, this dynamism that will account for the change in the relationship, for the better or for the worse.

Postwar Thai-American relations have been most notable in terms of the close security cooperation between the two countries. The end of the Vietnam War in 1975 marked a major turning point. At that time, the United States seemed to be suffering from a credibility crisis. As tension in Indochina was mounting during the early 1980s, the United States seemed to have restored some Thai confidence in its security commitments by such measures as speeding up arms deliveries to Thailand when Vietnam adopted its most threatening posture and supporting Thailand's force modernization, as evident in the decision to sell F-16 aircraft and other modern weapons to Thailand.

Other cooperative ventures, including the annual Cobra Gold joint military exercise and the setting up of a war reserve stockpile in Thailand, apparently had the same effect. And the United States was persistent in its support for the ASEAN effort to solve the Cambodian problem. Indeed, although Sino-American understanding, which has to some extent put a premium on Sino-Thai security cooperation (especially over the Cambodian issue), may have caused concern in certain Thai quarters about Chinese influence, Thai-U.S. security relations seemed to have been given a new life after the traumatic uncertainty in the aftermath of the Vietnam War.

Another important change in the relationship is attributable mainly to developments in the global and U.S. domestic scenes. U.S. domestic difficulties have led Washington to resort to cutbacks in defense assistance as well as insistence on greater cost and burden sharing in security. Given the possibility of a peaceful end to the Cold War and reduction of regional tensions and conflicts, the question seems to be no longer one of credibility but rather one of the relevance of formal security arrangements at this time of growing peace. That the recent cuts in U.S. defense assistance to Thailand did not come as a surprise to the Thai government or the public and that the current uncertainty over the U.S. bases in the Philippines does not seem to worry the present leadership in Thailand much may in a way testify to the decreasing relevance of Thai-U.S. security ties. The problem is not such that an agonizing reappraisal of the whole security arrangement is now necessary, but certain questions tend to arise, at least among some

elite groups: Is this kind of arrangement relevant in the emerging peaceful environment? Is the United States, although it perhaps remains important, still essential to Thai security requirements?

Such questions become increasingly pertinent as U.S. protectionist pressures make themselves felt more and more in Thailand. A significant percentage of Thailand's increasing (particularly industrial) exports has been absorbed by the U.S. market. Approximately 20 percent of Thai exports were consumed by this market in 1987. Growing U.S. protectionism thus inevitably threatens the very future of Thailand's industrial development and the livelihood of a substantial part of its population. The result is increasing friction.

Beginning with the aborted Jenkins Bill (whose resurrection is possible), the Farm Act, and the Trade Act, U.S. demands are being perceived by the Thai people with increasing concern—and perhaps bitterness. The urgency of the problem and its potential impact seems so great that although security continues to be a salient issue, the focus of Thai-U.S. relations has shifted to trade and economic questions. As recently as the beginning of this decade, it seemed inconceivable that Thailand and the United States would soon be wrangling over the matter of dollars and cents. They have nevertheless since then engaged in tough, lengthy, and sometimes acrimonious negotiations over such matters.

The adverse impact of such wrangling has made itself felt to some extent. It has caused bitterness and disillusionment, particularly on the Thai part. It has threatened to undermine the political understanding between the two countries, especially the longstanding friendship and goodwill between their respective leaderships. Of course, there is no longer a critical problem in the security field as in the immediate post-Vietnam War period. However, the decreasing relevance of the security arrangement has an important indirect consequence for the overall Thai-U.S. relationship in that it is in a weakened position to level off, if not to reverse, the downward turn in the relationship.

This leaves only the personal component in the relational matrix. Will friendship and sentimental attachment cultivated and fostered through long years of association, especially the close postwar cooperation, remain strong enough to carry the relationship through the 1990s? It is based on this concern that this chapter proposes to analyze Thai perceptions of present Thai-U.S. relations.

### **Changing Perceptions of Thai-U.S. Security Relations**

The general impression during the latter half of the 1980s is that Thai-U.S. relations are entering a new era. Some view this as a "critical juncture"

in the relationship.<sup>1</sup> At this juncture, the various components in the relational matrix begin not only not to be well synchronized but also to have adverse effects on one another. It seems indeed that “the Thai public’s view of the United States has never been so negative.”<sup>2</sup>

Thai perceptions of postwar Thai-American relations have experienced significant changes since the end of the Vietnam War. However, there is evidence that the negative attitude has become more or less apparent only during the latter half of this decade. It has stemmed mainly from the economic and trade dispute between the two countries, which are, many fear, gradually being engulfed in an emerging trade war. The security relationship, which has stabilized since the beginning of the decade, is not at this time strong enough to offset this attitude. It, too, has encountered difficulties, although not as serious as those arising from economic and trade relations.

The change in the international atmosphere has accounted to a large degree for what has been referred to as the decreasing relevance of Thai-American security ties—if not the estrangement between the two countries. Following the reduced U.S. security role, Thailand has, especially since the Third Indochina War in 1978–1979, cooperated more actively with the People’s Republic of China, although this is far from saying that China has replaced the United States as Thailand’s security cooperation partner. However, in the currently relaxed international environment, the declining relevance of such a security arrangement has given rise to a stronger incentive to search not for a new security guarantor but rather for a diversification of relations with the major powers and hence greater autonomy in the pursuit of Thai foreign policy goals. In this respect, Sino-Thai security cooperation serves not so much to shore up the diminished U.S. security role in the region as to emphasize Thai autonomy.

The United States has always maintained that its military presence in Southeast Asia has a stabilizing influence. Back in 1984 it was asserted that the United States was “unequivocally committed to Asia.”<sup>3</sup> With regard to Thailand, the country’s frontline status “in every sense of the word” was explicitly recognized. The U.S. government took pride in its ability to speedily fulfill Thai requirements for military equipment the previous year, an action it considered characteristic of its attitude toward the Thai

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<sup>1</sup>M.R. Kasem S. Kasemsri, “Thai-U.S. Relations at a Critical Juncture,” in Ansil Ramsay and Wiwat Mungkandi, eds., *Thailand-U.S. Relations: Changing Political, Strategic, and Economic Factors* (Berkeley, Calif.: Institute of East Asian Studies, University of California, 1988), p. 8.

<sup>2</sup>Ibid.

<sup>3</sup>Admiral William J. Crowe, Jr., *Bangkok Post*, May 13, 1984.

relationship with the U.S. This year much the same commitment has been reaffirmed. It has also been stressed that the United States, in honoring "her security commitment to our friends and allies in the Pacific," also looks toward "the long-term prosperity of the region."<sup>4</sup>

However, in this changing security landscape, the Thai people do not seem to be particularly enthusiastic about the kind of reassurance the United States is offering, although it was badly needed and earnestly sought in the aftermath of the Vietnam War. Rather, the uncertainty over the U.S. military presence in this region, the reluctance to be directly or more decisively involved in regional security affairs such as the Cambodian problem, the slow reaction during the recent Thai-Lao border clash, and most recently the slash of security assistance by \$21 million have increasingly reinforced the Thai perception of the *diminished* security role of the United States that has been a general post-Vietnam War trend. Such a reinforced perception may have contributed to the recent intensification of Thai efforts to expand external contacts.

More important, perhaps, is the change in the Thai perception of Thailand's security needs and situation. The changing international environment, in which geo-economics seems to be predominating over geopolitics, appears to have induced the Thais to perceive any threat to their economic wellbeing and growth as a threat to their security.<sup>5</sup> Hence, whereas formal security arrangements with the United States may, in the public view, have become increasingly irrelevant, U.S. demands and pressures in the economic and trade areas tend to be regarded with far graver concern.

The Thai reaction is increasingly characterized by a search if not yet for a fundamental review of Thai-U.S. security ties, then for greater autonomy and independence in foreign policy. In the broader context of ASEAN, the self-confident and mature nationalisms of ASEAN now call for a more sophisticated and nonpressuring treatment by the United States. But like the other ASEAN countries, Thailand, from the perspective of some observers, is often considered by the United States more as an object than a subject in the larger international environment.<sup>6</sup>

The initiative Thailand has recently taken in an effort, presumably, to find a solution to the Cambodian problem and to improve relations with its Indochinese neighbors may be the result of a reactive concern about a major power collusion (in the context of Sino-Soviet rapprochement and

<sup>4</sup>Admiral Huntington Hardisty, *The Nation* (Bangkok), January 26, 1989.

<sup>5</sup>General Chaovalit Yongchaiyut, speech delivered to the Second Thai-U.S. Bilateral Forum in Uttaradit, Thailand, on November 12, 1986.

<sup>6</sup>Norman D. Palmer, *Westward Watch: The United States and the Changing Western Pacific* (San Francisco, Calif.: Pergamon-Brassey's, 1987), p. 117.

Sino-American cooperation, in particular) on this issue. It is afraid of being treated as a pawn in the major powers' game.

In a broader sense, however, such fears coupled with the perceived decreasing relevance of the U.S. security role in the region have given rise to an introspective propensity, a tendency to keep a distance from the major powers, thereby enhancing Thailand's autonomy and independence in world affairs, and to pay more attention to its immediate regional setting. There is, in other words, an increasing reluctance to compromise national independence and dignity by too close an association with a major power. And, given the reduction of tensions among the great powers and their understanding if not collusion, a tempting policy option is to distance one's country from these states. Terms such as "equidistance" and "balanced relationship" (which figure in the current government's policy statement to Parliament) may not have much practical meaning, but they reflect this growing sentiment to some extent.

Thailand's desire to assert an independent external stance was most evident at the United Nations Security Council during its consideration of the issue of U.S. attack on Libya in April 1986. The issue arose at the very time of the Thai-American "rice war." Thai bitterness about the perceived impact of the Farm Act coupled with concern about the reaction of the Arab countries might have prompted Thailand to endorse the resolution condemning the American action. The Thai representative to the United Nations admitted that the Thai decision, which was required for the resolution to be carried, was made with a "heavy heart."<sup>7</sup> But it represented not just a protest against U.S. pressures on Thailand but a move to distance the country from the superpower and to emphasize Thai autonomy in the pursuit of its foreign policy objectives.

Thailand's more recent diplomatic moves presumably to mend fences with its neighbors and expand its export market may also be cited to substantiate this line of argument. The Indochina policy of the present prime minister, in particular, may be interpreted as an attempt to improve Thailand's security situation and thereby to lessen its security dependence on the United States. The Indochina move, the controversial Hun Sen visit affair, and Generalized System of Preferences (GSP) and military aid cuts might not be completely separate incidents. The prime minister's retaliation for the U.S. unfavorable response to Thai GSP requests by moving closer to neighboring countries regardless of ideological differences was enthusiastically welcomed in some quarters.<sup>8</sup> Interestingly, such a linkage among these incidents may represent a new orientation in Thai diplomacy,

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<sup>7</sup>M.L. Birabhonshe Kasemsri, Thailand's permanent representative to the United Nations.

<sup>8</sup>*Thai Rath* (Bangkok), January 25, 1989.

an orientation that will become clearer after a consideration of Thai perceptions of Thai-U.S. relations in the economic and trade sectors. Although such a new trend is currently remarkable enough, conservative forces or traditionalism in Thai foreign policy—that is, the tendency to watch great power activities closely before venturing in any new direction—could serve as a restraint on actual policy innovation. Such traditionalism is a factor accounting for the ambivalence in the Thai perceptions of Thai-U.S. relations.

### **Changing Thai Perceptions of Thai-U.S. Economic and Trade Relations**

To better appreciate Thai perceptions, it is necessary to understand the stake Thailand has in its economic and trade relationship with the United States. As the country's economy becomes increasingly industrialized—in 1985 the value of its manufactured output for the first time exceeded that of the agricultural production—its dependence on export markets grows. In 1985, industrial output constituted 42 percent of exports. A major outlet for this expanding export trade is the U.S. market.

According to Thai statistics, Thai exports to the United States have increased from 1.2 billion baht in 1960 to 41.5 billion baht in 1986, making it now Thailand's largest single market for manufactured products (including integrated circuits, machinery parts, computer components, artificial flowers and foliage, canned tuna, and textiles) and accounting for an ever-increasing share in this export trade.<sup>9</sup> Another remarkable feature of this growing bilateral trade is that the United States in recent years has experienced a continuing deficit. Thailand's bilateral trade surplus in 1987 was \$843 million.<sup>10</sup>

The importance of Thai-U.S. trade is nevertheless asymmetrical. With Thai exports to the United States accounting for a mere 1.2 percent of total U.S. imports, the U.S. market is much more vital to the Thai economy than the Thai market is to the United States. Furthermore, the picture is complicated by the fact that Thailand has run a deficit with the United States in services and military equipment purchases. The price of the F-16 aircraft alone, for instance, is more than five times the annual trade surplus that Thailand *only lately* has been enjoying. This case is just the tip of the iceberg, reflecting only partially the extensive dependence of Thailand on U.S. technology.

This complex relationship alone could be a major source of difficulties and complaints on both sides. More important, however, are the differing

<sup>9</sup>USIS, *Thai-U.S. Relations: The Economic Dimension*, April 1988, pp. 6–7.

<sup>10</sup>*Ibid.*, p. 7.

perceptions, colored by a kind of “attitudinal prism” fostered by developments in both countries.

On the American side, the general impression may be that, like the Asian NICs and those striving for that economic status, Thailand is part of an economic dynamism in which “unfair trade” is threatening the livelihood of many American workers and farmers, particularly at a time when the United States is going through painful adjustments in response to the decline of its industrial and agricultural production. On the Thai side, which will be dealt with below in detail, it may be said briefly here that the “free and fair trade” principle as forcefully articulated by the U.S. government is a mere euphemism for a “squeeze and no squeal” policy of a much bigger nation.

Thai perceptions of Thai-U.S. relations represent complex attitudes and reactions to U.S. trade and economic policy. In particular, on the most general level, the Thai people resent U.S. formula-type measures, which they perceive as unilateral, unending, ultimatum-like, or even as interference in their internal affairs. The cases of the Food Security Act’s rice subsidy program and the Omnibus Trade and Tariff Act as it relates to U.S. handling of GSP and intellectual property rights issues provide much evidence of such Thai perceptions and reactions.

In an attempt to deal with growing economic difficulties arising mainly from declining productivity and the government’s fiscal and financial policies, the United States has, it is perceived, characteristically resorted to formula-type measures. It has, in this respect, established a clear, explicit legal framework within which to negotiate with its trading partners whose “unfair” practices it believes have largely contributed to its economic ills.

Such a problem-solving approach is very much unlike the practices of many other trading nations. Whereas the Japanese managed to close their market and the European Community (EC) has relied mainly on a quota system, the Americans have blatantly passed a law as a basis for negotiating with *all* U.S. trading partners.<sup>11</sup> An obvious consequence of such an approach is the lessened flexibility of its negotiating position.

U.S. trading partners could always argue that the most natural course of action for the U.S. government to adopt would be to tackle its productivity and public spending problems at home. But what has most dismayed the Thais is the understandable perception that such a formula-type measure is unilateral and unfair. The U.S. government has set its own explicit terms and standards and then imposed them on *all* countries, including developing countries such as Thailand. In the Thai perception, the Trade Act, for

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<sup>11</sup>Surin Pitsuwan, Democratic MP for Nakornsrihammarat, *Siam Rath Weekly Review* 35 (1988), no. 17, p. 16.

example, is particularly unfair, especially to those developing countries that are U.S. trading partners, since the main target of the act seems to be such economic powers as Japan and the EC.<sup>12</sup> Like many other developing nations, Thailand was hit “indiscriminately by the tide of protectionism.”<sup>13</sup>

U.S. unilateralism is also perceived in Thailand in the manner in which the American government has attempted to elicit Thailand’s compliance in matters of intellectual property rights (service- and trademarks, copyrights—including copyrights for computer software—and patents for pharmaceuticals, living organisms, and agricultural machinery) by using the GSP as the carrot and the Trade Act, especially its section 301, as the stick. It may be said, without elaborating on the detailed negotiations on these issues, that the United States has tried to force its trading partner to change its trade as well as labor policies to allow the United States maximum competition and access to foreign markets instead of coping with its own inefficiency at home.<sup>14</sup>

Naturally, such indiscriminate, unilateral action has caused a strong reaction among the Thai people who, despite some doubts and uncertainty, continue to entertain a residual belief that Thai-U.S. relations still retain some special character. Many Thais still regard the United States as their “good friend” who should be sympathetic to their problems. To their great dismay, however, it has now become evident to them from U.S. demands and pressures, that it is precisely this sympathy that the Americans are conspicuously lacking.

The Farm Act’s rice provision provides a good example. This legal measure, which is intended to expand U.S. rice exports while reducing production through a complicated loan arrangement for American rice farmers, has been viewed by the Thais as aimed directly at displacing their rice exports. Other examples are measures such as the sale of sugar from the Commodity Credit Corporation’s stock to China in 1985 at a price below that on the world market.

The Thais feel that the American government, in its concern for a few thousand American farmers, does not understand how it has hurt millions of Thai farmers. The pain is made more acute because the blow has come from those supposed to be their friends. The Thais, in other words, “have taken for granted that Thailand and the United States are long-term friends. Thus when there were trade problems and new trade barriers without

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<sup>12</sup>Chaturon Chaisang, an opposition MP, in *ibid.*, p. 17.

<sup>13</sup>Prok Amranand, “U.S. Trade Policies—A Credibility Gap,” in Ramsay and Mungkandi, *Thailand-U.S. Relations*, p. 281.

<sup>14</sup>*The Nation*, December 15, 1988.

being warned in advance, the Thai people, especially the government, felt betrayed.”<sup>15</sup>

The relationship has been made much more difficult and problematic by the inflexibility of the U.S. position. As has been indicated, such a posture is understandable given the American propensity for formula-type measures. The U.S. government, in other words, tends to negotiate from a more or less fixed position.

A good example is the U.S. handling of the GSP and intellectual property rights issues. Right after the inauguration of the new president, Alan Holmer, acting U.S. Trade Representative (USTR), sent a letter to the Thai commerce minister, prescribing *in detail* what Thailand is expected to do regarding U.S. complaints on intellectual property rights covering copyrights, computer software, and pharmaceutical patents.<sup>16</sup> Indeed, Clara Hill, who was nominated by the Bush administration to replace Clayton Yeutter as USTR, is a typical U.S. negotiator intent on following the letter and spirit of the new Trade Act.

Such inflexibility results not only from simple legalmindedness. It is symptomatic, particularly in this case, of American singlemindedness in pursuing what the American people believe to be in accord with their values—in this case, “fair and free trade.” In their view: “There must be fair trade as well as free trade . . . U.S. companies must have a ‘level playing field’ in order to maximize exports. . . . An important part of U.S. trade policy is—and it has been—the development of efforts to improve the access of American companies to foreign markets. As such, these efforts cannot be considered protectionist.”<sup>17</sup> Hence, it is not surprising that in the eyes of certain well-informed Thais, people like Clayton Yeutter (now secretary of agriculture) are just “economic cold warriors.”<sup>18</sup> Simply put, those who are against the United States are wrong, for the United States is morally right!

U.S. flexibility is far more negatively perceived by the Thais when U.S. demands are presented in ultimatum-like terms. The U.S. handling of the GSP and intellectual property rights issues again well illustrate this point.

The Thai government has offered to submit to Parliament within two years after the conclusion of the Uruguay Round of Multilateral Trade Negotiations, a bill to amend the Patent Act of 1979. The U.S. government,

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<sup>15</sup>Ansil Ramsay, “Introduction,” in Ramsay and Mungkandi, *Thailand-U.S. Relations*, p. 5.

<sup>16</sup>*Bangkok Post*, January 26, 1989.

<sup>17</sup>Melvin W. Searls and Linda S. Droker, “U.S. Trade Policy: Implications for Thailand,” in Ramsay and Mungkandi, *Thailand-U.S. Relations*, p. 270.

<sup>18</sup>Dr. Thanat Khoman, former Thai foreign minister, speech delivered at Chulalongkorn University on December 12, 1988.

in Alan Holmer's letter cited above, has reiterated the position that "the change should not be dependent on the Uruguay Round. The United States seeks to have legislation introduced by December 31, 1990, *at the latest*."<sup>19</sup>

The Thais surely would not perceive such an ultimatum favorably. In Thai eyes, "The Thai government has done as much as it can to accommodate the U.S. one-sided demands. Yet the U.S. simply says that this is not enough."<sup>20</sup> Understandably, many Thais have expressed their "total disagreement" with such a U.S. attitude.<sup>21</sup>

Worse still, in presenting its ultimatum, the United States is perceived to be blatantly interfering in Thai domestic affairs. Demands on pharmaceutical patents and copyright protection for computer software are naturally expected to cost Thailand dearly. It is thus quite understandable that the Thai elite as well as the public deeply resent American interference either in the form of insistence (by labor unions in the United States particularly the AFL-CIO) on the improvement of labor conditions in Thailand or directly in the country's legislative process. Not surprisingly, a group of university students staged a demonstration in front of the American Embassy in Bangkok in December 1988 against such an interference in violation of Thai sovereignty.

After a period of persistent demands and pressures, President Reagan's announcement on leaving office of his decision to deny duty-free benefits of approximately \$165 million in imports from Thailand in retaliation for Thailand's failure to safeguard U.S. intellectual property rights in a satisfactory manner did not cause much surprise in this country.<sup>22</sup> The U.S. reaction had already been anticipated.

Although some Thai exporters said that the U.S. withdrawal of special treatment would not have much impact on Thai exports,<sup>23</sup> the decision has generated, or at least reinforced, what may be termed a "neopatriotic" sentiment among the Thai people in general. This sentiment cannot but have a significant impact on present as well as future Thai-U.S. relations.

If the U.S. demands and pressures are not the single direct cause for the neopatriotic sentiment, still, it was after the decision of the American government to cut Thailand's GSP rights that this sentiment became most evident. It is also roughly at this juncture that a downward trend in Thai-U.S. relations (perhaps underway since about 1985) became readily

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<sup>19</sup>*Bangkok Post*, January 26, 1989.

<sup>20</sup>*The Nation*, December 15, 1988.

<sup>21</sup>*Siam Rath*, January 20, 1989.

<sup>22</sup>*The Nation*, January 20, 1989.

<sup>23</sup>*Bangkok Post*, January 21, 1989.

discernible. Will this trend continue into the 1990s? Will it seriously affect political understanding between the two nations? It is to this latter question in particular that we now turn.

### **Implications of Changing Perceptions for Political Understanding**

With regard to the implications of the change in the Thai attitude, the most pertinent question is whether the changing perceptions of Thai-U.S. relations mean a substantive change in Thai policy toward the United States. The development of democratic rule in Thailand has had as an important political consequence the increasing sensitivity of the ruling elite to popular sentiments and demands. Looked at from this perspective, the change in the popular mood and attitude cannot but have some impact on government policy.

As has been made quite clear, the growing patriotic reassertiveness in Thailand became most evident after the U.S. decision to retaliate for the Thai failure to comply with its demands. Such sentiments were reflected in various press commentaries in early 1989. Adopting an attitude of "if you want to cut GSP, then do it," newspaper commentaries and editorials seemed to reveal a new public propensity toward distance from the United States and greater self-reliance and interest in our neighbors. Unlike the case of Thai-U.S. security relations, the sentiment seems to be characterized by both introspective and patriotic overtones.

It is *introspective* not in the sense of xenophobic retrenchment or a closed-door policy, but rather in terms of greater emphasis on the national drive toward further industrialization and greater attention to the neighboring countries whose potential markets and investment are perceived to serve this national goal. It is *patriotic* not in the sense of nationalistic assertiveness or aggrandizement, but rather in terms of a conscious effort both to reassert national dignity and independence and to strive for economic progress and prosperity rooted in an enlarged economic base of the "golden peninsula" as a whole. Hence the term "neopatriotism."

Expressing strong disillusionment, a typical Thai view is that "since the United States seems unprepared to consider our request for flexibility, we should not make such a request."<sup>24</sup> Echoing much the same attitude, some Thais branded the unfavorable U.S. decision on the Thai GSP requests ugly Americanism: "This clearly testifies to the true character of our so-called longstanding friend. . . . Now let's forget about the Americans and turn our attention to the neighboring countries."<sup>25</sup> Of course, not all Thai people

<sup>24</sup>Editorial, *Siam Rath*, January 23, 1989.

<sup>25</sup>*Thai Rath*, January 25, 1989.

advocate such a policy toward the United States or such a drastic course of action. But the neopatriotic sentiment seems widespread among the public. A recent incident, the so-called lintel affair, provides support for this observation.

Stolen from an ancient Khmer monument in Burirum Province in northeastern Thailand in the 1960s, the lintel was found back in 1976 to be on display at a Chicago art museum. This "U.S. theft" became a major issue in 1988, arousing widespread Thai popular resentment (as officials in both countries tried to downplay the incident) and leading eventually to the return of the art object to its home province. Clearly, this is not simply an isolated incident. It is deeply symptomatic of the current Thai attitude most remarkable for its patriotic emphasis.

Given its extensiveness and the government's increasing sensitivity to the public sentiment, it would be surprising if such a sentiment were not reflected in the current Thai policy orientation. Emphasizing cooperation rather than confrontation, trade rather than guns, in Thailand's relations with its Indochinese neighbors, the present leadership seems to be aiming beyond turning the battleground into a trading market. Its aim in adopting such a policy line seems to be no less than for Thailand to be an economic bastion rooted in "managerial politics"<sup>26</sup> or a center of this so-called golden peninsula of peace, progress, and prosperity.<sup>27</sup>

This neopatriotism, it must be reemphasized, remains most notable not for nationalistic or military, but rather for economic, aggressiveness. If it sounds too far-fetched to claim that that sentiment stems directly from disillusionment with economic and trade relations with the United States, it is unmistakably the prevailing mood of the Thai public, which inevitably influences and to a significant extent is reinforced by the current state of the Thai-American relationship.

The relationship seems to be entering a critical period, one marked by an unmistakable downward trend, which does not bode well for the future. Disillusionment and patriotism on the Thai part coupled with America's militant, cold-war-like approach obviously undermine goodwill and political understanding between the governments and peoples of the two countries. Minor incidents can be blown out of proportion, as events such as the lintel affair have illustrated. In a major foreign policy statement, the current Thai leadership made it clear that it would not "bend with the

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<sup>26</sup>Prime Minister General Chatichai Choonhavan, speech at the National Institute of Development Administration, February 10, 1989.

<sup>27</sup>General Pat Akanibutr, presentation at the National Defense College, February 9, 1989.

wind”—here understood to mean the major powers’ demands and pressures.<sup>28</sup> Will such an apparently patriotic posture impede or further weaken Thai-U.S. political understanding?

At this critical juncture, we are faced with many challenging questions. Will the relationship enter the next decade in a much altered shape? Or will its former characteristics somehow be maintained within the changing environments? Are recent developments long-term trends or just transient phenomena? In either case, will the changing perceptions of Thai-U.S. relations described above lead to a further downward trend in the relationship?

### **Are the Changing Perceptions Changing Thai-U.S. Relations?**

It is evident that Thai perceptions of the United States and of Thai-U.S. relations have undergone significant change, particularly during the latter half of this decade. Although this change in perceptions does not augur well for future relationship, it does not yet warrant a conclusion that Thai-U.S. relations will lose many of their present characteristics. Despite growing disillusionment and patriotism on the Thai part, the two countries still share certain important common aims and interests. Moreover, a conservative force still exists that would restrain any drastic or abrupt change in the relationship.

The present Thai leadership has, in fact, reaffirmed its consideration of the United States as one of Thailand’s “most important allies.”<sup>29</sup> On a more personal level, the United States is still viewed as “our good friend.”<sup>30</sup> Such views are understandably not just a matter of diplomatic politeness. Despite the perceived decreasing relevance of Thai-U.S. security ties, there is evidence indicating that the security relationship is still in good shape. U.S. support for the modernization of the Thai armed forces and cooperative ventures such as military exercises and the setting up of a war reserve stockpile in Thailand mean a lot for the credibility of its fighting capability and readiness. Despite occasional expression of doubts about the value of the security arrangement with the United States,<sup>31</sup> no one would deny its

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<sup>28</sup>Prime Minister General Chatichai Choonhavan, speech at the Foreign Correspondents Club of Thailand, December 22, 1988.

<sup>29</sup>Prime Minister General Chatichai Choonhavan, speech at the National Institute of Development Administration, February 10, 1989.

<sup>30</sup>General Chaovalit Yongchaiyut, *Siam Rath Weekly Review* 35 (1989), no. 34.

<sup>31</sup>Such doubts have occasionally been expressed at seminars and conferences in which the writer participated.

deterrent function. Alliance diplomacy may be waning lately, but alignment is still very much alive and meaningful in the present world situation. Despite the unmistakable tendency for Thailand to distance itself from the United States, at this stage it remains doubtful that Thailand would in the foreseeable future dilute the security component in the Thai-U.S. relational matrix. Diversification of Thailand's arms procurement sources, for instance, does not require termination of the U.S. supply. At the very least, Thailand and the United States are still aligned—or in a loose coalition such as an ASEAN—major powers dialogue partnership. Of course, at this time of growing disillusionment and patriotism amid increasing problems and difficulties in both countries, the relationship needs to be properly managed.

The picture is more or less the same in the economic and trade sectors. Despite growing U.S. protectionism, the Thai people cannot but recognize that the U.S. market remains the biggest and most open. It is not easy for Thai exporters to find a substitute for this market. Indochina, with all its advantages (geographic proximity, in particular), remains a potential whose *real* value as a trading market has yet to be determined.

It is not surprising, therefore, that despite the prevailing disillusionment and patriotism among the Thai elite and public, large segments in Thai society do not want to worsen the current state of Thai-U.S. relations lest the United States adopt harsher measures that could more seriously hurt Thailand's thriving industries. The Board of Trade in early 1989, for example, issued a statement implying a criticism of the government's handling of the GSP and intellectual property rights issues. Stressing that GSP was "vital" to Thai export trade, the statement called for a "flexible" policy framework and improvement in the "method of consultation and exchanging benefits at all levels in the private sector, government, and Parliament." And in pointing out that the protection of intellectual property rights should not be regarded as an issue wholly between Thailand and the United States, the Board of Trade suggested that "a new atmosphere of consultation with the United States should be created speedily."<sup>32</sup>

Many segments in Thailand would dispute the claim that the removal of preferential treatment by the United States would have a minimal impact and that the private sector in Thailand was not concerned about this prospect. They have expressed anxiety, which seems to be shared by certain Thai business circles, about the current approach to negotiations with the United States, an approach that in their eyes contains an element of "intellectual arrogance."<sup>33</sup>

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<sup>32</sup>*The Nation*, January 27, 1989.

<sup>33</sup>*Ban Muang*, January 23, 1989.

Thai attitudes toward the United States and Thai-U.S. relations in both the security and economic areas are thus particularly ambivalent. Such ambivalence is attributable, on the one hand, to the existing economic and political alignment with, if not dependence on, the United States. On the other hand, it also reflects the current political development in Thailand; that is, the impact of the progress of democratic rule on the growing accountability of the government. The government, in attempting to adjust to the changing external environment and to accommodate domestic demands and pressures, has been confronted with unprecedented difficulty in defining a unified, coherent set of policy aims.

The waning of popularity of the last phase of the government of General Prem Tinsulanond may be instructive in this connection. It is in fact explicable in terms of the gap between popular expectations and government action. Prem's concessions to U.S. demands on intellectual property rights protection were not well received. The present government cannot but fully appreciate this gap. Riding on popular sentiment that is trying to close this gap, it is earning valuable political points. However, as it is impossible for a government to always have its own way in foreign affairs, the government has understandably adopted an ambivalent attitude. It has not intentionally opted for such a course of action, but in attempting to accommodate cross-cutting demands and pressures, external as well as internal, it cannot but be ambivalent. It cannot afford to be "soft" in the public eye; neither can it be inflexible in the face of external pressures. Indeed, in attempting to achieve domestic consensus, it at the same time has to maintain external compatibility.

Such an attitude has been clearly expressed in a recent government policy statement. It was stressed that economic relations with the United States must be founded on an "equal footing." Moreover, a "comprehensive relationship" embracing a whole range of issues, from intellectual property rights protection to investment and technology transfer, was called for. Advocating a policy that is tough but not aggressive, gentle but not weak, the statement made it absolutely clear that any arrangement, particularly in the form of legislation, that will have a long-term adverse impact on the future development of the Thai economy would be unacceptable.<sup>34</sup> In advocating such a policy, the present leadership has clearly delineated the bottom line from which it would be politically costly for it to retreat. Given the need for both domestic consensus and external compatibility, proceeding from such a bottom line seems at present the most plausible option.

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<sup>34</sup>Prime Minister Chatichai Choonhavan, speech at the National Institute of Development Administration, February 10, 1989.

The present Thai government and the Thai people in general do not want to see the United States and Thailand on a collision course. Steering the relationship away from such a course is in itself a viable basis for future constructive negotiations. And with such a basis, the future of the Thai-U.S. relationship does not appear to be so bleak as some might have perceived. However, to pave the way for a mutually beneficial future relationship, hard work and proper care—proper management—are needed.

### **Toward Permanent Negotiations**

It is evident from the foregoing discussion that postwar Thai-U.S. relations have suffered two major setbacks that have had a profound impact on the Thai perceptions of Thai-U.S. relations. These setbacks, one in the security sphere and the other in the economic field, have created what may be called a gap between the image and reality of Thai-American relations.

The Thai people appreciated the stabilizing role of the United States in Asia. The U.S. departure and its Vietnam trauma nevertheless seriously shook Thai confidence in the U.S. security commitment to Thailand. The effect was particularly profound because this occurred at a critical moment—at the time when the Soviet-backed Vietnamese threat was considered most serious in Thailand. Although Thai-U.S. security relations have declined in saliency lately, an impression has already been made on the Thai mind that Thailand cannot expect to depend on the United States for its security either directly, in compliance with Thai-U.S. security arrangements, or indirectly, through the U.S. stabilizing role in the region. A policy alternative thus presenting itself is the diversification of security relations.

Following the security setback came the second major blow: the U.S. trade policy as reflected in such legislative measures as the Farm Act and Trade Act of 1985 and 1988, respectively. In much the same manner as they hoped that the United States would contribute to their security, the Thais have expected their industries to grow mainly through a continuation or expansion of their U.S. market. U.S. trade policy has lowered this expectation a significant extent. Increasing difficulty in Thai-U.S. trade negotiations have led the Thais to try to diversify their export market. Another major disappointment has been experienced by Thailand.

These two setbacks have not only weakened security ties and economic links but also clouded mutual political understanding. Three of the four components in the matrix of relations between the two countries have been adversely affected. The Thais have taken the current U.S. demands and pressures so seriously largely because these have reopened or deepened the wounds inflicted by the Vietnam trauma. It is difficult for the Thais *not* to strongly or even emotionally react to such a blow. To their

mind, Thailand, once a frontline state in U.S. estimation, still deserves, for a combination of reasons, special understanding and treatment by the United States. They feel that Washington should have been aware of and more sensitive to their country's particular situation and hence refrained from applying general rules and standards. On the contrary, it has been confronted with a kind of domino situation. Once one U.S. demand is granted, others are likely to be forthcoming. When will these come to an end? What is next, after GSP and intellectual property rights protection? The Thais have found themselves in a very difficult negotiating position.

The public image of Thai-U.S. relations has posed some political difficulties for the present Thai leadership. In reality, security and economic relations may still have common needs. Thailand still stands to benefit from the U.S. stabilizing role. It still needs the U.S. market, at least until its industries are sufficiently strong or until an alternative market is found. In either case, much more time is needed. The prospect of becoming a new Asian NIC or NAIC is promising, but Thailand has a long way to go before it can attain such a status, and a substitute for the U.S. market is not readily available. Given the current relatively negative image of Thai-U.S. relations, however, it is difficult for the Thai government to remain simultaneously in touch with reality and politically accountable. The reaction so far—as a manifestation of public disappointment—has been to distance Thailand from the United States and in the process become more introspective.

It seems, in the present situation, that only the human or personal factor in the relational matrix is left to help sustain the generally weakened relationship. At this personal level, the Thais and Americans still retain much of their mutual respect and friendship. They remain amicable enough to talk fruitfully with each other. Indeed, there is still room for negotiation, no matter how difficult the issues or problems at hand might be. We need, then, to head toward permanent negotiations based to a greater degree on personal goodwill and friendship.

"Goodwill," President George Bush stressed in his inaugural statement, "begets goodwill." But goodwill becomes viable only if it is rooted in mutual understanding. It is therefore imperative that the Thai and American peoples seek, with the help of their existing goodwill, further understanding of each other's problems and needs.

In a rapidly changing world, external challenges and opportunities require increasing attention. This seemingly more peaceful world remains intensely competitive economically and politically. Many nations have merged into economic blocs in order to compete more effectively. George Bush himself will have to compete charismatically with Mikhail Gorbachev to prove his leadership at home as well as abroad. At times, external

challenges or opportunities will be felt more strongly than domestic demands and pressures. Neither the United States nor Thailand can afford to be overwhelmingly preoccupied with domestic affairs at the expense of external requirements.

President George Bush emphasized in Alaska, on his way to Japan to attend the funeral of Emperor Hirohito, that the United States intended "to stay a Pacific power."<sup>35</sup> But how can it expect to do so if it does not continue to enjoy the cooperation of its friends and allies? How can it hope to retain their goodwill if its preoccupation with domestic problems serves only to alienate its external constituencies? According to some observers, recent developments in the Asia-Pacific, especially Sino-Soviet rapprochement, give "more reason for hope than fear." That is, insofar as such developments constitute favorable conditions for the settlement of regional conflicts or improvement of major bilateral or multilateral relationships, they also give more room for a U.S. role and initiative. Current developments accord the United States a unique opportunity to assume an important role in various regional settlements—from the Korean peninsula to Cambodia—as well as in major power interactions including Japan-U.S.S.R. relations.<sup>36</sup> Needless to say, Washington would be in a position to play such a role more effectively if it had the trust and respect of all the nations concerned.

It is conceivable that if the United States is too harsh in implementing its trade policy, it could drive away most of its existing partners. These nations could form themselves into bloc economies to counteract American harshness. Thailand, for example, could be driven to create a golden peninsula bloc embracing Burma as well as Indochina. Realignment could emerge as an alternative to the present state of affairs, entailing both risks and opportunities. Thailand still needs the U.S. presence to maintain a balance of economic power, and obviously the United States would not want to lose all its economic influence and interests. Without the U.S. option, a hard-pressed country like Thailand might seek to add weight to its bloc by forging closer partnerships with other major economic powers in order to maintain such a balance.

Thailand, although it can ill afford to be inflexible, is suffering from what may be called image constraints. In the public eye, a close relationship with a major power has proved neither politically nor economically rewarding, although it is in some way necessary to maintain good relations with such a nation. Thai-U.S. trade negotiations and the unfavorable public

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<sup>35</sup>*The Nation*, February 23, 1989.

<sup>36</sup>Cyrus Vance and Richard C. Holbrooke, "More Reason for Hope than Fear," *Time*, February 13, 1989.

reaction thereto have convinced the Thai government of the need to create an image of distance from the United States. The problem is that there exists a gap between image and reality, as has been made clear.

One way out of this predicament is to rely more on the human dimension of Thai-U.S. relations, that is, to rely on permanent negotiations to bridge the gap between image and reality. This is a very difficult task. The success of negotiation, particularly if it is to continue on a permanent basis, is dependent on mutual willingness to give and take and to accept compromise and accommodation. The Bush-Chatichai meeting in Tokyo early in 1989 may be taken to represent a mutual recognition of the need for negotiation and understanding. The Thai prime minister made clear during the meeting his intention to seek ways and means of consolidating cooperation in areas where cooperation is already strong, resolving existing differences, and promoting cooperation in new areas. Reaffirming that relations with the United States constitute one of the cornerstones of Thai foreign policy, he stressed his preference for a balanced economic progress in the Asia-Pacific region "without the domination of any one economic power."<sup>37</sup> This demonstration of goodwill toward the United States has been confirmed by Foreign Minister Siddhi Savetsila, who, in a recent speech, emphasized that in attempting to turn a foe into friend, Thailand would never transform a friend into foe.<sup>38</sup>

Thai-U.S. relations are entering a new era. The relationship will understandably become less special and more businesslike in character. It might thus be argued that the human factor or personal sentiments alone will not be sufficient to offset the frequent stresses and strains likely to characterize that type of relationship. What bargaining leverage does Thailand have on the United States in their negotiations, especially on tough issues? In such cases, the Thais may need to rely on cooperation with likeminded countries—those similarly affected by U.S. trade policy and practices—to counter U.S. pressure.

Following his recent visit to Beijing, the Thai prime minister conceded (with reference to the Cambodian problem but by implication with some relevance to the point in question here) that, as a small country and not a superpower, "Thailand does not have enough influence."<sup>39</sup> Such an attitude is clearly indicative of the recognition that Thailand does not have much bargaining power in negotiating with a major power and that cooperation with likeminded countries is sometimes necessary.

It was indicated by a source in the Thai delegation to China that an

<sup>37</sup>*Bangkok Post*, February 25, 1989.

<sup>38</sup>Foreign Minister Siddhi Savetsila, speech at a conference in Pitsanulok, February 3, 1989.

<sup>39</sup>*The Nation*, March 18, 1989.

issue the Thai side would raise in talks with its Chinese counterpart was Sino-Thai cooperation in confronting protectionism and emerging economic blocs including the EC after 1992 and the U.S.-Canada tariff-free agreement. "Being in isolation will deprive Thailand of negotiating power in future international competition."<sup>40</sup>

In conclusion, it may be argued that the present and future leadership in Thailand will face a more challenging task in formulating a coherent and effective foreign policy. Externally, although Thai-U.S. bilateral relations will continue to be viable and important to both parties (although somewhat asymmetrically so), in coping with this bilateral relationship, Thailand might need a loose economic coalition as a counterweight to the unequal partnership. Internally, its leadership will have a difficult time coping with cross-cutting demands and pressures. And in trying to achieve a domestic consensus, it must be aware of all external requirements so as not to create external incompatibilities. In so doing, it will also have to close the gap between image and reality.

In the present rapidly changing world, Thai-American bilateral relations have become increasingly complicated, embracing problems and issues that require meticulous and patient management. It is conceivable that the two countries, if they are to retain a fruitful relationship, must be prepared for permanent negotiations on such problems and issues, both on a bilateral and at times an economic-bloc basis. It is to be hoped that existing personal goodwill and friendship will facilitate a solution to existing differences, enhancing understanding, and thereby making the relationship thrive again.

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<sup>40</sup>*Bangkok Business*, Afternoon Supplement, March 15, 1989.

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## 4. Changing Perceptions of U.S.-Thai Relations

CLARK D. NEHER

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This chapter addresses the changing American and Thai perceptions of United States–Thai relations. The thesis is that perceptions have changed fundamentally and irrevocably within the past decade as both nations' status and position in the international system have changed. The transformation of economic and political forces within both nations has also led to a reevaluation of their respective foreign policies.

To illuminate these changing perceptions, this chapter will present an overview of significant international and domestic factors affecting American and Thai foreign policy and then focus on an issue that dominated Thai-U.S. relations in 1988. The intellectual property rights issue serves as a case study of two nations attempting to deal with severe adjustments in their relationship.

### **The International Order in the 1990s**

New foreign policy perceptions have resulted from the international sweep of change that has become manifest in the 1980s: the transformation of the dominant bipolar world of communists and anticommunists to a more fragmented and interdependent world of competing multipolar centers of power, with the United States participating more as an equal than as a superpower. For the United States, as ideological distinctions have faded, economic relations with these emerging centers of power (e.g., Japan, China, the European Community, the newly industrialized countries, and the Soviet bloc) have become more important concerns than security ties. For Thailand as well, economic ties with nations throughout the world, both communist and noncommunist, have priority in foreign policy considerations.

A major catalyst for this change has been Soviet President Mikhail Gorbachev, who has acted on the assumption that the Soviet Union will flourish only by a comprehensive reorganization and opening up of Soviet society. The Soviet Union's pressure on Vietnam to withdraw troops from

Cambodia, its own withdrawal from Afghanistan, the demilitarization of the Sino-Soviet border, the Soviet acceptance of a significant American role in Southeast Asia, and new economic ties with the Association of Southeast Asian Nations (ASEAN) are illustrative of the transformation.

As the United States moves into its third century, foreign policy officials and analysts are reappraising their world views, seeing that America's future is increasingly tied to the fortunes of Asia. The United States is daily more economically and politically intertwined with the new unparalleled Asian dynamism found in America's most important ally (Japan), the world's most populous nation (China), the four "tigers" (Taiwan, South Korea, Hong Kong, and Singapore), and the six nations of ASEAN (Thailand, Malaysia, Indonesia, Singapore, Brunei, and the Philippines).

The economic importance of Asia to the United States increases each year. The transpacific commerce of the United States has reached \$215 billion, exceeding by over 50 percent American trade with Europe. Although the Pacific Rim is now the largest overseas market for American agricultural exports, 60 percent of the total American trade deficit of \$171 billion is with Asia (and 35 percent with Japan alone).

Economically, Asia is the fastest growing area of the world, with growth rates twice that of the European Community. China had the highest economic growth rate (10 percent) of any country in 1987, with trade statistics approaching those of France. South Korea will surpass Great Britain in gross national product (GNP) before the turn of the century.

America's relations with Japan best illustrate the enormity of the new interdependence between Asia and the United States. The flow of trade, capital, technology, and people has unalterably transformed both cultures. Japan and the United States together account for about 40 percent of the world's GNP. Japan has invested \$31 billion in the United States, more than 300,000 Americans now hold jobs in Japanese-owned enterprises, and 100,000 Japanese work for American ventures in Japan. Japan's defense budget in 1988 is the fifth largest in the world, accounting for \$2.5 billion of the total \$30 billion allocated for support and maintenance of U.S. forces in Japan. The United States imports about 40 percent of Japan's exports, and Japan in 1987 imported American products worth \$28 billion, more than any nation except Canada and more than West Germany, France, and Italy combined. Nevertheless, the United States suffered a \$60 billion trade deficit with Japan in that same year.

The massive trade deficit with Asian countries and America's own domestic budget deficits suggest to many Americans that economic imbalances may be a more serious national security problem than potential Soviet aggression. Trade gaps have become the principal source of international friction. Five of the world's seven largest banks are Japanese,

and Japanese firms and individuals are buying property and businesses in the United States. Moreover, highly educated Asian Americans, although constituting only 3 percent of the U.S. population, now play an increasingly large role in American life in virtually all sectors of American society as the process of de-Europeanization continues.

Aspects of Asian culture shared by Asian Americans and popularized by commodities from Japan and the "four tigers" have been felt at all levels of American society and have rekindled interest in and concern about Asia. Moreover, by the late 1980s Americans had begun to erase bad memories of the tragic and unsuccessful Vietnam War. A legacy of that traumatic war has been a collective neglect of Southeast Asia for over a decade as American foreign policy officials refocused on the more traditional areas of Europe, the Soviet Union, Latin America, and the Middle East. However, the remarkable "people's revolution" in the Philippines and the unparalleled economic and political successes of the ASEAN countries have renewed American interest in Southeast Asia. American policy makers realized in the mid-1980s that the dynamism in Asia, if unattended, could prove antithetical to American interests.

In the larger global picture of American foreign policy, Thailand (and indeed all Southeast Asia) is perceived to be peripheral to more central interests in Japan, China, the Middle East, Latin America, the European Community, and the Soviet Union. Noncommunist Southeast Asia is viewed by U.S. policy makers as politically stable, undergoing democratization, relatively supportive of American interests, and free from major international crises. In contrast to the year 1975, when American foreign policy in Southeast Asia was paralyzed and in a shambles, the present American position is considerably stronger. Today Vietnam is the pariah, with its economy in chaos and its international and regional influence depleted. Insurgencies have failed throughout ASEAN (the Philippines, perhaps, representing an exception), and both China and the Soviet Union are playing relatively constructive roles.

Except for the interminable Cambodian imbroglio, controversy over American bases in the Philippines, and the Soviet base at Cam Ranh Bay, American security interests in Southeast Asia have largely been realized. In accordance with the principle that interests determine commitments, U.S. commitments in Southeast Asia today are secondary to those in other areas of the world.

American policy toward Thailand cannot be viewed separately from the new world configuration. Thailand is no longer viewed exclusively as a recipient of American economic development aid, a "frontline" state crucial to the American goal of containing communist powers in China and Vietnam. From the American perspective, neither China nor Vietnam

constitutes a serious security threat to Thailand, at least in the short run, and therefore Thailand is more meaningfully viewed as an economic partner and competitor than as a client state. In its policy toward Thailand, the United States does take into consideration potential Vietnamese aggression.

### **The Changing Economic Order in Thailand**

A number of insightful and prescient publications on Thailand have been published in the past five years by the Institute of East Asian Studies at the University of California, Berkeley.<sup>1</sup> The essays in these publications document the fundamental economic and political changes that Thailand has undergone in the past two decades. These changes, in turn, have influenced American perceptions of Thailand as well as Thai perceptions of U.S. policy. The phenomenal success of the Thai economy, for example, has altered American perceptions of Thailand and Thai-U.S. relations. Because of the robust Thai economy, there are now domestic pressures on Washington to respond vigorously to perceived unfair "adversarial" trade practices by Thailand and other Asian nations. These pressures constitute an unprecedented aspect of American relations with Thailand.

Thai economic growth has been a result of free-market export-driven policies carried out by highly sophisticated technocrats working within the framework of a moderately conservative, relatively open polity. The private sector as the "engine of development" has been led by an unfettered, integrated, and secure Sino-Thai business community, working closely with successive development-oriented political regimes. Changes at the top political levels have had only minimal impact on the general directions of Thai economic policy, because the bureaucracy and business class have provided continuity and stability. Diversity of economic ownership has assured a resiliency, adaptability, and responsiveness in the Thai economy not found in most nations.

For two decades, Thailand has managed an average annual economic growth rate of 7 percent (estimated at 10 percent in 1988), a rate surpassed by only a handful of nations. Built on a diversified economic

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<sup>1</sup>See, in particular, the following volumes, all published by the Institute of East Asian Studies, University of California, Berkeley: R. Sean Randolph, *The United States and Thailand, Alliance Dynamics, 1950-1985* (1986); Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi, eds., *Asian Political Institutionalization* (1986); Karl D. Jackson, Sukhumbhand Paribatra, and J. Soedjati Djihadono, eds., *ASEAN in Regional and Global Context*; Karl D. Jackson and Wiwat Mungkandi, eds., *United States-Thailand Relations* (1986); and Ansil Ramsay and Wiwat Mungkandi, eds., *Thailand-U.S. Relations: Changing Political, Strategic, and Economic Factors* (1988).

base, the growth rates have been strong even during periods of world recession and oil price rises. Although the new wealth has not been distributed equitably, virtually every economic group's standard of living has improved. The percentage of rural villagers living in poverty was reduced from 60 to 30 during the 1970s. Since 1986, the percentage has once again decreased after a temporary reversal in the early 1980s, when commodity prices were depressed.

The strength of the Thai economy should not mask both short-term and long-term constraints on economic growth. The major problem continues to be inadequate infrastructural facilities, principally in transportation. The Bangkok port is congested, and road conditions throughout the kingdom are in disrepair. Bangkok's vehicular traffic has approached gridlock. Moreover, the growth of manufacturing plants in and around Bangkok has exacerbated the regional income disparities that exist between the rural provinces and the capital. The per capita gross domestic product of Bangkok is about seven times that of the northeastern provinces.

The Thai government is attempting to solve these problems with a policy of decentralization that encourages investments outside of Bangkok. Industrial entrepreneurs, for example, receive fewer promotional privileges for investing in Bangkok than for investing up-country. The massive Eastern Seaboard Development Program, over 100 miles from Bangkok in Chonburi Province, is the most visible example of the government's strategy to diversify industrial and infrastructural development outside of Bangkok.

The modern industrial sector overtook the agricultural sector's share of the Thai gross domestic product for the first time in the early 1980s. This change symbolizes the beginning of Thailand's move from a rural, agricultural society to one more characteristic of the newly industrialized countries. Aided by the 1984 devaluation of the baht and capital investments from abroad, the manufacturing sector grew rapidly, leading to a rapid rise in Thai exports of manufactured goods (up 30 percent each year since 1985). At the same time, the value of imports increased significantly, resulting in a wider trade deficit of about \$1.3 billion in 1987. Earnings from tourism and to a lesser extent from Thai workers abroad, however, contributed to a positive balance of payments.

This structural transformation of the Thai economy, from agriculture to manufacturing, is a key element of Thai export policy and Thai economic relations with the United States. At the same time that Thailand is increasing its exports of manufactured products, the United States is resisting the import of such because of its own trade deficit and because of pressures from manufacturing constituencies.

United States–Thai trade surpassed \$5 billion in 1988, with the American share of Thailand's trade at more than 18 percent. In 1986 the American trade deficit with Thailand was over \$1 billion, about .5 percent of the total American trade deficit. Although the amount of the deficit with Thailand was small compared to that with Japan (\$60 billion), Taiwan (\$19 billion), and South Korea (\$10 billion), the fact that a deficit existed at all played an important symbolic role in Thai-U.S. relations. In the minds of American policy makers, the trade surplus enjoyed by Thailand undermined the complaints from Thais about American "protectionism" and provided American trade negotiators with a rationale for demanding a "level playing field" on which to compete.<sup>2</sup>

The trade deficit with Thailand underlined the severe economic problems faced by the United States, a country that in eight years had been transformed from the world's largest creditor nation to the world's largest debtor nation. It is in this context that congressional and State Department responses to Thai trade and intellectual property rights (IPR) policies must be interpreted. This deficit has been a significant factor explaining U.S. trade and protectionist measures, including those that have directly affected Thailand.<sup>3</sup>

### **The Political Order in Thailand**

Just as international and domestic economic factors influence foreign policy perceptions, domestic politics are also important. The standard interpretation of Thai politics has been that (1) the bureaucracy has been the bedrock of political stability; (2) the lack of colonial domination has allowed the Thais to Westernize in a way deemed appropriate to their traditional culture; (3) the monarchy has provided policy continuity and stability; (4) Thai politics has been highly centralized and hierarchically structured, with patron-client networks integrating the society; and (5) political parties, pressure groups, and the legislature have been institutionally subordinate to the military.

This standard interpretation, especially point 5, has been revised recently because of institutions that have arisen in the past decades with functions that replace the personalistic rule of the past. These new institutions include interest groups, business associations, political parties, nongovernmental associations, and the mass media. Political parties,

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<sup>2</sup>See a number of references to the "level playing field" in Ansil Ramsay, "Introduction," p. 5, and Ramsay and Mungkandi, *Thailand-U.S. Relations*, passim.

<sup>3</sup>For a thorough discussion of U.S. trade policy, see Melvin W. Searls, Jr., and Linda S. Droker, "U.S. Trade Policy: Implications for Thailand," in Ramsay and Mungkandi, *Thailand-U.S. Relations*, pp. 261–280. For a response to the Searls and Droker essay, see Surakiart Sathirathai, "A Comment on U.S. Trade Policy," in *ibid.*, pp. 287–293.

although still personalistic, are more coherent in structure and better able to represent citizens' demands. Parliament has become a legitimate and vital institution for the expression of opposition to the government and to the military. Business and middle-class interests are represented in the elected parliament in greater numbers than ever before.

The kingdom has adopted procedures for the transfer of political power that have worked well since 1977, the year of the last successful military coup in Thailand. The likelihood of unconstitutional intervention by the military has decreased with the acceptance of such procedures and the increased professionalization of the army. Factors such as an economic downturn, conflict over succession to the throne, or a serious security threat to the kingdom, however, could increase the likelihood of military intervention.

Rural Thais are no longer a passive peasantry. Increasingly, Thais are engaging in political activity, having contact with officials, joining interest groups and participating in village projects, and have knowledge of governmental processes. Such activities act as a safety valve, breed a sense of commitment to and involvement in the kingdom, and serve notice to the government that rural Thais do not want their concerns ignored.

In 1988, Thailand took another step toward a more fully participatory political system when a former general, Chatichai Choonhavan, an elected member of Parliament and leader of the Chat Thai political party, was named prime minister. He became the first elected member of Parliament to become prime minister since 1976. His appointment came after the July 24, 1988, parliamentary election, following the dissolution of Prime Minister Prem Tinsulanond's administration. About 64 percent of the Thais voted for candidates for Parliament from among fifteen political parties. A coalition of leading parties was formed, including Chat Thai, the party winning the most seats.

Prime Minister Chatichai had been elected a member of parliament from Khorat Province. He served as deputy prime minister and minister of industry under Prem, and he was foreign minister under Prime Minister Kukrit Pramoj. He is gregarious and has unmatched contacts with business executives, stemming from his position as chairman of the Thai-Chinese Friendship Association, and with the military as a result of his rank of general and his accommodation with influential Army Commander-in-Chief Chaovalit Yongchaiyut. His wife is a cousin of the king and her family lived in a royal palace under the patronage of the king's mother.

Although Chatichai's tenure was predicted to be short, he moved quickly to consolidate his power through appointments to the cabinet of influential politicians and support of labor groups and major military leaders. He shifted the kingdom's strategy for dealing with Indochina, calling for better relations with Vietnam by turning the "battleground into

a trading market." He played a prominent role in determining the Thai response to U.S. demands for resolving the controversy over intellectual property rights. His openness and willingness to embark on new strategies and policies, in contrast to Prime Minister Prem's aloofness and conservatism, enhanced his popularity.

Because of Air Marshal Siddhi Savetsila's stature and his leadership of the second largest political party, Prime Minister Chatichai agreed to have him serve another term as foreign minister (his ninth year in the position). Siddhi himself had aspirations to be named prime minister as the leader of the Social Action Party, nominally a major coalition partner but a longtime rival of the Chat Thai party. Siddhi's ties with Prime Minister Prem had been close, whereas his relations with Chatichai were more distant and potentially competitive. Because of intense negotiations among the political parties for cabinet positions, Chatichai really had no choice but to allow Siddhi to stay at the Ministry of Foreign Affairs.

Relations between Chatichai and Siddhi became strained when Chatichai appointed six academic critics of the Ministry of Foreign Affairs (MFA) to his personal foreign policy advisory board. When the board publicly recommended proposals at variance with those of the Foreign Ministry, tensions escalated. In particular, the board and the ministry clashed over how best to enhance relations with Vietnam, Burma, and Laos and how to deal with Americans over intellectual property rights.

American officials dealing with Thailand have found it necessary to adapt their negotiating mode to the new Thai political situation. Until recently, the military dominated foreign policy in Thailand, with leading bureaucrats in the MFA, cabinet ministers, and political party leaders playing secondary roles. For two decades, up to the end of the Vietnam War, the security interests of the United States and Thailand coincided to such an extent that Thai military rulers negotiated directly with the American embassy, often bypassing the MFA. Even at present, when policy concerns national security, Thai military leaders continue to play an important role in the foreign policy process.

The gradual democratization of the Thai polity has qualitatively changed how foreign policy is determined. Today, the United States must take into consideration the reactions of the military, the MFA, advisory boards to the prime minister, the prime minister himself, Parliament, the mass media, and activist students. All of these groups now play a role in Thai foreign policy, just as comparable structures do in American foreign policy.

The opening up of Thai society has resulted in vigorous debate among many institutions about the direction and implementation of foreign policy. One aspect of the debate has been a move toward changing the

dominant-subordinate relationship between the United States and Thailand to one based on a more equitable foundation. The Thais have moved toward “omnidirectionality” (the term is Foreign Minister Siddhi’s) as security concerns have diminished and economic concerns proliferated.

Omnidirectionality stems from the realization of the Thais that the kingdom is no longer a centerpiece of American foreign policy. Siddhi suggested that security issues could no longer be seen in relation to one patron-protector, the United States. Instead, he argued that the best guarantee of Thai security was a flexible policy based on active, open diplomacy with friends and foes. Omnidirectionality, a term that comes from the traditional Thai concept of *khop kap thuk fai* (deal with all camps), reflected changes in leadership in China, the Soviet Union, and Vietnam, where more pragmatic regimes appeared to be less threatening. Omnidirectionality was also viewed as a means to improve the economic well-being of the kingdom by establishing economic ties with more countries willing to trade with and aid Thailand.

### **Intellectual Property Rights— The American Perspective**

Changes in American perceptions of Thai foreign policy are a function of momentous transformations in the international and domestic arenas of both nations. Although the myriad forces influencing American perceptions are many and complex, the most important factors appear to be the multipolar and interdependent state of international relations, the winding down of the Cold War, the political stability and democratization of the Thai polity, the reduced security threats to Thailand from Vietnam, China, and the Soviet Union, the conversion of the Thai economy to a manufacturing base, the rise in Thailand of new institutions for foreign policy making, and the trade surplus Thailand (and many other Asian nations) have vis-à-vis the United States.

In 1988, one foreign policy issue between the United States and Thailand proved most contentious. From the perspective of the United States, this intellectual property rights issue concerns the lack of Thai protection against the copying of American products such as cassette tapes, designer clothes, watches, and dozens of other “pirated” products found in stores, in markets, and on street stands. The issue also concerns the protection of computer software copyrights and pharmaceutical product patents as well as fairness in trade relations.

From the Thai perspective, the issue is defined in terms of American protectionism, American “bullying” of a longtime ally, nationalism, and economic development. These strikingly different perspectives have made productive negotiations difficult, as each side speaks past the other.

As the U.S. trade deficit grew out of control in the early 1980s, the Reagan administration mounted a bipartisan international effort to achieve protection of the intellectual property rights of American manufacturers, scientists, and artists. Both the Trade Act of 1984 and the Omnibus Trade and Competitiveness Act of 1988 (Trade Act) mandated the administration to achieve IPR protection and sanctions against countries that failed to endorse and enforce such protection.

The 1988 Trade Act, a document of more than one thousand pages, differs from the 1984 act by shifting authority to determine “unfair trade” from the president to the U.S. Trade Representative (USTR). The scope of “unreasonableness” in trade practice has expanded and retaliation is technically mandatory, although the act softens the approach by allowing the USTR to choose the form and level of retaliation.

By the end of 1988, Thailand was ranked lowest in respecting intellectual property rights in a survey by the Asian Pacific Chambers of Commerce.<sup>4</sup> The United States found itself, in Thailand, without intellectual property protection in a wide array of areas, including pharmaceuticals, software, and other creative products. In mid-1987, two U.S. trade associations, the Pharmaceutical Manufacturers Association (PMA) and the International Intellectual Property Alliance, submitted petitions to the USTR, requesting withdrawal of trade benefits to Thailand under the Generalized System of Preferences (GSP) because of inadequate IPR protection.

The GSP was established in the 1970s by several industrialized nations to grant duty exemptions on selected exports from “beneficiary developing nations” in order to promote their imports. The import duty of certain items under GSP can be exempted or reduced. Benefits stop automatically when per capita GNP of a developing nation reaches \$5,000, when the market share of an item reaches 50 percent, or when the USTR deems the beneficiary to have engaged in unfair trade practices or to have denied IPR protection.

In 1987, Thailand ranked seventh in the world as a GSP beneficiary. When Hong Kong, Singapore, Taiwan, and South Korea lose their GSP privileges in January 1989, Thailand becomes the program’s third-ranking beneficiary, behind Mexico and Brazil. Trade specialists have predicted that the four Asian countries that had previously received GSP privileges would start making some of their goods in Thailand, injecting increased foreign investment into the Thai economy.

Under the 1984 Trade Act, the USTR can be petitioned to determine whether or not a country’s IPR protection is adequate and effective. A negative determination and consequent recommendation to the president

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<sup>4</sup>*Business Week*, November 7, 1988, p. 52.

of the United States can result in sanctions, including the denial of benefits under GSP to that country. The USTR agreed to a deferral until December 15, 1988, of any decision on Thailand's continued eligibility for GSP. The deferral was agreed to in the expectation that the Thai government would make significant progress on achieving U.S. intellectual property protection objectives.

In its petition to the president, the Pharmaceutical Manufacturers' Association argued the case against Thailand by pointing out that total U.S. sales of pharmaceuticals by PMA companies amounted to \$23.7 billion in 1986, generating a positive U.S. trade balance of about \$750 million. That trade balance had declined by almost 40 percent since 1982. New technology requires large investments in research and development, it argued. For example, the total cost of developing a new drug in the United States was estimated by the PMA to exceed \$100 million, and pharmaceutical companies wanted assurance that an appropriate portion of this expense would accrue directly to them.

Despite pressure by the United States in 1986–87 on Asian nations to protect pharmaceutical products, Thailand still had not met American patent standards. Thai infringers have copied products subject to patent in other countries and produced them with minimum interference or sanction. Infringers have not borne the costs incurred by patent holders in researching, developing, testing, and promoting the patented product. According to the PMA, this failure to protect intellectual property rights acts as a barrier to trade, unfairly depriving U.S. producers of the right to export products.<sup>5</sup>

The second petition to the president came from the International Intellectual Property Alliance, an umbrella organization of seven trade associations representing computer software, film makers, publishers, business equipment, and the recording industry. These industries employ 2.2 percent of the U.S. civilian labor force and earn large trade surpluses exceeding \$1 billion.

Of the 10 million units of recordings sold in Thailand yearly, legitimate products have accounted for only 5 percent, or 500,000 units. The Alliance petition alleged that cassettes, for example, are available in virtually every Thai retail outlet, including department stores, music shops, and street hawkers. The wholesale price of pirated cassettes is between \$.70 and \$1.20 retail, compared with legitimate cassettes selling at \$2.80.

Almost 100 percent of video cassette motion pictures sold in Thailand

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<sup>5</sup>"Petition of the Pharmaceutical Manufacturers Association to the GSP Trade Policy Subcommittee," 1986.

are pirated. In addition to video cassette piracy, unauthorized performances of cinematographic works in places such as restaurants and hotels have resulted in substantial losses of revenue. According to the Alliance petition, Thailand is inundated with unauthorized translations of English language textbooks and novels as well as pirated professional and medical books and related materials.

In Thailand, pirated computer software and unauthorized translations of software manuals are supplied free as an inducement to purchase computer hardware. Because the need and demand for software is increasing at a rapid rate, this problem has taken on special urgency. The Alliance expressed concern about reports that although the Thai government is considering protection for computer programs, the protection would not fall under copyright law but would be *sui generis*. The Alliance stressed that Thailand should take the same approach as have South Korea, Singapore, Taiwan, Malaysia, and Indonesia, namely, to make specific reference to computer programs as protectible under their law.

The Alliance petition stated that the Thai government has failed to implement its obligations (in the 1966 bilateral Treaty of Amity and Economic Relations) to provide direct protection to U.S. copyright owners. The petition also noted that the Thai Copyright Act of 1978 fails to specifically protect computer programs. The levels of fines and other sanctions are too low and rarely imposed to deter piracy. Although the Thai Copyright Act generally follows international norms, its penalty and enforcement structure does not afford effective protection. Fines for copyright infringement are easily absorbed as a cost of doing business by wealthy "pirates." Given the "unacceptable record" of Thailand regarding IPR and because the U.S. Congress made IPR protection a major goal of U.S. trade policy in the Trade Act of 1984, the Alliance requested that the president deny GSP benefits to Thailand.<sup>6</sup>

The petitions became a part of the negotiations between American and Thai officials to resolve the conflict. American officials initiated a campaign to persuade Thai policy makers that it was in Thailand's best interests to meet the U.S. demands. American negotiators emphasized the "climate of investment" Thailand sought to portray to potential foreign investors. They stressed that if Thailand wanted to attract foreign investment in high-tech businesses to bring in capital for development and jobs, patent protection was an important incentive. In the absence of protection or with poor enforcement practices, a potential investor would face a

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<sup>6</sup>"Petition of the International Intellectual Property Alliance," 1986.

substantial risk that would weigh against making the investment.<sup>7</sup> Moreover, Thailand would face the loss of foreign investments if it did not provide the same protection provided by Thailand's ASEAN neighbors.

American officials further noted that it is unrealistic for Thailand to expect that its trading partners would acquiesce to Thai counterfeiting of their technology, which could then be used in direct competition with those same trading partners. From the American perspective, intellectual property is one of its core sources of comparative advantage in the world economy; hence, the American negotiators emphasized the overriding importance of the issue at a time of American trade deficits.

Confidence in Thailand's exports also depends on IPR protection. If purchasers believe that a developing country's export products are likely to be counterfeit, they might expect low-quality products and refuse to buy. Adherence to IPR standards also protects consumers from inferior, counterfeit products.<sup>8</sup>

To counter Thailand's argument that the low level of economic development in Thailand demands copying of high technology, American officials pointed out that lack of protection can discriminate against local goods if counterfeiting is directed toward foreign products only, causing them to be lower priced than those made domestically. American negotiators also reminded the Thais that one criterion the USTR considers in determining GSP benefits is the extent to which beneficiary countries provide effective means under which foreign nationals may secure, exercise, and enforce exclusive intellectual property rights. Furthermore, the Trade Act of 1988 (Section 301) provides for action against trade practices that are "unjustifiable, unreasonable, or discriminatory and burden or restrict U.S. commerce." The 1988 Trade Act specifically defined IPR infringement as such a practice.

Complicating the issue was the fact that the United States would not join the Berne Copyright Convention until March 1989. Thailand has been a member of the hundred-year-old treaty since 1931. The U.S. Congress approved American adherence to the treaty on October 20, 1988, bringing to seventy-six the number of countries belonging to the Berne Convention. The United States had no copyright protection in twenty-four of those nations prior to approving the treaty.

In the absence of U.S. membership, Thai-U.S. bilateral copyright treaties had been the basis for negotiations between the two countries. The United

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<sup>7</sup>"The Economics of Protecting Intellectual Property," unpublished address by Linda S. Droker, U.S. Department of Commerce, 1986, p. 4.

<sup>8</sup>Ibid.

States understood that U.S. membership in the Berne Convention would not replace Thai-U.S. commitments in accordance with the 1921 treaty signed by the two countries. However, it was concerned that the Berne Convention would not provide protection in Thailand for American works created before U.S. admission to the convention. Ambassador Daniel O'Donohue stated that the United States believes that Thailand's copyright protection to American works should date back to 1921.<sup>9</sup>

The Thais responded by noting that, in fact, the Thai government's protection for American copyrights would automatically date back to 1921, as long as the authors of such works were still alive. In cases where the owners had died, the Thai government would protect their works for fifty years, as internationally practiced. The Thai response meant that Thailand's copyright protection for American products would be similar to that stipulated in the Berne Convention.

U.S. adherence to the Berne Convention solved some of the issues between the two nations and reduced the need for Thailand to approve a copyright bill recognizing the 1921 treaty obligations. The Thai Parliament had come close to approving a copyright bill during the spring of 1988 but was not able to complete the legislation before Parliament was dissolved in late April and new elections were called for July 1988. Indeed, one major reason for the dissolution of Parliament was controversy over the copyright issue, with one faction of the Democratic party in the prime minister's coalition opposing the bill.

In spring 1988, the American negotiators, wishing to defuse the conflict, postponed the deadline for resolution of the issue to December 15, 1988, when the Reagan administration would be completing its term. The postponement did not succeed, however, in persuading the Thais to meet the U.S. demands on software copyright and pharmaceutical patent issues. Commerce Minister Subin Pinkhayan led a Thai delegation to meet with U.S. officials on December 12 to settle differences, but the talks did not accomplish this goal.

The formulation of the Chatichai administration brought a new political dynamic in Thailand, with conflict arising between the MFA and the Prime Minister's Office. The IPR issue had become a cause célèbre among influential political leaders. The American negotiators, believing that former prime minister Prem and Parliament had made commitments to meet U.S. demands, held steadfast to the December 15 deadline.

The interagency U.S. Trade Policy Review Group (TPRG) has the power to recommend sanctions against nations that do not meet U.S. standards on trade and related issues. The TPRG agreed that retaliation should not affect

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<sup>9</sup>*Bangkok Post*, October 10, 1988, p. 32.

Thai-U.S. relations or disrupt the ongoing dialogue between the two governments to iron out differences on computer software and pharmaceutical product protection. However, U.S. Trade Representative Clayton Yeutter announced on January 19, 1989, the last full day of the Reagan presidency, that strong measures would be taken against Thailand, including the loss of \$165 million in GSP privileges. Thailand's ambassador to the United States, Vitthya Vejjajiva, stated that the interagency body had agreed not to take even more drastic action because it was convinced that "Thailand's economy is developing on the right path towards free enterprise."<sup>10</sup>

The TPRG decided to cut Thai benefits under the GSP in order to send a strong signal to Thailand (as well as to other nations) that the United States is serious about the protection of its intellectual property rights. The negotiations between Commerce Minister Subin and the U.S. Trade Representative had not been able to overcome disagreements rooted in the U.S. demand for both copyright protection for computer software and a Thai commitment to oppose any attempt in Parliament to legislate a special law for software. Negotiations also floundered over the interim administrative protection for U.S. drugs and conditions for a patent law amendment to protect U.S. pharmaceutical products in Thailand.

Thai embassy officials were disappointed that the copyright issue was not resolved after Thai negotiators persuaded the United States to drop its demand that Thailand not issue a separate law for software protection. However, the two nations still could not resolve differences regarding computer software protection and the scheduling of patent law amendments. And even if Thailand had reached agreement on software copyright protection, the United States could have tried to apply Trade Act Section 301 sanctions on the pharmaceutical patent issue alone.<sup>11</sup>

From the American perspective, the Thais were precluded by Chatichai from engaging in meaningful negotiations. Chatichai had sent a text that Commerce Minister Subin presented to the Americans. Even when the American negotiators backed off certain demands, the Thai officials could only work from Chatichai's final text. From the American vantage point, it seemed that each time they yielded to meet the Thai position, they found the Thais had either moved to a new position or reverted to a prior stance.

For the Americans, the results of the negotiations with Thai government officials were disappointing. In prior discussions with Ministry of Foreign Affairs officials, the American negotiators had been led to believe that the Thais would satisfactorily resolve pending problems. However,

<sup>10</sup>*The Nation* (Bangkok), December 18, 1988, p. 1.

<sup>11</sup>*Bangkok Post*, December 20, 1988, p. 1.

Prime Minister Chatichai Choonhavan took an active public stance opposed to the MFA's position. The prime minister declared, on December 10, that "it is time for Thailand to stand on its own feet in its trade policy."<sup>12</sup> He said the GSP was irrelevant in the context of Thai trade and that Commerce Minister Subin had been notified of the new position. The final Thai cabinet instructions to Subin did not leave room for flexibility.

Chatichai's argument was as follows: "The U.S. should realize we are a developing country and software is very important for our future. We cannot yield to its demand. We have to struggle. We cannot protect computer software."<sup>13</sup> Members of the Parliament and Thai student groups lauded Prime Minister Chatichai for his "right and bold" decision to reject U.S. demands for computer software protection.<sup>14</sup>

American officials were particularly critical of the role played by Prime Minister Chatichai's foreign policy advisors during the negotiating process. American negotiators referred to the "intellectual vanity" of the advisors, who were "more interested in scoring debater points than in serious negotiation."<sup>15</sup> The advisors were thought to have undermined the MFA and to have persuaded Chatichai against any compromise, arguing that the loss of GSP privileges would be minor compared to the far greater loss that would result from meeting U.S. demands on software and pharmaceutical protection. They persuaded Chatichai that, in any case, GSP privileges might well be revoked in the near future because Thailand was achieving the status of a newly industrialized country (NIC).

IPR had become a complex and contentious issue. Rather than negotiating with MFA officials alone, as in the past, the United States had to take into consideration the views of the prime minister, foreign policy advisors, Thai business executives, student groups, and members of Parliament.

Moreover, participating agencies in the U.S. government had diverse views on how to deal with the issue. Agencies of the TPRG which were involved in the formulation of the options included the U.S. Trade Representative, the State Department, the Commerce Department, the Labor Department, the National Security Council, and the Treasury Department. The trade representative, on the one hand, proposed harsh measures because of dissatisfaction with the Thai-U.S. negotiations. The State Department, on the other hand, urged that political considerations be taken into account. Given the positive relations between the two nations, the State Department argued, sanctions should be more commensurate with the negotiations, recognizing both the progress made and the distance to go.

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<sup>12</sup>Ibid., December 10, 1988, p. 1.

<sup>13</sup>Ibid., p. 3.

<sup>14</sup>Ibid.

<sup>15</sup>Interview with U.S. negotiator, March 1, 1989.

The agencies concerned decided in favor of a response that would avoid a rupture with Thailand but would be salable to relevant U.S. constituencies such as Congress and business interests.

Moreover, the PMA and the International Intellectual Property Alliance declared they would request that Section 301 of the Trade Act be invoked if the Trade Policy Review Group did not seek sufficient sanctions against Thailand. Section 301 requires the U.S. Trade Representative to initiate an investigation of countries that do not provide adequate and effective intellectual property protection for U.S. works and products. The retaliation against offenders, which was optional under the old trade law, became mandatory under the 1988 Trade Act. Thailand would automatically be subject to retaliation if GSP privileges were cut, as this would provide grounds for a Section 301 action under the rationale of "unfair trade."

In its dealings with Thailand on IPR issues, the United States faced unprecedented considerations. In the past, relations between the two countries, one clearly dominant (patron) and the other subordinate (client), had been carried out in confidence among likeminded diplomats. The IPR negotiations were far more complex, each nation asserting equal sovereign rights, with a multitude of institutions participating.

The United States found itself damaged politically in the eyes of a close ally. One American official noted the irony that Thai officials' insistence on being treated as an equal made them susceptible to the same, rather than preferential, treatment provided other allies. U.S. trade legislation was not aimed specifically at Thailand, and the United States was not asking more of Thailand than it had asked for and in most cases received from its other Asian allies. Nevertheless, the IPR controversy was a manifestation of U.S. frustration in its attempt to control the new interdependent multipolar international system and to overcome severe domestic economic problems.

### **Intellectual Property Rights— The Thai Perspective**

For the Thai government, the IPR controversy was another in a series of issues that had brought about a crisis in U.S.-Thai relations. In an unusually frank speech to the Asia Foundation in October 1988, Foreign Minister Siddhi Savetsila outlined the "cracks developing in the reservoir of goodwill" that had been built during a century and a half of friendship. The first crack came with the Farm Act, followed by the textile quota bill, and then petitions demanding that GSP benefits be revoked from Thailand if the government did not amend its copyright laws.<sup>16</sup>

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<sup>16</sup>Speech by Foreign Minister Siddhi Savetsila, Asia Foundation, October 6, 1988, in a press release from the Department of Information, Ministry of Foreign Affairs, Thailand.

Foreign Minister Siddhi spoke of an impending “trade collision with adverse implications on the overall bilateral relations.” He noted that trade wars with the United States would impoverish the Thai economy and that Thailand would cease being a model for other developing countries that were attempting to combine economic development with democracy.

Siddhi’s comments reflected the views of many Thais, who viewed recent American actions as threats and examples of “quasiimperialism” and “bullying,” the latest in a series of problems that threatened to overwhelm the U.S.-Thai relationship. From the Thai perspective, the first unfriendly act came with the U.S. Farm Act of 1985, which provided \$1 billion in subsidies to some 20,000 American rice farmers. The Farm Act created artificially low world rice prices, in an environment of high supply and low demand, potentially adversely affecting 35 million Thai farmers. (By the end of 1988, Thailand had exported more than 4 million tons of rice, a record both in terms of amount and value.) Nevertheless, Ambassador Vitthya estimated that Thailand has lost more than \$500 million as a result of the Farm Act.<sup>17</sup>

According to Thai embassy officials, the IPR issue was a major threat because of its potentially profound political impact. In April 1988, controversy over the copyright bill brought about the dissolution of Parliament and the call for new elections. One year previously, the Thai cabinet had averted a similar political crisis for the coalition government of Prime Minister Prem Tinsulanonda. On both occasions, the proposed bill revived resentment of U.S. political tactics and polarized the already factionalized government. Thai negotiators suggested that the American demands could threaten Thai political stability, which, they argued, is far more important to the U.S. in strategic and national security terms than the relatively small dollar amounts involved in the GSP duty exemptions to Thailand.

The IPR issue was the first major crisis to be handled by the new administration of Prime Minister Chatichai Choonhavan. As the first prime minister since 1976 to be an elected member of Parliament, former general Chatichai had the support of a coalition of political parties, much of the business establishment, and the academic intelligentsia. He eventually received the support of high-ranking military leaders. Chatichai believed that parliamentary action in response to American demands could undo the coalition and cause the fall of his administration. He was supported in this view by his academic advisors, who suggested that a strong stand against American “bullying” would be politically popular.

The Ministry of Foreign Affairs was most interested in fashioning a compromise with the United States that would avert sanctions against

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<sup>17</sup>*Washington Post*, April 5, 1989, p. A26.

Thailand. Foreign Minister Siddhi was sufficiently angered and discouraged by criticism of him over the IPR issue that he resigned his chairmanship of the U.S.-Thai subcommittee under the International Economics Relations Policy Committee (IERP) that approved policy on IPR matters. The decision to resign was viewed as recognition that trade and economic issues dominated foreign affairs and that the MFA was not the institution most concerned with such issues. As foreign policy has become increasingly oriented toward economic issues, as intracoalitional factionalism has intensified, and as Prime Minister Chatichai has asserted himself in foreign affairs, the Foreign Ministry has had to yield leadership to the Office of the Prime Minister in negotiations with the United States.

Tension between the MFA and the prime minister and his academic advisors culminated with a statement by advisor M.R. Sukhumbhand Paribatra, a professor at Chulalongkorn University and a leading foreign policy expert, that the prime minister would assume a more active role in foreign policy rather than leaving it in the hands of the Foreign Ministry. MFA officials admitted that the prime minister had the right to play an active role as the government leader. The officials agreed that under former prime minister Prem the MFA had more clout, whereas under General Chatichai, the prime minister and his foreign policy advisors played a larger role.<sup>18</sup> Chatichai's own long-term experience in foreign affairs made it natural for him to take a more prominent role.

The disagreement between the MFA and the Office of the Prime Minister also reflects the fact that Foreign Minister Siddhi is the leader of the Social Action party and Prime Minister Chatichai head of the Chat Thai party. These two parties with similar ideological views have joined previous coalitions as partners despite their rivalry. Siddhi himself desired to be named prime minister following the July 1988 elections, but bowed to the appointment of Chatichai when it became clear the latter could form a coalition. Social Action party members urged Siddhi not to take the lead on meeting U.S. demands on IPR issues because of a possible political backlash. They urged that the prime minister, as leader of the Chat Thai party, set the policy.

The IPR issue in Thailand, then, has had domestic political roots stemming from the 1987 crisis when Prime Minister Prem, relying on the MFA, negotiated the issue with the United States. Parliament's reaction to the negotiation process was tied to intracoalition factionalism, especially among the Democrats, who constituted the largest coalition partner. Many dissidents, seeing the IPR issue as one in which parliamentary prerogatives were ignored, protested against the software copyright issue.

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<sup>18</sup>*Bangkok Post*, November 16, 1988, p. 1.

IPR became a rallying point for the Thais about their sovereignty and their break from traditional patron-client ties with the United States. The Thai decision to resist American pressure was deemed a sign of maturity, an extrication from Washington's hold, and a coming of age when Thailand would make decisions about its bilateral relations based on Thai interests without outside interference. This position was taken with little fear of serious economic dislocation because the Thai negotiators were confident that the Trade Policy Review Group ultimately would only minimally cut Thai GSP benefits.

Not all media commentators, however, agreed that the Thai refusal to yield to U.S. pressure was a sign of "maturity." The newspaper *The Nation* featured commentary suggesting that "mature" Japan and South Korea had both agreed to restraints on their exports and IPR issues. The restraints were accepted by Japan and South Korea in order to avoid tougher unilateral actions by the Americans that would have been even more detrimental to their interests. The Thai decision to resist American pressure was based on principle rather than economic interest, a decision that might be politically popular in the short run but detrimental in the long run.<sup>19</sup>

Thai officials sensed a paradox in a situation in which U.S. policy on trade reflected American economic weakness. In a letter to the American president and Congress, the Chulalongkorn University student government organization wrote that "Thai students understand and sympathize with the U.S. economic condition, economic crisis, and the problems of the trade deficit." The students concluded: "The United States should not resolve its own problems by creating trouble for other countries. Pressuring Thailand to amend the copyright act in exchange for GSP benefits is not considered the performance of a great friend, but is the performance of the superpower that bullies a small country like ours."<sup>20</sup> Other statements like that from the Chulalongkorn students as well as speeches by both coalition and opposition members of Parliament stressed this same theme, namely, that good friends do not solve their own problems by undermining loyal allies.

Because the IPR issues were complex even for the educated citizenry, many commentators in the Thai mass media dealt with the controversy in simplistic, nationalistic terms. American Ambassador O'Donohue noted this tendency for "intemperate rhetoric and calls to economic nationalism" in his speech to the American Chamber of Commerce. An MFA official echoed the ambassador's view by noting that if emotions overcome

<sup>19</sup>*The Nation*, December 29, 1988.

<sup>20</sup>"Text of Chulalongkorn Students' Letters to the President, Congress on Copyright Issue," in Department of Commerce, *Incoming Telegram*, September 21, 1988.

rationality, the issue will revolve around notions of “prestige” and “pressure” rather than compromise.<sup>21</sup>

In rebuttal to American demands, Thai negotiators consistently noted that Thailand had indeed made concessions to the United States on a number of issues. Regarding the demand that Thailand provide copyright protection of U.S. literary and artistic works, including computer software, Thai officials responded that such protection, excluding protection for software, is adequately covered by the Berne Convention on Copyright, to which Thailand is a signatory and to which the United States will become a member. Thailand will await a ruling by Thai courts on whether software is covered by existing copyright law before submitting new legislation. Regarding the demand that the Thai government not submit legislation *sui generis* for computer software pending the Thai court’s ruling, Thai officials stated that such a demand violates Thailand’s sovereign right to legislate its own laws.

In response to demands for patent protection of pharmaceuticals, the Thais indicated that domestic political considerations compel a delay in policy, awaiting the outcome of the current General Agreement on Tariffs and Trade (GATT) negotiations (Uruguay Round) to establish uniform standards for intellectual property protection. (Thailand is also awaiting a ruling from GATT regarding an end to the farm subsidies of the European Community, United States, and Japan.) A GATT agreement on standards would make the issue multilateral rather than bilateral. Thailand did propose interim measures that would have the effect of allowing U.S. drug firms monopoly rights for at least eighteen months.

Thai officials also noted that Thailand had agreed in 1986 to U.S. demands for reduction of Thai tariffs on wheat, apples, and soy proteins (at a projected loss to Thailand of \$12 million in custom revenues) despite U.S. protectionist policies affecting Thailand. In addition, Thailand agreed to negotiate American requests that Thailand restrain its exports of steel pipes to the United States. Under the 1988 Trade Act, the pipes, although processed in Thailand, are defined as steel originating in South Korea and Japan, countries that have agreed to limit their exports to the United States.

In negotiations with Thailand, American officials pointed out that despite Thai accusations of protectionism, the volume of Thai exports to the United States has increased by about 30 percent each of the past five years. Moreover, Thailand enjoyed a trade surplus of about \$1 billion for 1988. The Thais responded that the American trade deficit in Thailand is about .5 percent of the total U.S. deficit, a minuscule figure in comparison to the deficit with Japan, Korea, and Taiwan. Because the United States

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<sup>21</sup>*Khao Phiset*, September 24–October 4, 1988, pp. 20–22 (in Thai).

exports to Thailand only 1 percent of its total exports, whereas Thailand's exports to the United States account for 18 to 20 percent of its total exports, U.S. trade bargaining power is much greater.

Thailand's position as a disadvantaged, economically underdeveloped nation was also cited as a reason for special treatment. Thai newspaper editorials emphasized that the United States should be more sympathetic to Thailand's attempts to develop rapidly through the use of borrowed technology from the West. American reluctance to share its technology was seen as selfishness and an unwillingness to meet the traditional obligations of a patron to a client.

The Thai response to American cuts in Thai benefits under GSP was led by Prime Minister Chatichai, who stated that if GSP cuts are made, "the private sector must be prepared to grit their teeth and fight, produce goods of better quality, and reduce production costs so as to compete with producers in other countries."<sup>22</sup> Of the approximately 3,000 items covered by the GSP, 526 items, worth \$300 million to \$360 million a year, enjoy benefits. Because GSP items constitute about 20 percent of Thai exports to the United States, the January 19 announcement that the United States was cutting benefits worth \$165 million meant that about half of the 20 percent covered by GSP would be revoked. From the Thai perspective, the political and economic gains of resisting U.S. pressure more than compensated for this loss.

### **Thai-U.S. Relations**

Relations between Thailand and the United States are more complex than ever before because the international arena and the domestic political and economic systems of both nations have fundamentally changed. The American role in the world is no longer preeminent as new powers and power blocs have emerged in competition with one another and with the United States. Thailand also has more options as it finds its role in the new era. The days of the traditional patron-client relationship between the two nations are over. Ambassador O'Donohue spoke about the "modern reality that economic and social problems and their solutions [between the United States and Thailand] now extend beyond national boundaries." He referred to the dramatic economic progress achieved by Thailand over the last decade and the greater diversity in bilateral relations.<sup>23</sup>

The ambassador also spoke about the increase in the number of groups

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<sup>22</sup>*Bangkok Post*, December 19, 1988, p. 1.

<sup>23</sup>"Ambassador's Speech to American Chamber of Commerce," in Department of State, *Incoming Telegram*, December 1988.

and institutions involved in decision making in Thailand and the complications in working out solutions to bilateral issues that have resulted from this democratization. He noted that Thailand's growing importance in the world economy carries with it heavier international responsibilities and obligations. The contentious IPR issues "reflect not estrangement but rather the increased engagement between the two societies."<sup>24</sup>

Former ambassador to the United States Arsa Sarasin said in his farewell address that Thailand should make it clear to the United States that "our cooperation goes only as far as our mutual interests go. The U.S. can no longer take Thailand for granted."<sup>25</sup> Thailand now has a wider spectrum of interests, and there will be times when Thai and U.S. interests do not coincide.

Thai Foreign Minister Siddhi, the architect of omnidirectionality in Thai foreign policy, in his address to the 113th anniversary of the Thai Foreign Ministry stated that Thailand has progressed to a new level of economic and social prosperity with economic and trade potential equal to that of dozens of other countries that the kingdom was unable to compete with in the past. He reminded his audience that Thailand has diplomatic relations with 143 countries, all of which depend on each other more and more militarily, economically, and in trade relations. He reiterated his view that foreign policy must be directed toward the political stability and economic progress of the kingdom.<sup>26</sup>

The increased economic engagement between the United States and Thailand takes place within a larger framework of continuity of security and aid commitments. Major aspects of U.S.-Thai relations include continuing financial aid, joint military exercises, a joint war reserve stockpile of defense items, collaboration on the Cambodian situation, common efforts to save hundreds of thousands of Indochinese refugees, cooperation to wage the war on narcotics, and support for the Peace Corps. Despite the continuity, however, the relationship between Thailand and the United States has irrevocably changed as both nations find their way in a new era of international relations and domestic political and economic forces.

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<sup>24</sup>Ibid.

<sup>25</sup>*Bangkok Post*, February 4, 1988, p. 1.

<sup>26</sup>*Bangkok Voice of Free Asia*, April 14, 1988, p. 1.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: There have been many changes in the past decade that impinge on our bilateral relationship. Many of these changes are addressed in this volume. In the early 1970s, the security and strategic aspects of U.S.-Thai relations were the most important component in our relationship. Then there was not much of an economic relationship to speak of. Now many people are asserting the significance of the economic aspect of our mutual relations. In the late 1980s, economic issues and particularly economic problems have become the most difficult political problems in our bilateral relations.

It is important to distinguish between the evolving economic dimension within our bilateral relationship and the associated problems that arise with it. Our economic relationship has the potential to be a very important sustaining factor in our overall relations. The challenge for both sides is to manage the associated problems in such a way that the perception of problems in the economic relationship is not allowed to disrupt the overall relationship. Managed properly, our evolving trade relations would become a sustaining factor rather than a source of discord.

Because the United States accounts for 20 percent of the Thai export market, the trade relationship is very important to Thailand and many Thais to one degree or another are aware of that. In the United States because the portion of trade with Thailand in proportion to our total trade is so low, outside of narrow special interest groups and the U.S. officials dealing with these interests, there is not a perception of what is happening in the U.S.-Thai relationship, at least as far as our relations are affected by trade issues. Given the nature of U.S. global trading, most Americans simply do not see Thailand. Neher is correct to put the relationship in a global context and particularly in an Asian context; otherwise it is almost irrelevant to speak of an American perception of U.S.-Thai relations.

Regarding Neher's chapter, there is a bit more to the intellectual property rights (IPR) issue from Washington's point of view. It is important to look at the domestic politics of that issue on both sides. On copyrights, it

skews the issue to confine discussion to 1988. Ongoing discussion of the issue preceded what is covered in Neher's account. In this regard, the domestic politics in Thailand are very important. The first difficulty the United States encountered was in 1987, when through a series of negotiations led on the Thai side by the Ministry of Foreign Affairs, Prime Minister Prem's administration made a commitment to amend the Thai copyright law to take cognizance of what the Americans considered to be a treaty obligation to provide copyright protection. The manner in which that commitment was made provoked a controversy in Thailand, not so much over the substance of the commitment itself but the manner in which it was handled. In the spring and summer of 1987 there was a parliamentary reaction to what Parliament saw as a derogation of its prerogatives as an important part of the Thai political system. Many of Thailand's elected officials felt that Parliament had a strong role to play in the copyright issue and that the government had largely ignored that legitimate role. In any event, a bill was submitted to Parliament, and the United States hoped that the bill would be moved through to fruition. However, it was not. It only passed the first reading.

On the United States side, our own political process had been activated by the filing of the GSP petitions at the end of May 1987. There is an important distinction between the nature of the two petitions that were filed. On the copyright issue, the petition filed by the International Intellectual Property Rights Association was an attempt to take a hostage—to hold the Thai Parliament hostage and force it to fulfill the commitment to amend the Thai law. If that strategy succeeded, U.S. industry concerns would have been largely met. The petition filed by the Pharmaceutical Manufacturers' Association was a different sort. In its view, despite a good deal of discussion on the issue, there had been absolutely no progress on its agenda. The PMA saw its position as a means to exert leverage on Thailand to move the discussions forward. When Parliament adjourned in November, the bill had passed through only one reading, and we had not made much progress on the patent issue.

The process then shifted back to a negotiating mode that differed from the earlier mode. The new negotiations involved many cabinet members who were elected members of Parliament in an effort by the Thai side to engage more broadly Thailand's own political process. In the end, the issue was thrown back on the American political process, and we had two basic concerns. First, we were concerned with how the issue could be "managed" in a way that would not be severely disruptive to overall relations. And second, we were sensitive to managing it in terms of our own domestic political context to take into account the concerns of our own interest groups. These groups included the congress and the industries

whose equities were at stake. The answer the U.S. government reached was to postpone the deadline for a decision on the two petitions. The next phase shifted to Thailand, where the Thais, true to their word, did bring the bill before Parliament as a high priority item. It passed through the second and third readings in late April 1988. However, the issue caused difficulty for the ruling coalition when thirty dissident members of the Democratic party defected on the issue. The next day, all of the ministers of the Democratic party submitted their resignations. The Thai government learned the risks of taking on an issue like this in the context of the party structure of the Thai political system.

The United States must be careful in its handling of these trade issues. The Thais have voiced the view that U.S. demands seem to be unending. The reality is that U.S. demands *will* be unending. When we get through the issue of copyright and patent reform, we will turn to the issue of enforcement. On the question of GSP, we look forward to the day when we can take these benefits away from Thailand. This has significance for the level of Thai development.

THAI DISCUSSANT: I do not see major changes in Thai foreign policy right now. The real shift has occurred because of the changes in Thai politics in the past year. The most pressing concern for Thai politicians right now is to have political stability by all ways and means possible. Such stability may be achieved by shouldering GSP cuts or by changes in foreign policy. Thailand's foreign policy per se is not all that significant. What is more important is the workings of domestic politics and regime stability. Domestic concerns take precedence over foreign policy matters.

Neher mentioned new factors influencing Thai foreign policy making. Many of the new actors in the process, including extrabureaucratic groups and the media, as Neher mentions, are taking advantage of the emerging openness in Thai politics and becoming more critical of the government. This criticism is directed toward foreign policy as well. The more we criticize the prime minister, the more strength we lend to the present government. The main issue in Thai politics right now is to survive as long as possible.

On the point that Neher makes about the emerging rift between the academic advisors and the Ministry of Foreign Affairs, I believe that each side is working its hardest to find the best foreign policies for Thailand. What neither side realizes, however, is that it is being used by politicians to provide stability, legitimacy, and survivability to the present regime. The new government is trying to arouse a "neopatriotism" among the Thai people. By taking on the White House, the government is trying to win the hearts of the Thais. Losing and taking a loss in such things as the GSP

generates sympathy for the government. Fighting back against the “big guy” arouses more support.

This situation is not likely, in the long term, to deteriorate U.S.-Thai relations. Wiwat asserts that we have achieved full democracy. However, I think our democracy has only gained a foothold. The new government must prove to the people that the new coalition is strong and can stand on its own feet. That strength includes fighting off the pressures placed on it by the United States.

**THAI PARTICIPANT:** There has been a fundamental change in the policies of the United States. The two superpowers, the United States and the Soviet Union, have agreed to a moratorium on military confrontation and have moved toward détente. This situation provides an occasion to focus on other issues, namely economic and trade matters. The United States is now entrenched in a trade confrontation with the European community as the EEC moves toward further integration in 1992. In regard to Thailand, it is still safe for the United States to take restrictive measures relative to Thai trade. It has placed restrictions on many goods, including steel and footwear. Thailand cannot take any retaliatory action. The tactics of the Americans are to accuse the other side, in this case Thailand, of engaging in unfair trade practices. Disputes of this sort trace all the way to the PL 480 law. Are these a fair trade practices? When we hear that Thailand is engaging in unfair trade practices, we must not ignore past times when U.S. rice trade practices took markets away from the Thais.

**AMERICAN PARTICIPANT:** I am troubled by the U.S. point of view that focuses excessively on the economic aspects of our bilateral relationship. I would like to think that underlying this narrow economic issue there are factors and values of broader concern that may lend continuity to the sort of relationship we have enjoyed over the years. One of the values we share is the democratic process. Another is a commitment to free markets. Neher argued that our relationship is shifting increasingly to a partnership. This view is positive, and I believe such a view could create new opportunities. Wiwat talked about the political aspects of our relations. We should not allow an overemphasis on the economic issues to cloud other areas of our relations. We have a legacy of over thirty years of mutual commitment to forging bonds between us, and we should keep these efforts moving ahead.

**THAI PARTICIPANT:** I agree that our relations are healthy. But it would be foolhardy to overlook the obstacles that have crept into our economic and trade relations. These obstacles bear critically on overall bilateral relations between our countries. These issues are an example of mismanagement. I

would hate to see a deterioration by default. I feel that negotiations with determination to overcome the problems is desirable. On this score, the Thais need to become more organized on the issues. An example is the rift between the Ministry of Foreign Affairs and the prime minister's advisors. Although there are conflicts of views, attitudes, and philosophies, the prime minister has much to gain from the Foreign Ministry. If the rift is not resolved on the Thai side, we are risking a compromise solution with our friends on the American side.

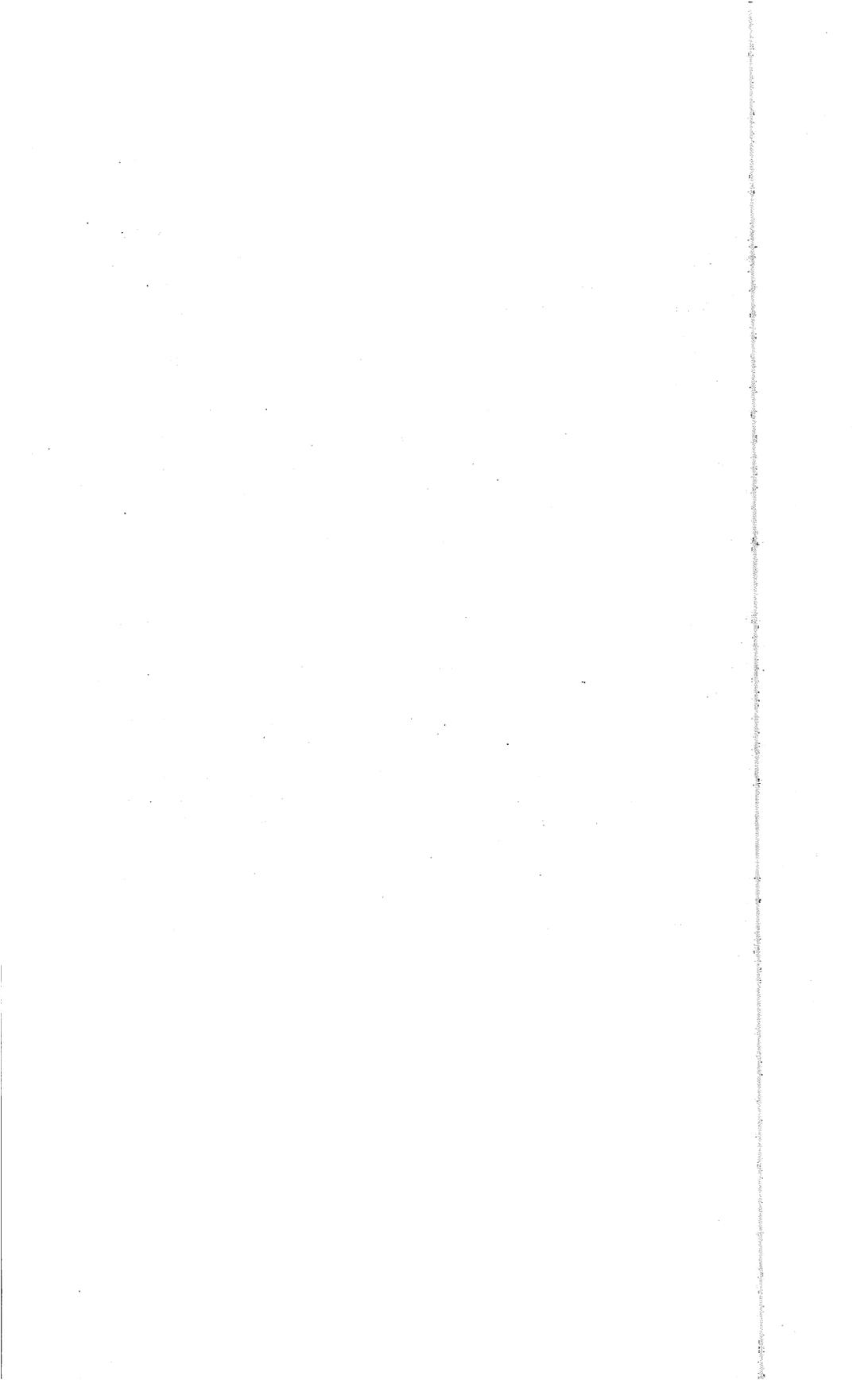
This rift is not unique to Thailand, and we should not overemphasize its importance. But we should be sensitive to it, and deal with the realities of the situation. We must realize that political forces on the American side stand in favor of the 1988 omnibus trade bill. Although U.S. officials claim that bill is not protectionist, it is in the spirit of protectionism. The Thais do perceive the United States as a bully. You can talk about a "level playing field," but you must realize that the players on the Thai side are smaller and weaker. We must understand that the relations between our two countries are of the utmost importance, and we should strive toward negotiations that will produce two winners. It will depend on the attitudes of the nations rather than the workings of the negotiators themselves. The Thais need more humane treatment. It is not right for the Thais to be treated in the same manner as Japan or the EC. I would welcome honest negotiations.

Without proper and effective management on both sides, the relationship could deteriorate to a significant degree. The Thais need to better understand the attitudes of the U.S. Congress. A foreign policy is an extension of domestic policy. A solution will not come on one issue alone. It will require adjustments in our political machinery and attitudes. In an atmosphere of mutual trust, we may overcome our problems.

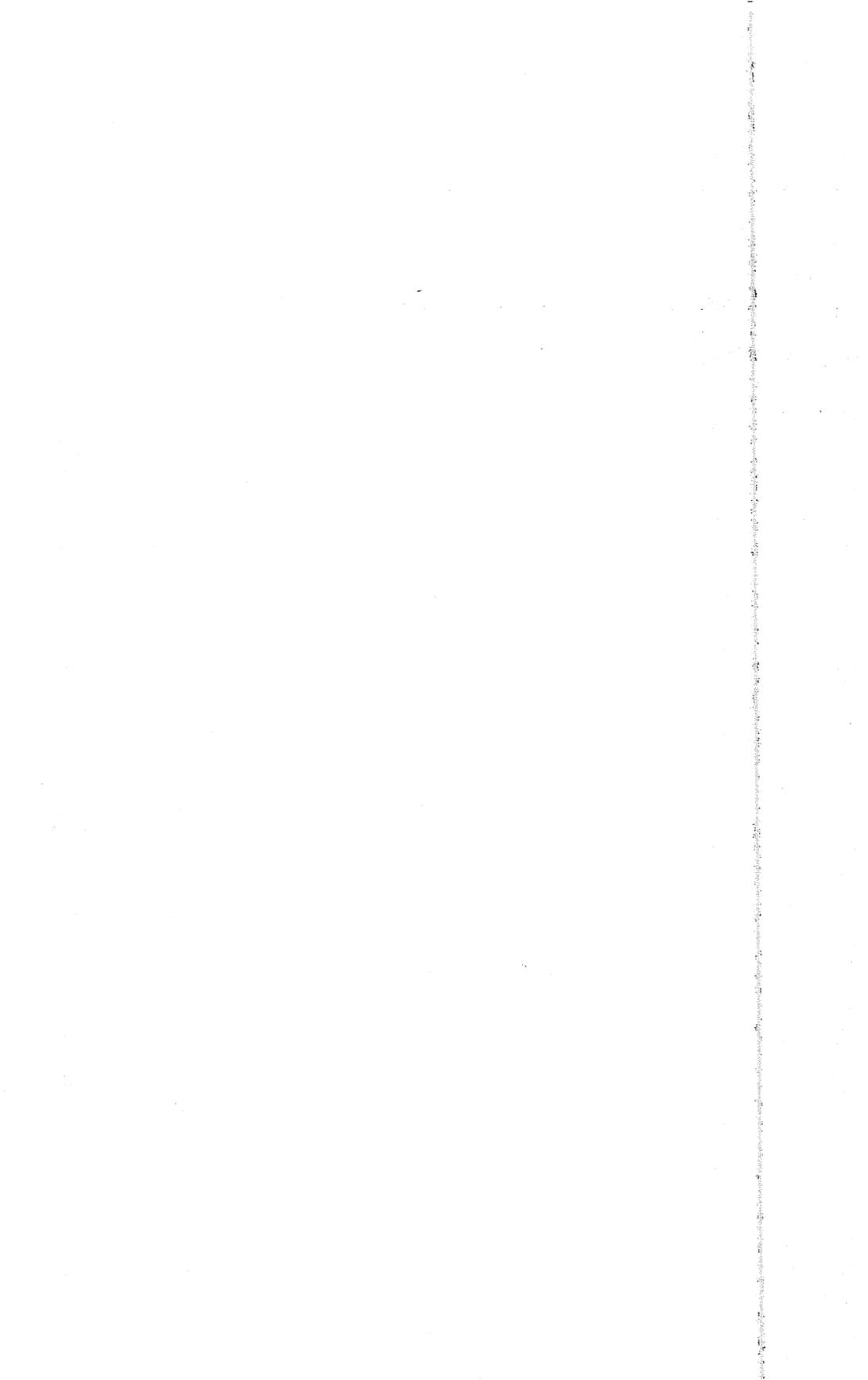
AMERICAN PARTICIPANT: The conflicts we are talking about are similar to the ones that emerged in the negotiations over the U.S. troop withdrawal from Thailand and the residual troop presence there. We have not discussed that issue for some time, and I sense on the Thai side a feeling of hurt from conflicts over that issue as well as the one we are addressing here. Thailand needs to realize that it is not just a poor developing country anymore but an industrializing power in the Pacific rim. Thailand is becoming a significant player in the international trade community, and it takes time to adjust to the changes that accrue from rising to this sort of status. Moreover, for many years our bilateral relations have succeeded because of common interests, flexibility, and goodwill. To preserve these, we should avoid excessive political posturing.

THAI PARTICIPANT: My first point is that Thai-American conflicts of interest are real. At the very least, there are more conflicts now than ever before. Second, these conflicts are aggravated by the way each side is dealing with them. This is partly a consequence of the solidification of democratic political processes on each side, especially on the Thai side now after the transition to the new government last summer. Third, there are differences of opinion between officials at the foreign Ministry and the prime minister's advisors. We can expect this in a democracy, however, and we should not dwell on this as a crucial problem that cannot be resolved. Peaceful coexistence is perhaps a temporary solution. Fourth, differences are emerging between our societies with the internationalization of the world economy. We need to recognize this as a fact. We should not waste time determining if these conflicts between our countries can be managed and, let us hope, resolved.

THAI PARTICIPANT: The four components outlined by Wiwat are very useful. Given the lower-risk diplomacy among the world's powers, trade is now more important than security. Economic issues are also important for domestic reasons. Take the pharmaceutical issue. The so-called piracy makes medicine cheaper for the Thai people. This is an issue that goes beyond a discussion about the political structure itself. The issue involves poverty as well. American politicians are using this issue to further their own ends, which is producing a conflict in our relations. Despite the fact that we have conflicts, we can have constructive relations. One way to manage these conflicts would be to compartmentalize our relations, separating out the issues of conflict, mutual interest, and cooperation. Such a system would accord with present political realities, for we cannot allow conflicts of interest in one area of our relations to disrupt our entire relationship.



**Part Three**  
**Global and Regional Economic Impact**  
**on Thai-U.S. Relations**



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## 5. The Changing World Economic Order

RICHARD DROBNICK

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In 1988 the world economy grew at a rate of about 4 percent, with world trade expanding at about 9 percent. In the aftermath of the October 1987 crash, this growth was an extremely pleasant surprise. Will the world economy continue to grow at a healthy (albeit somewhat slower) pace in the years to come? Although it is not possible to forecast growth rates with any precision, it is obvious that there are major structural imbalances in the world economy that might prove disruptive to future growth. In particular, the trade and financial imbalances between the United States and its trading partners are likely to be troublesome if they are not eliminated by the early to mid-1990s.

If the U.S. trade deficit does not continue to decline, then the United States might adopt more of a “managed-trade” strategy. The idea that the United States might adopt such a strategy has been received with great fanfare and outrage, and the United States has been accused of becoming protectionist. In reality, if the United States used more of a managed-trade policy, it would be a little bit more like its trading partners. In and of itself, such a U.S. policy would not cause a collapse in the world trading system. However, if America’s trading partners responded by making their economies even less open to American goods and services than they already are, then this could lead to an escalating round of retaliation that would severely constrict world trade growth.

A related concern is financial imbalances. If the trend of America’s net capital inflow “requirement” is not seen to be heading toward zero by the early to mid-1990s, then the world financial system will be vulnerable to another panic—one that might make the October 1987 crash seem mild.

This chapter attempts to shed light on these structural imbalance issues by considering them in the context of ten ongoing changes in the world economy that are summarized below. The speed of these ten changes, their management by world leaders, and the interplay among them will certainly shape the changing world economic order.

1. *America’s need for foreign capital.* The United States has become

the world's largest capital importer. Although it is now reducing its need for foreign capital, the United States will still require at least \$400 billion to \$500 billion of additional foreign capital between 1989 and 1993.

2. *Reversal of the U.S. trade deficit.* The United States is presently on a path of export-led growth. It could achieve trade balance by 1993.

3. *Japan as the principal source of international capital.* Japan has become the world's preeminent supplier of international capital. Its international financial power will continue to expand rapidly.

4. *Japan's economic restructuring.* Japan is restructuring its economy, and this is resulting in domestic-demand-led growth and increased imports.

5. *Asia 1992.* The economic and financial integration of Asia—with Japan as the hub, but also with Taiwan and Korea having important coordinating roles—is occurring rapidly.

6. *LDC debt relief.* The U.S. Treasury has finally agreed (in principle) to the development of debt relief plans for the less developed countries.

7. *Europe 1992.* The economic integration of Europe is being accelerated by the Europe 1992 Movement, and the attention of European business and government leaders will become even more "Europe-focused."

8. *Diminished importance of the GATT.* As national economies become more integrated via free trade agreements (FTAs), the Europe 1992 Movement, cross-border investments by multinational corporations (MNCs), and tied-aid programs, the relevance of the General Agreement on Tariffs and Trade is likely to decline.

9. *China's reforms.* In spite of the ascendancy of conservatives in 1989, China's economy is likely to continue to become more involved with the world economy. A special aspect of this change is its rapidly expanding commercial relations with Korea and Taiwan.

10. *Perestroika and glasnost.* The Soviet Union's reform efforts—to the extent they are successful—will make its economy more involved with the world economy. Soviet reforms have also stimulated major political and economic changes in Eastern Europe that are causing it to become more involved with the European Community.

The principal driving forces for the first five changes are the multiple effects of the depreciation of the U.S. dollar that began in 1985 and are still in process. The exchange rate movements are substantially changing national competitiveness, national asset values, and the international purchasing power of different nations. These changes are propelling waves of transnational direct investments and loans that are reshaping the Pacific Rim's (and the world's) industrial structure and trade patterns as well as the intricate web of economic and political interdependencies.

America's role in the Pacific Rim economy—indeed in the world economy—will be substantially different in the 1990s from what it was in the 1980s. America is in the process of transforming itself from a net source of international demand to a net source of international supply. America is entering into a long period of export-led growth where factories, mines, and the labor force will be operating at full capacity. Its 1988 trade performance provides evidence of this change: American exports expanded by 27 percent to \$322 billion, and imports grew by only 9 percent to \$441 billion. In the first six months of 1989, this process continued: exports of \$180 billion (up 15 percent), imports of \$234 billion (up 8 percent), and the trade deficit declining to \$-54 billion (down 10 percent).

### **America's Need for Foreign Capital**

As a consequence of the mistaken fiscal policies of the Reagan administration, America developed a large and unhealthy appetite for foreign capital. In fact, Americans have not been paying their way in the world since 1982. From 1982 through 1988, Americans were able to consume more than they produced because their trading partners consumed less than they produced.<sup>1</sup> During this time, the United States substantially changed the nature of its economic relations with the world. It joined the world's debtor countries (or to be more technically correct, net capital importing countries), running current account deficits of \$9 billion, \$46 billion, \$107 billion, \$115 billion, \$139 billion, \$154 billion, and \$135 billion from 1982 to 1988 (Figure 1). Its policies produced the anomalous situation of the world's richest nation borrowing and attracting investment capital from poorer nations to such an extent that in seven years the United States has transformed itself from a net \$140 billion capital export position to a net capital import position of more than \$500 billion.

What will be the future level of America's international indebtedness? Let us imagine two different cases.<sup>2</sup> First, assume that the United States

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<sup>1</sup>A thorough analysis of the macroeconomic causes and consequences of U.S. excess spending is provided by M. A. Akhtar, "Adjustment of U.S. External Imbalances," 74th Annual Report of the Federal Reserve Bank of New York (April 1989). Some part of America's budget deficit and its excess consumption is a result of providing subsidized defense services to Japan, Germany, Korea, Taiwan, and other countries. If American policy changed either to charge for these services or to reduce them, America's trade and service accounts would be much less negative. Such issues are increasingly likely to become part of the congressional debate on the deficit and trade negotiations in the future. See David Calleo, Harold von Cleveland, and Leonard Silk, "The Dollar and the West," *Foreign Affairs*, Spring 1988, pp. 846-862.

<sup>2</sup>Assume that the trade deficit declines by about \$30 billion per year and that the United States pays an average of 5 percent on its outstanding (and growing) debt. See Richard Drobnick and

does not balance its merchandise trade until the year 2000. The U.S. indebtedness position would be about \$1.2 trillion by 1993 and \$1.8 trillion by the year 2000 (Figure 2)! It does not seem likely that world financial markets will allow such a scenario to materialize. Even Beryl Sprinkel, the former chair of President Reagan's Council of Economic Advisors, thinks that such capital flows might be hard for world financial markets to digest: "The absolute figure [of U.S. net indebtedness] would be very large—more than \$2 trillion in 1987 dollars. This could present difficulties for the world financial system, especially if for some reason foreigners [and Americans!] become less willing to hold claims on the United States."<sup>3</sup>

Or assume that the United States balances its merchandise trade by 1993. Then America's indebtedness position would almost double by 1993, to \$900 billion. If the U.S. maintained a trade balance for the rest of the 1990s, the indebtedness would increase to \$1.2 trillion, as a result of the need to service the debt. Alternatively, if from 1995 on, the U.S. achieved \$50 billion annual trade surpluses, its indebtedness would decline to \$800 billion by 2000.

### **Reversal of the U.S. Trade Deficit**

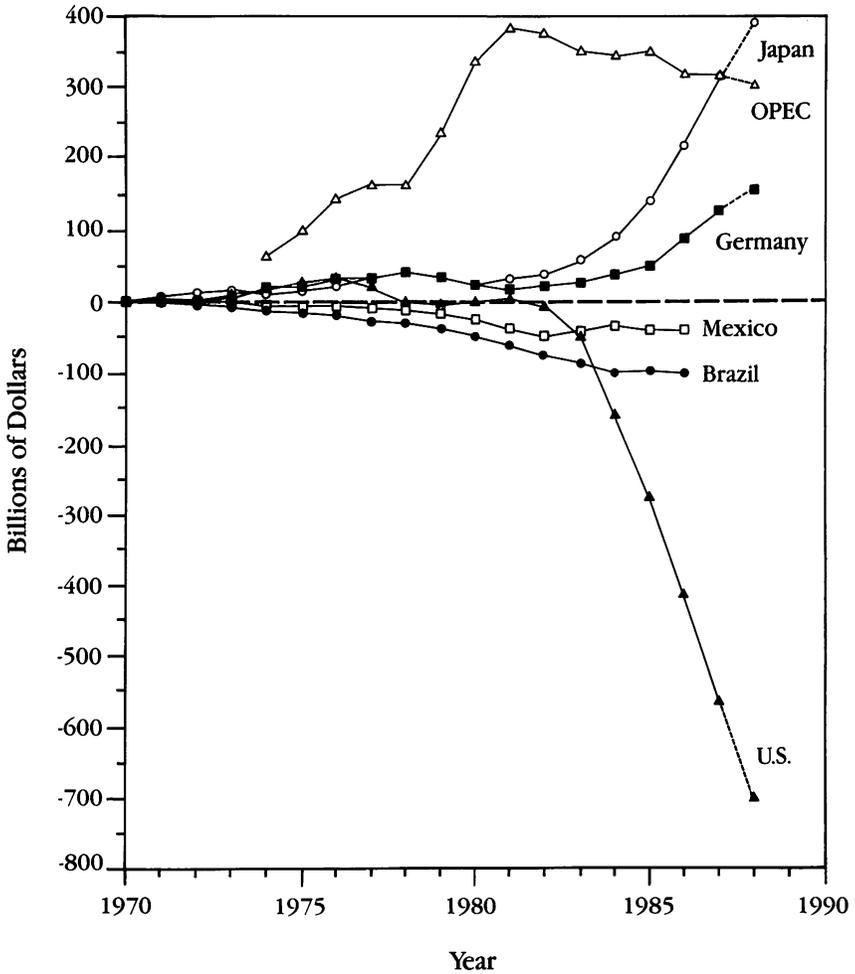
The U.S. trade deficit will be eliminated faster than most people anticipate—perhaps by 1993. This balancing of trade will happen primarily as a result of the market mechanisms of slower U.S. income growth, a substantial reduction of the federal deficit, as well as some continued depreciation of the dollar—not as a result of a substantial increase in U.S. protectionism. However, a balancing of imports and exports will not be sufficient. After 1993, the United States will need a trade surplus of between \$50 billion and \$75 billion per year in order just to cover the interest and dividend obligations on its outstanding debts.

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Selwyn Enzer, "Balancing Trade and Finance Accounts of America, Japan, and Germany: A Necessary Condition for the Survival of the Open Trading System" (IBEAR [International Business Education and Research] working paper, University of Southern California, May 1989). However, short-term forecasts from the Michigan Quarterly Econometric Model show no further improvement in U.S. net exports (in current dollars) of goods and services from 1988:4 to 1990:4. See Saul H. Hymans and Janet C. Wolf, "The U.S. Economic Outlook for 1989" (Working paper, University of Michigan, November 17, 1988), p. 24. According to this model, further improvement in U.S. net exports and the current account balance will occur only if the U.S. economy grows more slowly (than the Michigan Model's 1989–90 forecast of 4 percent decline) and foreign economies grow more rapidly (than its 3 to 4 percent forecast) or if foreign economies are "restructured" to become more import-intensive.

<sup>3</sup>Council of Economic Advisors, *Economic Report of the President 1988*, February 1988, p. 99.

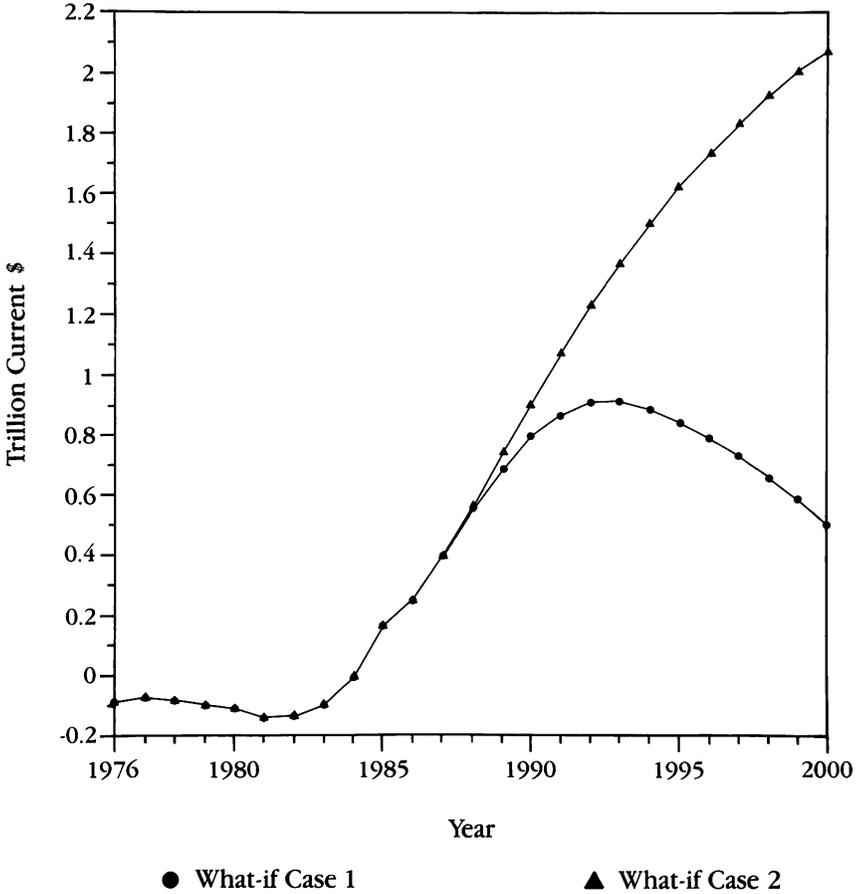
**Figure 1: World's Principal Creditors and Debtors**  
**Cumulative Current Account Balances**



SOURCE: International Monetary Fund, *World Economic Outlook* (various issues); 1987 and 1988 figures are IMF estimates.

Is an early reversal of the U.S. trade deficit realistic? With qualifications, the answer is yes. In 1988, the U.S. trade deficit dropped to \$129 billion from its 1987 level of \$160 billion. Exports expanded from \$250 to \$320 billion, whereas imports grew only from \$410 to \$446 billion. In 1989, the

**Figure 2: U.S. International Capital Account**



SOURCE: University of Southern California, Graduate School of Business Administration.

Organization for Economic Cooperation and Development (OECD) forecasts that the U.S. trade deficit will shrink to \$114 billion as exports expand to \$371 billion (11 percent in volume), whereas imports will only grow to \$486 billion (4.75 percent in volume); in 1990, the OECD forecasts a U.S. trade deficit of \$106 billion.<sup>4</sup> The U.S. current account deficit is forecast to improve somewhat from its 1988 level of \$135 billion to \$123 billion in 1989 and to \$116 billion in 1990.

<sup>4</sup>OECD, *Economic Outlook* (Paris: OECD, June 1989), vol. 45, p. 64.

In order for these trade improvements to occur, additional policy changes by the United States and its principal trading partners are required. America needs to continue to expand production capacity in tradable goods industries, and it needs to reduce domestic demand to release existing capacity for export. Some combination of a reduced growth rate of U.S. government spending, higher taxes, and higher interest rates will be needed to sufficiently restrain the growth of consumer demand and to puncture the inflationary pressures that are rapidly growing. Furthermore, America's trading partners—especially Japan, Germany, Taiwan, and Korea—need to restructure their economies and mobilize strong enough domestic demand growth to become robust markets.<sup>5</sup> Also, their citizens need to be “allowed” to purchase imported consumer and industrial products. That is, these countries need to allow more market access and “national treatment” for U.S. products and investments.<sup>6</sup> Additionally, some of America's trading partners who are building current account surpluses need to allow their currencies to appreciate—and to pass on the consequent increase in purchasing power to their citizens—so as to stop penalizing imports and promoting exports.

The qualification to the “yes” depends on whether or not the U.S. government will sufficiently reduce its fiscal stimulus and whether or not America's trading partners will sufficiently stimulate, open, and restructure their economies. In 1989, America's creditors will probably have convinced the Bush administration to put in place a responsible fiscal policy.<sup>7</sup>

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<sup>5</sup>For a description of how Japan is moving from export-led growth to domestic-demand-led growth, see Bank of Japan, “Balance of Payments Adjustment Processes in Japan and the United States,” Special Paper No. 162, March 1988. Unfortunately, the same process is not yet so apparent in Germany, but it is beginning in Taiwan and Korea. Even though Japan's economy is changing, it is unlikely that the currently contemplated yen appreciation and realignment of fiscal policies in the United States and Japan will shrink Japan's current account surplus from 3.6 percent of gross national product (GNP) in 1987 toward a much talked about target of 1 to 1.5 percent of GNP. Thus, it is imperative for Japan to implement the structural reforms outlined in the Maekawa Reports. See Bela Belassa and Marcus Noland, *Japan in the World Economy* (Washington, D.C.: Institute for International Economics, 1988), chapter 6.

<sup>6</sup>For a description of Japan's “unfair” trade practices, see Clyde Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead* (N.Y.: Basic Books, 1988). For an explanation of why market forces will be inadequate to bring Japan's imports and exports into balance, see two articles by James Fallows: “Tokyo: The Hard Life,” *The Atlantic*, March 1989; and “Containing Japan,” *The Atlantic*, May 1989.

<sup>7</sup>A bipartisan U.S. consensus on the vital need to eliminate the budget deficit by the early 1990s is also growing. For example, see the joint statements by former presidents Ford and Carter that recommend that President Bush make this his first priority, *American Agenda: Report to the 41st President of the United States* (Los Angeles: Times Mirror Company, November 1988).

Also, as the export volumes of America's trading partners contract in response to the slowdown in U.S. economic growth, it is likely that their own domestic political considerations will cause them to stimulate and restructure their economies. Furthermore, the implementation of America's Omnibus Trade and Competitiveness Act of 1988 will probably increase export opportunities for American firms as well as slow imports into the United States.<sup>8</sup>

But even if foreign markets are open, will products made in the United States be competitive? Because of increased productivity and the substantial cheapening of American land, labor, and capital as a result of the decline of the dollar, products made in America will indeed be competitive. Two trends that are good indicators of the changing international competitiveness among America, Japan, and Germany are unit labor costs in manufacturing and export prices of manufactured goods. Expressing each trend in a common currency, between 1985 and 1988, America's unit labor costs dropped by about 35 percent, whereas Japan's and Germany's increased by about 45 percent and 15 percent, respectively. In terms of export prices, the trend was similar but not as pronounced. Export prices for goods made in the United States fell by about 30 percent, whereas the price of goods exported from Japan and Germany rose by about 22 percent and 10 percent.<sup>9</sup>

### **Japan as the Principal Source of International Capital**

International financial power has shifted from the United States to Japan.<sup>10</sup> The new reality is that Japan has replaced the United States as the world's preeminent creditor nation, and at the same time the United States has become the world's most heavily indebted nation. The rapidity and expected longevity of this epochal change of affairs can be seen by comparing the trends of the net external asset positions of the United States and Japan (as well as of Germany; see Table 1).

As a result of the inevitable growth of Japan's income and dividend receipts, its cumulative current account surplus will continue to grow,

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<sup>8</sup>For an analysis of the trade bill, see U.S. Chamber of Commerce, *The Omnibus Trade and Competitiveness Act of 1988: A Straightforward Guide to Its Impact on U.S. and Foreign Business* (Washington, D.C., 1988).

<sup>9</sup>OECD, *Economic Outlook*, vol. 44, p. 55.

<sup>10</sup>For discussions of the implications of Japan as the world's premier creditor nation, see Ronald A. Morse, "Japan's Drive to Preeminence," *Foreign Policy*, Winter 1987-88, pp. 3-21; Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America* (New York: Simon and Schuster, 1988); and R. Taggart Murphy, "Power Without Purpose: The Crisis of Japan's Global Financial Dominance," *Harvard Business Review*, March-April 1989.

**Table 1**  
 Net International Investment Positions of the United States,  
 Japan, and Germany  
 (billion dollars)

	1984	1985	1986	1987	1988	1989	1990
United States	+ 4	- 111	- 269	- 368	- 503	- 643	- 800
Japan	+ 88	+ 138	+ 223	+ 310	+ 390	+ 474	+ 568
Germany	+ 28	+ 42	+ 78	+ 123	+ 171	+ 221	+ 272

SOURCE: U.S. data through 1987 are from the 1989 *Economic Report of the President*, p. 429; the 1989-90 estimates are computed from current account forecasts in IMF, *World Economic Outlook*, April 1989, p. 157. (If the "book" value of America's foreign assets and liabilities could be adjusted to current market values, the computed net asset position would be improved, but the trend would not be changed.) Japan's and Germany's cumulative current account balances (from 1970) are used as a proxy for net external assets. The source of the historical data is IMF, *World Economic Outlook* (various issues). The 1989-90 estimates are computed from current account forecasts in IMF, *World Economic Outlook*, April 1989, p. 157.

even as its export growth slows and its imports rise rapidly. Japan's cumulative current account surplus will be about \$500 billion by 1990—which would be more than triple America's peak international creditor position of \$140 billion in 1981—and it will continue to grow, albeit at a slower pace.

The issue of recycling Japan's export dollars will dominate tomorrow's financial and political headlines, much as the recycling of "petrodollars" did in years past. Clearly, Japanese capital will dominate Pacific Rim and worldwide flows of foreign direct investment, loans, and official development assistance for years to come. Along with its financial dominance, the business and political clout of Japan will increase substantially.

### Economic Restructuring of Japan

Japan's economy has switched from export-led to domestic-demand-led growth.<sup>11</sup> During 1980-85, Japan's net exports contributed, on average, about 1.5 percentage points to Japan's GNP growth rate (about one-third). In contrast, during 1986-88, net exports, on average, acted as a 1.3 percent "drag" on the economy. For example, in 1988, domestic demand grew at 7.5 percent, whereas net export growth was minus 1.75 percent. The principal stimuli for domestic demand in 1988 were an

<sup>11</sup>Data are from OECD, *Economic Outlook*, vol. 44, pp. 73-77; and Bank of Japan, "The World Economy 1988-89: Development and Prospects," Special Paper No. 171, January 1989, pp. 18-19, 49-51.

expansion of private consumption (caused by a 5.5 percent growth in disposable income) and a 20 percent expansion of fixed business investment (about 50 percent of which went to increase capacity and 50 percent to product development and rationalization).

Between 1985 and 1988, the relative profitability of export and import businesses (in yen terms) has changed dramatically. Export prices have fallen by about 20 percent and import prices have dropped by about 30 percent. On the margin, this situation makes it more attractive for exporters to shift their efforts from overseas customers to domestic customers and to satisfy part of the domestic demand with imports, increasingly from their new overseas production sites. This shift in profitability is reflected in substantial shifts in the allocation of labor and capital during the 1985–88 time period (Table 2).

As a result of this changing profitability (caused by strong growth in domestic demand and relative price changes), imports into Japan in 1988 grew by 18 percent, whereas Japan's exports grew by only 6 percent. The OECD forecasts a slowing of this "reversal" of Japan's trade trends for 1989 and 1990. Nevertheless, import growth of 10 percent is still expected to exceed export growth of 7 percent. (Taiwan and to a lesser extent Korea are also beginning to restructure their economies and can be expected to follow a path similar to that of Japan.)

### **Economic Integration of Asia with Japan as the Hub**

According to the Japan External Trade Organization (JETRO), overseas direct investments by Japanese firms are large and have been growing by leaps and bounds since 1985. Japan's 1988 foreign direct investments were \$47 billion, compared to \$33 billion in 1987 and \$22 billion in 1986 (see Table 3). About 40 percent of Japan's worldwide direct investments are in the United States—some to build new factories (e.g., Nissan in Tennessee), some to acquire existing operations (e.g., Bridgestone buying Firestone or Bank of Tokyo buying Union Bank), and some to purchase real estate (e.g., Shuwa buying the ARCO Towers).<sup>12</sup> Between 1951 and 1988, Japan's direct investments in the United States reached a total of \$72 billion, with \$52 billion of it being invested between 1985 and 1988.

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<sup>12</sup>For a discussion of some of the economic and political consequences of America's sale of national assets, see Martin and Susan Tolchin, *Buying into America* (New York: Times Books, 1988). For a detailed description of Japanese real estate investment in the United States, see Kenneth Leventhol and Company, "1988 Japanese Investment in U.S. Real Estate" (Los Angeles, March 1989).

**Table 2**  
The Changing Allocation of Capital and Labor Resources in Japan  
(from 1985 to 1988)

Types of Industries	Fixed Capital Investments (1985–88, % change)	Employment Levels (full-time) (1985–88, % change)
Export-oriented manufactures	– 5	– 3
Domestic demand-oriented manufactures that compete with imports	+ 15	+ 1.5
Domestic demand-oriented manufactures that <i>do not</i> compete with imports	+ 40	+ 2.5
Nonmanufactures (excluding power generation)	+ 45	+ 5

SOURCE: Adapted from Bank of Japan, "The World Economy 1988–89" (Special Paper No. 171, January 1989), p. 51.

**Table 3**  
Japan's Overseas Direct Investments  
(billion dollars)

Fiscal Year	Worldwide	United States	Asia
1985	12.2	5.4	1.4
1986	22.3	10.2	2.3
1987	33.4	14.7	4.9
1988	47.0	21.7	5.6
Cumulative 1951–88	186.4	71.9	32.2

SOURCE: Toshihisa Nagasaka, "World Direct Investment and Globalization of Japanese Corporations," p. 33. Mr. Nagasaka, who is the director of the Economic Information Department of the Japan External Trade Organization (JETRO), presented this paper at an international symposium titled "Analysis on the Trend of External Direct Investment of the U.S. and Japan," sponsored by the Ministry of Finance (MOF) and the National Bureau of Economic Research (NBER) in Tokyo October 31–November 1, 1989.

According to the Bank of Japan, the *manufacturing* component of Japan's direct investment abroad has soared from \$3.8 billion in fiscal year 1986 to \$7.8 billion in 1987 to an estimated \$18.5 billion in 1988.<sup>13</sup> The magnitude of these investments is becoming large enough to change the industrial structure and trade patterns of the Pacific Rim. For example, four Japanese automobile makers produced almost 600,000 vehicles in the United States in 1988 (8 percent of auto production in the United States). Their expansion plans suggest that their U.S.-based production could reach two million units in the early 1990s. These Japanese investments will transfer technology and management techniques, create jobs, develop political lobbies against trade barriers, and become a potent competitive threat to American automotive firms and parts suppliers.<sup>14</sup> In addition, these investments are almost certain to create excess capacity, either in the United States or in the home production base.

Recent JETRO surveys of Japanese business plans suggest a continuation of these huge investment flows for years to come. The principal motivation to move factories offshore is to reduce production costs in response to the appreciation of the yen. In addition to moving production capacity eastward to North America, Japan has also rapidly expanded investment in manufacturing capacity in Asia since the yen began its sharp appreciation against all Asian currencies (as well as against the dollar). According to the Bank of Japan, Japanese *manufacturing* investments in Asia averaged \$550 million from 1981 to 1985, expanded to \$800 million in 1986, skyrocketed to \$1.7 billion in 1987, and are estimated to approach \$2 billion in 1988.<sup>15</sup> Thus Japan's exports of plant, equipment, and components to Asia are growing, and Japan's imports of components and final products from its Asian manufacturing plants are also expanding.

The surge of Japanese direct investment going to Asia, accompanied by the anticipated increases in Japanese loan and foreign aid capital, will contribute to the economic and financial integration of Asia with Japan as the hub of the regional economy. For example, the Board of Investment in Thailand reports that its approvals of Japanese investment applications between 1986 and 1988 increased from \$250 million to \$940 million to

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<sup>13</sup>Bank of Japan, "World Economy 1988-89," p.34.

<sup>14</sup>See U.S. General Accounting Office, "Foreign Investment: Growing Japanese Presence in the U.S. Auto Industry" (Washington, D.C., March 1988), GAO/NSIAD-88-111.

<sup>15</sup>See Bank of Japan, "Greater Role of Asian Economies in the World and Growing Interdependence Among Asia, the United States and Japan" (Special Paper No. 166, August 1988), p. 43. The 1988 estimate is calculated from an estimate of total Japanese investments in Asia in the first half of 1988 provided by the Industrial Bank of Japan.

**Table 4**  
**Cumulative Current Account Balances of Taiwan and Korea, 1972–1990**  
**(billion dollars)**

	1986	1987	1988	1989	1990
Taiwan	+ 46	+ 64	+ 73	+ 81	+ 88
Korea	- 23	- 14	0	+ 11	+ 19
1986–92	+ 4.5	+ 15	+ 29	+ 40	+ 48

SOURCE: The data for Taiwan are from Council for Economic Planning and Development, *Taiwan Statistical Yearbook 1988*. The data for Korea are from Bank of Korea, *Economic Statistics Yearbook 1987*. The 1987–90 estimates are computed from forecasts in OECD, *Economic Outlook*, vol. 45, p. 55.

\$2,960 million!<sup>16</sup> Although ASEAN leaders are concerned about the prospect of increased Japanese influence, they are becoming resigned to their lack of other alternatives. Nothing much is likely to come of their efforts to increase intra-ASEAN economic cooperation without capital, technology, and guidance from Japan.

In addition to Japan, there are two other important suppliers of international capital in the Pacific Rim. Capital exports from Taiwan and increasingly in the years ahead from Korea will also increase the economic integration of the Pacific Rim economies. Estimates of their cumulative current account balances, which provide the “ammunition” for their capital exports, are provided in Table 4. As the New Taiwan dollar and the Korean won continue to appreciate and as their foreign exchange controls are further relaxed, it can be anticipated that the overseas investments of Taiwanese and Korean firms will follow patterns similar to those of Japanese firms. In fact, for 1988, Taiwan was the second largest foreign investor in Thailand with approved investment applications for \$830 million (compared to \$650 million for the United States); Korea, a newcomer, had \$105 million in 1988.

On a national basis, Asian nations will continue to compete with each other to improve their climate for foreign investors. Each nation will also continue to seek special consideration for both better access to the U.S. market and relief from U.S. pressures to open their markets or appreciate

<sup>16</sup>These data are from Thailand's Board of Investment as quoted in a paper distributed at IBEAR's 1989 Asia/Pacific Business Outlook Conference. See Richard Frankel, “Doing Business in Thailand” (unpublished paper, Bangkok, February 1989).

their currencies. Resentment toward America will rise as America becomes increasingly unwilling to respond to these demands. The often discussed economic integration of ASEAN will occur unobserved but coordinated by Japanese firms as they become true multinational enterprises. ASEAN will become ever more integrated into the economic and financial structure of Japan. Japan itself will become somewhat less dependent on the U.S. market as it diverts more of its energy to leading a more integrated Asian economy.

The U.S. economy will also become more integrated into the financial and economic structure of Japan. This integration will lead to increased resentment and friction as Americans belatedly awake to the reality of reduced independence in managing their national economic policies.<sup>17</sup> In this new international environment in which economic leadership will be passing from the United States to Japan, the United States will be struggling continuously to generate trade surpluses sufficient to service the debts built up during its 1980s consumption binge. Japan, as the world's premier creditor nation, will sit in judgment of America's efforts to maintain its credit worthiness.<sup>18</sup> Japan will also be the major player in financing and supervising huge Third World development programs. If successful, such development programs—along with Japanese and German domestic demand expansion and market-opening efforts—might replace U.S. net import demand as the “locomotive” for worldwide economic growth in the 1990s.

### **LDC Debt Relief**

The International Monetary Fund estimates that in 1988 LDC debt was \$1,240 billion and the LDC debt service requirement was \$171 billion,

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<sup>17</sup>For a discussion of the relationships between America's debts and its unhealthy growth of dependence on foreign creditors, see Felix Rohatyn, “America's Economic Dependence,” *Foreign Affairs*, vol. 68, no. 1 (1988/89), pp. 53–65.

<sup>18</sup>For example, see the ideas of Takashi Hosomi, former chairman of the Overseas Economic Cooperation Fund of Japan: “The basic rule for debtor nations is to pay their borrowings back in real terms and feel the pain of accumulating debt irresponsibly. What is now strongly required of the United States is to issue ‘Reagan bonds’ (i.e., yen-denominated U.S. debt instruments) and Japan, as the largest creditor nation, should urge that country to take the plunge.” From T. Hosomi, “Why International Cooperation Does Not work,” *Tokyo Business Today*, April 1988, as reported in Burstein, *Yen!*, p. 57. For a related policy suggestion, see “Japanese Official Wants U.S. to Issue Yen-Denominated Treasury Securities,” *The Japan Times*, May 20, 1988, p. 2. For the complete text, see Toyoo Gyohten, “Cooperating with Confidence: U.S.-Japan Policies for Global Growth and Financial Stability,” *Speaking of Japan*, August 1988, pp. 22–28.

which is about equal to 20 percent of LDC export earnings.<sup>19</sup> By 1990, LDC debt and annual debt service requirements will be \$1,340 billion and \$185 billion, respectively. The fifteen most heavily indebted countries will owe \$510 billion in 1990 and be constrained by a debt service ratio of 40 percent.

Without a substantial *increase* in foreign aid or foreign investments—or a major reversal of capital flight—collectively, the LDCs need to have merchandise trade surpluses of over \$180 billion (per year!) to finance their annual debt service payments. As the United States reduces its trade deficit—if no other reserve currency nation runs an offsetting trade deficit—it will become obvious that the LDC debtors can not earn the foreign exchange to finance their debt service. For this reason alone, a comprehensive debt relief scheme is necessary.<sup>20</sup> Two other compelling reasons for developing a workable debt relief plan are to facilitate economic development in the LDCs and to provide import markets for the world's rapidly growing excess production capacity.

## Europe 1992

As the Single European Act of 1987 is implemented, the European Community will tend to become a more integrated economic and financial market.<sup>21</sup> Many non-Europeans are worried that the Europe 1992 Movement is a process that will create a "Fortress Europe." Their concern is that Europe will become protectionist.

In reality Europe is already very protectionist. It is unlikely to become substantially more protectionist as a result of the Single European Act, which, in any case, will not be implemented on time or in totality. The most obvious consequences of further reducing Europe's internal barriers to the flow of goods, labor, and capital are (1) Europe will have more bargaining power, (2) Europe will become more efficient, and (3) income growth in Europe will accelerate. Also, huge internal aid and investment programs will push mountains of capital from the rich north to the poor countries and poor regions in the south of the European Economic Community

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<sup>19</sup>International Monetary Fund, *World Economic Outlook* (Washington, D.C., April 1989), pp. 186, 191, 194.

<sup>20</sup>For a description of how previous actions have not provided any debt *relief*, see Jeffrey Sachs, "'Robbin' Hoods: How the Big Banks Spell Debt 'Relief,'" *The New Republic*, March 13, 1989, pp. 19–22.

<sup>21</sup>For a summary of the issues posed by the Europe 1992 Movement, see Pierre-Henri Laurent, "The European Community: Twelve Becoming One," *Current History*, November 1988. See also U.S. Department of State, "The European Community's Program to Complete a Single Market by 1992" (Washington, D.C., August 1988).

(EEC), as well as to Hungary, Poland, East Germany as they emerge from the Soviet bloc.

As Europeans become richer, they are likely to import more, not less. Furthermore, European industries are likely to concentrate more on their new pan-European "domestic" market than on overseas markets. It would be reasonable to anticipate that Europe's "world" export growth (outside of Europe) will slow, if not decline, in the years to come. Europe's current account balance with the world is quickly moving from a large surplus toward balance (Table 5). The opportunities and problems posed by the break-up of Eastern Europe provide another reason why Europeans can be expected to concentrate more of their energies on European development.

### **Diminished Importance of the GATT**

The marathon multilateral GATT negotiations are probably in the process of becoming an endangered species. The negotiation agenda for the Uruguay Round on services, intellectual property rights, trade-related investment measures, and agricultural subsidies is complex as well as contentious. Many difficulties have become apparent during the Uruguay Round. Even though the disputes will be resolved to some extent before the Uruguay Round is completed, it is very unlikely that its comprehensive goals will be accomplished.

In the meantime, while the multilateral negotiations are continuing, the economic world is changing. The United States has negotiated free trade agreements (i.e., bilateral preferential agreements) with Israel and Canada and is preparing the framework for future discussions with Mexico. The Europeans are strengthening their internal market, and numerous official bodies are studying the concept of a U.S.-Japan FTA or a Pacific Rim FTA. Also, changing business practices, new trade partners, and the growth of Japanese foreign aid programs are likely to move an ever larger portion of world trade flows "off the market" and out from under GATT jurisdiction. For example, (1) Increased cross-border investments by MNCs lead to more trade flows governed by corporate strategy and transfer pricing. (2) The entry of China and the Soviet Union into the world market means that this portion of world trade will be governed by state policy directives, many of which will require barter, offset, or counter purchase practices. (3) Japan's huge foreign aid programs are likely to contain a very large component of "tied aid," in spite of official protestations to the contrary.

### **China's Reforms**

As a result of China's decisions in 1988 to slow its economy and the ascendancy of conservatives in 1989, China's economic relations with the

**Table 5**  
EEC Current Account Balance (Annual)

	Billion Dollars	Percent of GNP
1986	51	1.5
1987	37	0.9
1988	15	0.3
1989	-2	0.0
1990	-1	0.0

SOURCE: OECD, *Economic Outlook*, Vol. 45, pp. 44-46.

world have slowed. In spite of these ongoing changes, however, China is likely to remain an active participant in world markets.

China has become an active player in the international economy (with \$100 billion in two-way trade in 1988) and a strong competitor for world markets, capital (loans, direct investments, and aid), and the scarce time and attention of corporate and government leaders.<sup>22</sup> Additionally, China is becoming an important customer for raw materials and industrial products. If China becomes willing to borrow to help finance its development, it could become a net source of international demand. Such a change could help the world economy adjust to the impending U.S. trade reversal.

Two-way trade between China and Taiwan and China and South Korea is large and rapidly growing. In 1988, China-Taiwan trade is thought to be at least \$2 billion and China-South Korea trade to be at least \$3 billion. Numerous indicators of these burgeoning bilateral relationships, such as increased travel, increased academic and official exchanges, increased direct investments in China by Taiwan and Korea, would lead one to predict a rapid expansion of these intraregional flows, even in the current environment. This process will help Taiwan and Korea reduce their dependence on the U.S. market. Thus, it will also help the world economy adjust to the impending U.S. trade reversal.

An important question is to what extent China's political crackdown and economic "readjustment program" will affect the trends mentioned above. Clearly, China's use of more centralized administrative measures to slow the economy and reduce inflation will slow the pace of economic

<sup>22</sup>For a discussion of problems with China's reforms, see the report of the Pacific Forum Seminar held in Shanghai, November 1-3, 1988: Harry Harding, Jr. (rapporteur), "China, East Asia, and the Changing Global Economy" (Honolulu: Pacific Forum, January 1989). For a comparison of the Chinese and Soviet reforms, see Marshall and Merle Goldman, "Soviet and Chinese Economic Reform," *Foreign Affairs*, vol. 66, no. 3 (1987/88), pp. 551-575.

development. However, the reform movement is almost certain to continue. Furthermore, the rise of political orthodoxy will slow economic growth. However, China's interaction with the world economy is likely to continue, albeit at a slower pace.

### ***Perestroika and Glasnost***

The Soviet Union's economic reform efforts are unlikely, in the near term, to have any substantial direct effect on the world economic order. In the unlikely event that Moscow decides to seek substantial infusions of foreign loans and investments to finance *perestroika*, then the Soviet Union would become a net source of international demand. However, for this to occur, the creditor nations would also have to concur. Given Germany's current focus on Europe 1992, Japan's efforts to integrate Asia, and NATO's security concerns, it seems unlikely that substantial financing would be available for any major long-term development program of the Soviet Union. However, the effects of Soviet reforms on the political and economic structures of Hungary, Poland, and East Germany are immediate. West European trade, aid, and investment flows to Eastern Europe will rapidly expand.

### **Conclusion and Recommendations**

The world economic order is changing. The most potentially disruptive question facing the world economy is how to reduce structural imbalances as the United States returns to trade and financial balance in the early 1990s.

America will inevitably become competitive enough to service its international debts. The critical issue, however, is whether or not American competitiveness can be attained without putting the United States on a downhill spiral of continued reductions in wages, government services, and the quality of American life. That is, can America achieve sufficient international competitiveness by increasing productivity while maintaining or expanding the real incomes of all Americans? If so, the international trade regime will probably remain quite open. If not, it is quite possible that America will move toward a protective bilateralism in its trade relations.

The more desirable path of robust trade expansion requires a great deal of imagination and leadership. American leaders need to eliminate America's need for foreign capital and make certain that American products continue to become more competitive. American and foreign leaders need to make certain that the markets of America's trading partners become open enough and strong enough to absorb \$500 billion worth of U.S. exports per year by the early 1990s.

In the final analysis, the stabilization of the international economic system requires an expansion of exports from America and a slowing—if not an actual reduction—of imports into America. America's domestic demand needs to grow more slowly than its production of GNP for the rest of this century. Such a reversal of American consumption and trade patterns will profoundly shape the economic structure of the Pacific Rim and the world in the years to come.

### *Recommendations for American Leaders*

What are some actions that American leaders can take to manage this inevitable process of adjustment? First, American leaders need to rid themselves of the self-crippling mindset that says America does not have enough resources to influence and shape international events. This is *nonsense*. America is a rich, productive nation that can raise taxes and allocate resources to do things that are in its self-interest, and shaping the international economic environment is one of those things.<sup>23</sup> American leaders should not talk themselves into decline with self-fulfilling political rhetoric about America's weaknesses, nor should America's leaders be continuously begging the Japanese to finance America's domestic and the world's international capital needs.

Second, American leaders should demand honesty and imagination from the Bush administration about competition, cooperation, and conflict among America, Japan, and the European Community. They should demand that the administration give a high priority to international economic issues and explain how it intends to manage America's inevitable adjustment to produce more and consume less and thus live within its means, while at the same time maintaining noninflationary growth and servicing its debts.

Third, American leaders should demand reciprocity, fair play, and reasonably valued currencies from America's principal trading partners. American negotiators need to deal with the world as it is, not as a theoretical construct of how they might like it to be.<sup>24</sup>

Fourth, American business and government leaders should invest in their current and future employees to make them smarter about international economics, politics, and culture. Relative to their foreign competitors, American businessmen and government negotiators are substantially less competent to think in terms of *numerous* currencies, *numerous* legal

<sup>23</sup>See Francis M. Bator, "Must We Retrench?" *Foreign Affairs*, vol. 68, no. 2 (Spring 1989), pp. 93–123.

<sup>24</sup>See Pat Choate and Juyn Linger, "Tailored Trade: Dealing with the World as It Is," *Harvard Business Review*, January/February 1988, pp. 86–93.

systems, and *numerous* political and cultural barriers to the flow of ideas, raw materials, and products. American leaders need to change this sorry state of affairs. They can do so by demanding that business schools and universities provide educational products that will help America compete in today's global marketplace.

Fifth, American leaders should require the Congressional Budget Office or the General Accounting Office to prepare international economic impact statements whenever major economic legislation is pending. Thus, the government would be required to analyze *in advance* what a proposed economic policy change would do to (1) America's ability to export, (2) America's appetite for imports, (3) America's ability to attract foreign investment and credit, and (4) America's asset and labor values. If such a process had existed in the 1980s, the executive and legislative branches would at least have been informed about the international ramifications of Reaganomics and perhaps would have acted to prevent the extreme international imbalances that have resulted.

#### *Recommendations for Asian Leaders*

Asian leaders should inform themselves and their key constituents about the far-reaching implications of the major changes in the international economy mentioned earlier: (1) the impending reversal of the U.S. trade deficit, (2) the rapid movement toward Japanese dominance of world financial markets, and (3) the integration of the Pacific Rim economy. A few of the obvious implications follow. First, Asian leaders should restructure their economies from export-led growth patterns toward patterns of more sustainable domestic-demand-led growth. Second, Asian leaders should intensify their efforts to diversify export markets away from the United States. Third, Asian leaders should prepare themselves for much more difficult bargaining with American trade negotiators regarding "fair" trade, reciprocity, intellectual property rights, trade-related investment measures, and currency exchange rates. Fourth, Asian leaders should intensify their efforts to attract American investments in order to provide some counterweights to the flood of Japanese investment and aid that they will receive.

A final caveat is appropriate in closing. What if political paralysis in America and other major trading nations prevents the implementation of the economic policy adjustments that are needed to bring the world back toward balance? That is, if America does not get on a path to balance its fiscal and current account deficits by the early to mid-1990s, then there is a high probability of a financial panic that might begin with a run on the dollar and end with a worldwide stock market collapse that will make the October 1987 crash appear to have been mild. And if America's trading

partners do not expand and open their economies, America is likely to selectively penalize imports of their products. Events like these could cause the world to grope toward a future of regional trading blocks and new international security arrangements.

In order to avoid the economic and political disruptions such a scenario would create, American, Asian, and European leaders need to recognize that substantial economic changes are occurring in the real world that are not well described in the textbooks. It is imperative for American, Asian, and European leaders to stop criticizing each other for being in violation of processes in a theory of "free trade." Rather, the leaders need to focus their efforts to achieve the needed economic outcome: quickly reducing trade and financial imbalances while maintaining noninflationary growth. In other words, international leaders must focus their energies on the formidable tasks of actively managing tomorrow's inevitable economic competition, cooperation, and conflict.

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## 6. Intra- and Extra-ASEAN Economic Cooperation

NARONGCHAI AKRASANEE

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The Association of Southeast Asian Nations has been in existence since 1967. During the years since then, the ASEAN economies have grown at relatively high rates by international standards. At the same time, the ASEAN countries have continued to affirm their determination to strengthen intra- and extra-ASEAN economic cooperation. Their achievements and future prospects are the subject of this chapter.

### **Historical Perspective**

When ASEAN was formed in 1967, it was really meant to be a political grouping, although it has never explicitly stated this objective. Thus, during the first decade of its existence, the member countries were only trying to live together peacefully, and they were successful. Economic cooperation was addressed, but there was hardly any effort to make economic cooperation a reality. Also, because each ASEAN economy was doing well in its trade and investment with non-member countries, there was no real need for ASEAN economic cooperation.

The first ASEAN summit was held in 1976, soon after South Vietnam, with the help of the United States, lost the war with North Vietnam. Although the summit had a full agenda of economic cooperation programs, many observers considered politics to be the ulterior motive. Nevertheless, the first summit succeeded in launching a number of economic cooperation instruments and the mechanisms for their implementation. The now famous preferential trading arrangements (PTA), ASEAN industrial projects (AIP), and ASEAN industrial complementation scheme (AIC), for example, were launched at that time.

Subsequent to the first summit of 1976 and the second summit of 1977, the economic cooperation schemes turned out to be difficult to implement. The only noticeable achievement was in dealing with third countries and international organizations in that ASEAN was regarded as a group of five (and now six) economies. Again, during this period, all of the

ASEAN countries were performing well economically in their existing patterns of foreign trade and investment, and there was no real need for intra-ASEAN economic cooperation. There was, therefore, no further achievement in the various cooperation schemes introduced.

The economic downturn of the first half of the 1980s prompted ASEAN leaders to again seriously examine means of mobilizing intra-ASEAN economic cooperation to supplement extra-ASEAN trade and investment. The decision to hold a third summit in 1987 was made mainly for economic reasons. However, by the time the summit was held, the ASEAN economies had entered into a period of economic recovery, with unprecedentedly high growth rates in some countries. More than twelve months have passed since the third summit, and it seems again that ASEAN economic cooperation has not moved very much further.

### **Recent Developments**

The pace of ASEAN economic cooperation in trade and investment is considered to be very slow both for its collective economic interests and in terms of its international credibility as an economic grouping. For ASEAN to be recognized as cooperating economically to a significant degree, it needs to accelerate the pace of its programs for economic cooperation, both on a six-nation basis and, where consensus is difficult, on a bilateral basis between its member states, as a fallback position to multilateralism in the General Agreement on Tariffs and Trade (GATT) as well as to supplement and complement GATT efforts.

There was euphoria prior to the third ASEAN summit in Manila in December 1987, with a flurry of meetings of officials, private business, and scholars to seek ways of furthering ASEAN cooperation. The third summit agreed to improve the mechanisms for economic cooperation, especially trade and industrial cooperation, although the implementation appears so far to be rather slow. The main instruments of intra-ASEAN trade and investment cooperation remain the ASEAN preferential trading arrangements and the ASEAN industrial joint venture (AIJV) schemes.

#### *ASEAN Preferential Trading Arrangements*

Although nontariff barriers (NTBs) are an important restrictive practice in intra-ASEAN trade, policy attention generally focuses on the tariff structures because they are more transparent and generally more widely applied across import categories. Data on the extent of intra-ASEAN trade under the PTA are not available. However, it is widely acknowledged that the PTA have not significantly stimulated intra-ASEAN trade either through replacement of domestic production by imports from ASEAN member countries or through diversion of trade from non-ASEAN countries to

ASEAN member countries. This lack of success may be attributed in part to features of the PTA itself, such as selectiveness of PTA items and the large list of exclusions, low depth of tariff cuts, bureaucratic rules of origin, and the existence of NTBs nullifying the effects of tariff cuts. Lack of success may also be attributed to the trade patterns of the ASEAN member countries—they tend to produce similar commodities and labor-intensive manufactures geared for markets in Organization for Economic Cooperation and Development (OECD) rather than ASEAN countries, and there are no sharp differences in production costs.

Of the five measures to liberalize trade under the PTA, the exchange of tariff preferences has been the most widely implemented. Before the third ASEAN summit, there were 12,655 items in the PTA with a minimum margin of preference (MOP) of 25 percent. A total of 3,500 of these items were given deeper margins, up to maximum of 50 percent, since their inclusion in the PTA. However, (1) the coverage of products under the PTA was limited and a large number of items traded in ASEAN were excluded from concessions; (2) the preferential duties on items under the PTA were, in many cases, considered too shallow for the business community to take advantage of and the rules of origin too restrictive to enable items in the PTA to qualify for concessions; and (3) the presence of NTBs often negated the benefits of tariff liberalization.

To expand intra-ASEAN trade and improve the PTA over the next five years, the third ASEAN summit recommended the following:

1. Reduce the exclusion lists of individual member countries to not more than 10 percent of the number of traded items and not more than 50 percent of the value of intra-ASEAN trade, and strive for greater harmonization of exclusion lists.

2. Phase new items from the exclusion lists into the PTA, granting them a minimum MOP of 25 percent.

3. Increase to 50 percent the MOP for items already included in the PTA on the basis of an across-the-board concession of five percentage points yearly, product-by-product concessions totaling 50 percent at the end of five years, or a combination thereof.

4. Reduce the ASEAN content requirement in the rules of origin from 50 percent to 35 percent on a case-by-case basis, subject to review after five years.

5. Implement an immediate standstill of NTBs and negotiate the rollback of such NTBs after the Manila ASEAN summit.

6. In order to make the PTA scheme more transparent and predictable to the private sector, make public the detailed product lists and preferences that are to be phased into the PTA over the next five years. This will

allow the business community to make appropriate investment and production plans to take advantage of the preferences.

As of April 1, 1988, the ASEAN countries have published the 1988 programs and product lists for improvement of the PTA. With the implementation of the 1988 programs on April 1, 1988, the number of items in the PTA have increased to 14,462 items. The total number of items that were given deeper MOPs up to a maximum of 50 percent has increased to 11,596. With the agreed improvements, it is expected that over the next five years the number of items that are excluded will be significantly reduced. Also, at least 90 percent of the traded items of individual member countries will be granted a 25 percent preferential margin on import duty if they originate in ASEAN. The widening and deepening of tariff preferences is expected to promote intra-ASEAN trade and induce both the ASEAN private sectors and foreign investors to invest in the large ASEAN regional market.

#### *Intra-ASEAN Investments*

Intra-ASEAN investments, like any form of foreign investment, will respond primarily to economic conditions and opportunities for profits. What are the advantages for entrepreneurs in ASEAN to invest in the region itself? Private entrepreneurs in ASEAN may have a competitive edge over non-ASEAN investors because of their better knowledge of the region's economic and market conditions, consumer tastes and demands, distribution systems, labor market conditions, and functionings of the bureaucracy. They also share similar business systems and organizations. Further, with the proliferation of ASEAN-wide business associations, close contacts have been established. But it may be argued that foreign multinational corporations operating in the ASEAN region after a number of years also acquire some of this knowledge.

The schemes aimed at promoting intra-ASEAN investments in industry have not been marked by any outstanding success. Essentially, industrial investments are best left to the private sectors. The role of the ASEAN governments is to provide information on market opportunities and market conditions in the member countries, develop the institutions and infrastructure to facilitate business intercourse, remove administrative and trade policy obstacles to freer flows of capital and goods, and provide as much national treatment as possible for intra-ASEAN investments.

The current industrial cooperation scheme of the greatest significance is the ASEAN industrial joint venture. The third ASEAN summit has increased intra-ASEAN preferences for AIJV projects. The MOP has been increased to 90 percent, and the ASEAN local content has been reduced to

35 percent. Furthermore, member countries are invited to propose a list of projects that would be accorded AIJV status in advance. At the time of this writing, a number of projects have already been given AIJV status. But it still remains to be seen whether AIJV will really produce a substantial degree of intra-ASEAN economic investment.

### *Other Cooperation Schemes*

Although the third ASEAN summit also pledged stronger cooperation vis-à-vis third countries, the only noticeable achievement has been the joint effort on the new GATT round of trade negotiations, especially participation in the Cairns group. It is unfortunate that the new round has not progressed as much as planned, and the joint ASEAN effort has therefore not yielded a meaningful result.

ASEAN had intended to cooperate on many other economic issues, as revealed in the preparations for the third ASEAN summit. But, as mentioned earlier, economic events close to the time of the summit and since then, which have created a widespread economic boom, have made ASEAN countries less interested in the various economic cooperation issues they had discussed earlier.

### **The Future**

The outlook for the ASEAN economies over the next five years appears to be good. Every country is predicting reasonably high growth rates. Singapore and Thailand expect to grow annually at 7 to 9 percent; Malaysia, the Philippines, and Brunei Darussalam, approximately 5 to 6 percent; and Indonesia, about 4 to 5 percent. Financially, the countries are quite stable with the exception of the Philippines, which still has a serious external debt problem.

Although the short- and medium-term economic outlook is satisfactory, the ASEAN countries will not necessarily be free from external economic problems. In fact, since the ASEAN economies are relying increasingly on the external sector, they will be more influenced by world economic events that are likely to assume a very different form from the last decade. Some of the new and important developments are (1) a rapidly changing international geopolitical and economic environment; (2) the increasing relative importance of economic over military factors in domestic and international security maintenance and enhancement; (3) the volatility of the global economic environment; (4) Pacific growth dynamism; (5) the emergence of trading blocs (like the European Internal Market and the U.S.-Canada Free Trade Agreement); (6) the globalization of industrial production and the internationalization of national econo-

mies; and (7) the march of technology, in microelectronics, biotechnology, and industrial materials, for example.

The new political developments seem to suggest that the tension among the major powers is easing rapidly. This situation should lead to new opportunities for economic transactions with the socialist states. And, more important, it could bring an end to the conflict in Indochina. In fact, Thailand has moved quickly to normalize its relations with the Indochinese states. It is possible that in the future Thailand could spend less time on ASEAN economic cooperation and more time on economic cooperation with the Indochinese states.

Another important development is the emerging trade blocs and the growing economic dynamism of the Pacific Rim countries. The one-market European Community of 1992 and the U.S.-based trade areas suggest preferential arrangements among certain countries. To counter the bloc tendency and to take advantage of the economic dynamism of the Pacific, ASEAN may have to enter into some form of Pacific cooperation arrangement. Another possibility is a trade area arrangement with the major economic powers, including the United States, the European Community, and Japan.

During the last few years, growth of the industrial sector of ASEAN has resulted in stronger integration with the industrial sectors of Japan and the East Asian economies. This pattern is likely to continue, creating in the process another major industrial area in the world to counterbalance the power of the European Community and North America.

Expected future world economic developments suggest that the external economic relations of ASEAN will continue to grow and diversify rapidly. Whether this process will take place alongside the strengthening of intra- and extra-ASEAN economic cooperation is unclear. It is likely that the ASEAN member countries will not force the issue. ASEAN economic cooperation will only grow in strength if warranted by market forces.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: Nothing the U.S. Congress could do would have as big an impact on the world trading system as the reversal of the U.S. trade deficit. Richard Drobnick has done an excellent job outlining the situation in which the United States now finds itself, the process we are likely to go through to get ourselves out of this situation, and the impact that reversal will have on Thailand and other U.S. trading partners. It is likely, as Drobnick notes, that we will have a trade surplus by some time shortly after 1990. If policy makers do not achieve that reversal, other forces will take the United States in that direction. We can either do it smoothly, through good management, or pay heavy costs.

I dispute Drobnick's views about the path that the United States is likely to take if we do not improve our trade deficit. We have had some improvement in that deficit, and it should continue improving this year. However, unless there are significant macroeconomic changes in the United States, it is not likely to improve much more in the next couple of years. That leaves much for U.S. policy makers to do. However, the United States is not likely to move onto a path of managed trade. The statement made by Carla Hills in front of the Senate Finance Committee was misquoted in the press, and the questions were very much directed at managed trade. A private sector advisory committee had submitted a report to the office of the U.S. Trade Representative asking for a sectoral bargaining approach toward Japan. I do not believe that the Bush administration or the Congress is likely to move in that direction.

One of the major risks if we do not manage these reversals well is a U.S. recession. But I believe that we can manage them, and we should do it in a way that keeps world trade expanding. The main objective of the United States, on the overall macroeconomic front and in its trade policy is to keep world trade expanding. In the past few years, the United States has been playing a role as the major market in the world. It is imperative that the United States increase its export capacity. We will also need to cut our imports. The problem now, however, is that our export industries are

working at near capacity. Unless we can get those firms to expand investments and production, it will be a while before we can get increase exports enough to affect the balance. That too will affect the speed of our trade reversal.

In recent years, growth in Japan has been marked by domestic demand rather than export demand. However, the Japanese need to do more. Japanese surpluses remain at very high levels. The Japanese need to continue deregulating their economy and take other measures to make their markets more accessible to imports. Another major concern is West Germany. However, Germany has not been very cooperative in helping reach a balance in world trade. Germany is preoccupied with 1992 right now. With the fixed exchange rate system in Europe, it will be difficult for the Germans to break out of that way of thinking, allowing its own exchange rate to appreciate as it should without bringing other members of the European Community along with it. The rest of Europe is not in a surplus position and thus should not shift in the direction that we are suggesting for Germany.

Korea and Taiwan increasingly are becoming a focus of macroeconomic adjustments as well, including exchange rates. Those countries have highly protected economies relying on export-led growth. As they grow, Korea and Taiwan should play a larger role in bringing about an adjustment in world trade that would provide relief to countries like Thailand that are relying on exports now for sustained growth. The alternative, if we do not all play responsible roles, is that small, middle-income countries like Thailand and several smaller European countries will not find adequate outlets for their products, and there will be more and more competition for shares of a shrinking pie in world trade. In that scenario, the threat of protectionism in many countries will become much stronger. All countries should play a role in the adjustments, and this is a central focus of U.S. trade policy now. Opening markets will play a part of this overall strategy.

THAI DISCUSSANT: On ASEAN economic cooperation, the lack of complementarity among the grouping's members is often cited as a reason for ASEAN's low degree of cooperation in economic affairs. However, are there factors beyond economics that help explain that shortcoming? There are other factors that are blocking cooperation among the ASEAN countries, including the lingering territorial dispute between Malaysia and the Philippines, the fishing zone dispute between Malaysia and Thailand, and the bickering over various issues between Singapore and Thailand, the latest being the expulsion of Thai workers from Singapore after they were tacitly allowed to work there for several years.

If the Cambodian crisis has galvanized ASEAN into action as a political grouping, as many argue, will ASEAN become irrelevant if a settlement in Cambodia is achieved? As that crisis was the “political Cambodia” for ASEAN, will ASEAN need an “economic Cambodia” to achieve cooperation? What would that economic Cambodia be? Narongchai suggested that the economic Cambodia could be the opening of Indochina to trade and finance, an initiative led by Thailand. Opening the economies of Burma and Indochina could, perhaps, enhance economic collaboration throughout Southeast Asia.

Narongchai does not cover the role of Japan in the region. In December 1987, Japan proposed to sponsor a \$2 billion ASEAN-Japan Development Fund (AJDF). As Narongchai does note, some of the most important developments to come in the future are the ASEAN joint investment projects. In the past, such projects have not been successful owing to many restrictions about the use of funds. That is one of the major reasons that Japan provided the funds that will offer the equity as well as finance the loan. This scheme represents a breakthrough for future economic cooperation among the ASEAN member states.

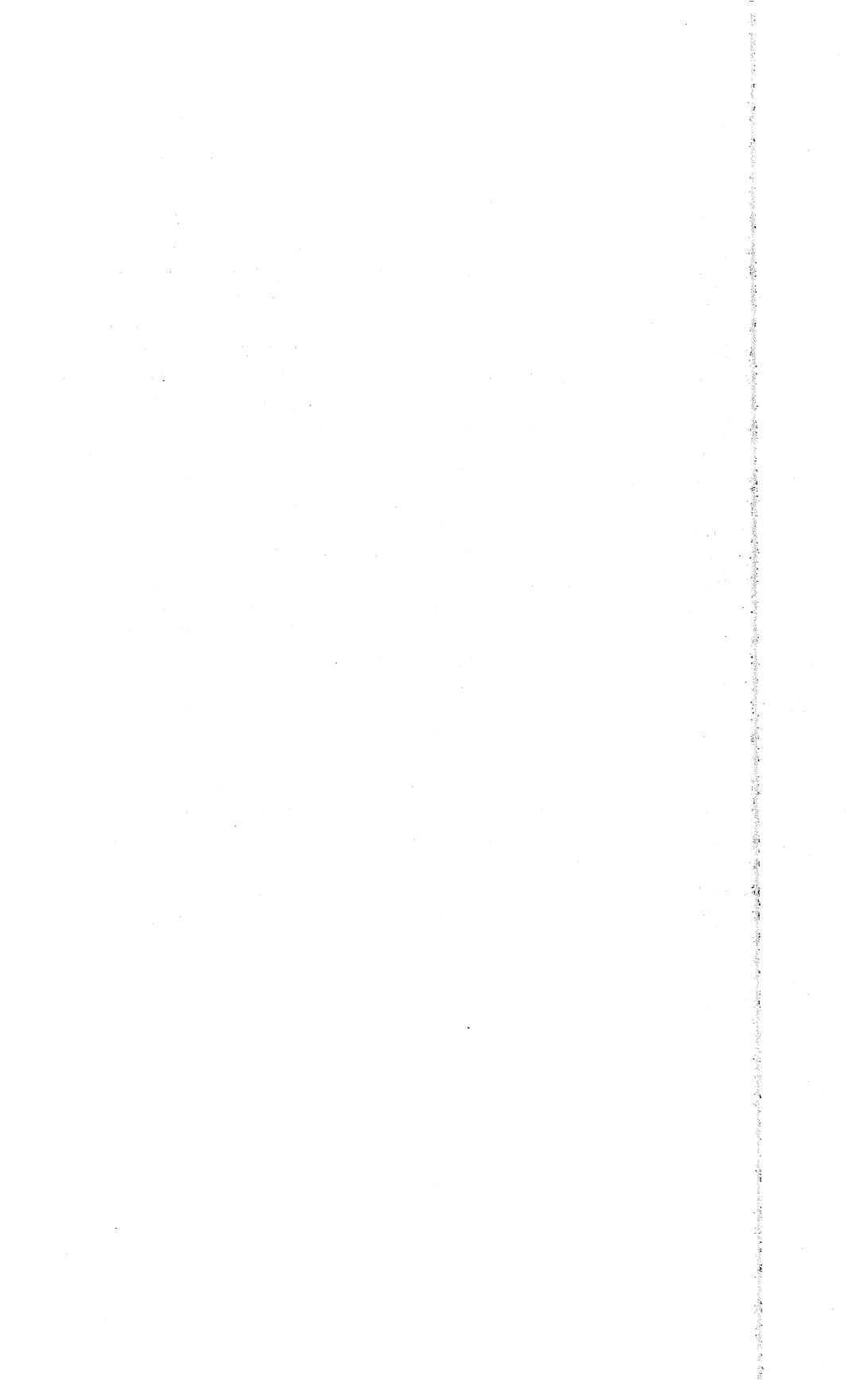
AMERICAN DISCUSSANT: We always tend to put economics solely in economic terms, implying that economic problems can be overcome through the proper mix of monetary, fiscal, and trade policies. My experience living in Asia, however, has led me to believe that attitudes toward work, responsibility, and society are also very important. Certainly, there are many countries in the world that have controlled the policy side effectively but have not been able to allow their economies to take off. In Japan, Korea, and also throughout Southeast Asia, there is a growing attitude that things will improve but only if we make them improve. In those countries, there is an increasing emphasis on education, on responsibility. There is also a willingness to put off consumption for the future. A similar attitude exists among management. Many companies are putting off short-term profits in favor of long-term market shares and are willing to beat their heads on the closed doors of markets abroad until they open. To be sure, there is a contrast along these lines between the countries of Asia and the United States. In America there is more a feeling of entitlement that says that the future will get better, and if it does not, then someone is cheating us. Drobnick's paper did touch on these issues, arguing that we must avoid a “self-crippling” mind set, but perhaps these are more crippling problems than questions of economic statistics.

THAI PARTICIPANT: As the Southeast Asian economies develop, ASEAN is not likely to become any sort of cohesive regional trading bloc or to achieve

the status of anything like the EC. Over the years that ASEAN governments have been talking about the possibility of such a scheme, ASEAN businessmen have lost interest in promoting a systematic regional organization. As our economies accelerate, they will become more integrated and involved with the economies of Japan and the NICs. That is inevitable, and we shall begin to be more outward-looking, even beyond the "four tigers." Some form of cooperation in the Pacific area, with or without the United States, is not too far off, and that idea bodes well for the future. Such cooperation, however, will be at the expense of ASEAN economic cooperation.

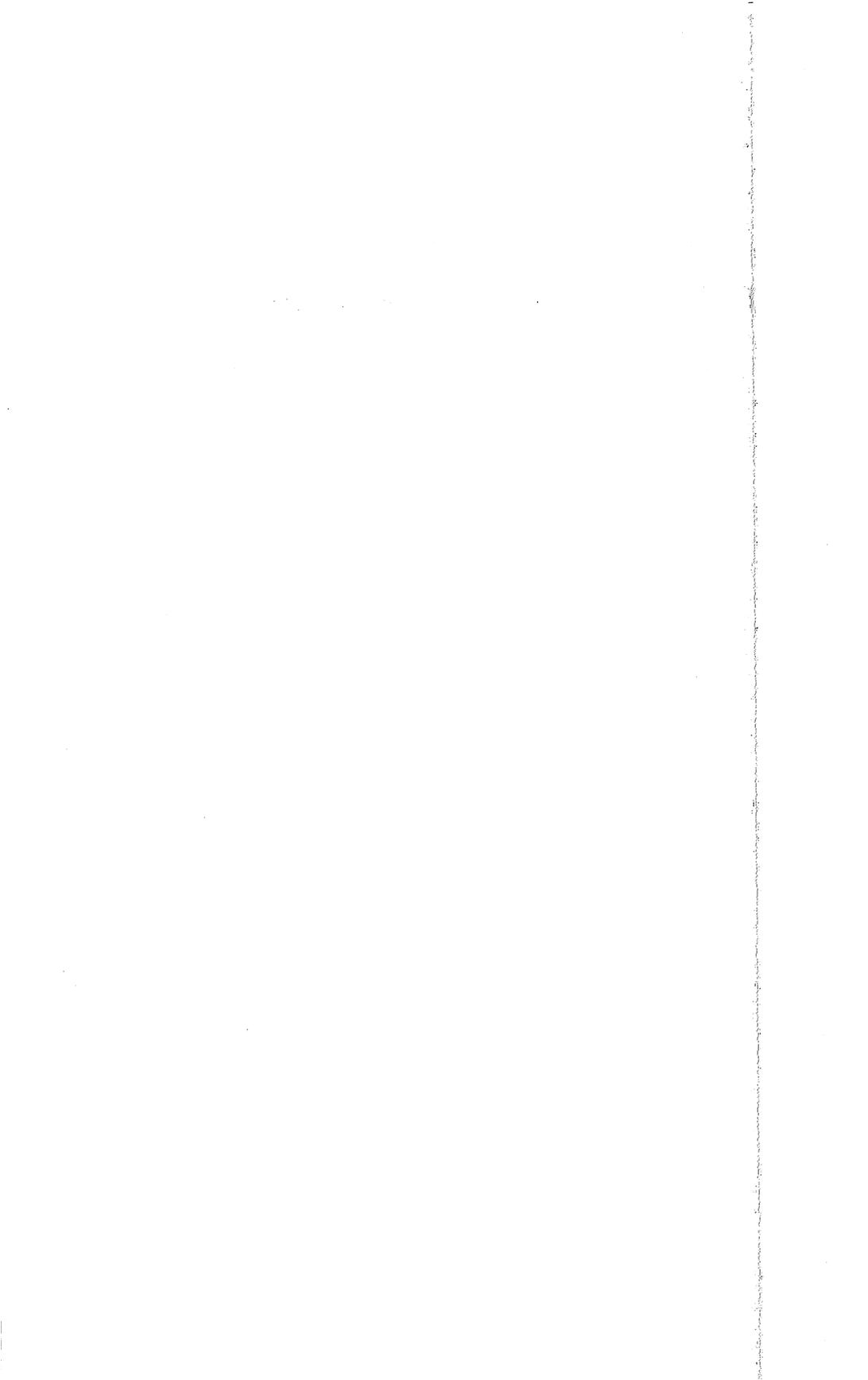
THAI PARTICIPANT: Despite the affirmation from many of our American friends that Thailand has not been singled out in trade matters, many Thais feel that it has. For example, in the 1985 Farm Act, the Rice Title of that act specifically mentioned Thailand as a target of retaliation. Effectively, Thailand had been singled out. In 1985, the Americans claimed the right to single out Thailand, so it is difficult for us to believe today that we are not being singled out in other issues such as intellectual property rights. We hope that as we attempt to manage these problems in the future, management will be conducted in a humane and cultured way.

AMERICAN DISCUSSANT: Thailand has been singled out, at least in the area of agriculture. Nobody can deny that agriculture is the weakest area of international trade, and it is our fondest hope that in the Uruguay Round we can agree on some rules to apply to agriculture. I agree that U.S. policies are bad in many areas, and so are many policies of the EC and Japan. That is very widely recognized, and there is strong pressure in the United States to deal with these problems. On the demise of the GATT, there are currently important negotiations going on, and the major partners, namely the United States and the EC, have found ways to keep these talks going. Agriculture obviously is the central subject of these discussions.



## **Part Four**

### **Trade Aspects of Thai-U.S. Relations**



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## 7. Thai Trade Policy

SURAKIART SATHIRATHAI

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Thailand's trade policy is well known. Export-oriented growth has been and will be an important part of development strategy. It cannot be denied that the export industry has contributed significantly to successful growth in the Thai economy. Besides government policy, other exogenous factors contributed to that growth. Oil prices and the world economic upturn have played a key role in Thailand's export performance in the last five years or so.

The Thai government, realizing the importance of the export industry, has devised various mechanisms to promote exports. Investment incentives for exports, although they do not surpass others provided by its neighbors, are important stimulants for exports. The government has pledged to adjust the role of its internal laws and regulations concerning exports from a control function to a facilitating function. The implementation of that pledge has been widely witnessed by all, although not at a fully satisfactory level. The private sector in Thailand has therefore been a leading force in growth.

This chapter would not reflect the present and future of trade aspects of Thai-U.S. relations if it only focused on its agricultural and industrial trade policies without analyzing the policy clashes of the past five years. From such an analysis, one can project future policies and assess the implications of the clashes for Thai-U.S. trade relations in the future.

### **An Overview of Recent Trade Frictions**

Thai-U.S. relations have long been most cordial, involving a broad range of mutually rewarding interactions. However, the huge U.S. trade deficit and the growth of Thailand's economy have contributed to increasing tension in our economic ties. Through legislation, the U.S. Congress has required the administration to formulate and implement new trade policies allegedly to achieve U.S. economic recovery. Such policies involve trade protectionism and empower the United States to take more aggressive action against other economies that are seen to have a comparative

advantage over U.S. industry, particularly those alleged to have engaged in so-called unfair trade policies and practices.

The attitude of the United States has led to tension and misunderstanding—hence, friction—in Thai-U.S. economic ties. The recent U.S. withdrawal of some generalized system of preferences (GSP) benefits from Thailand is a good example of this regrettable turn of events. We must try to find ways to resolve our problems to the long-term benefit of both parties concerned. It is useful to examine briefly selected cases of trade problems in order to understand the nature and degree of the issues and to have a shared perspective of the problems before we consider the solutions.

#### *The U.S. Food and Security Act of 1985 (Farm Act)*

The effect on Thai rice exports of huge subsidies on U.S. rice exports is well known. Although last year there was no friction because drought accounted for a high world price of rice, the situation in 1986 when the price of Thai rice exports was pushed down by the subsidies under the U.S. Farm Act clearly illustrated the potential harm this act can cause Thailand whenever the world price decreases. The Reagan administration itself did not favor the passage of the Rice Title of the Food and Security Act of 1985 because it required huge subsidies for farm products and rice in particular. Subsidies of approximately US \$1 billion for fewer than 15,000 rice farmer families made it unfair to the American taxpayer apart from the effects on export economies of other countries.

The Rice Title also singles out Thailand as an unfair trade practice country for applying 0.84 percent export subsidies. Furthermore, in contrast to the intellectual property issues, this clear bilateral issue of rice subsidies has been multilateralized, because Thailand has been told to wait for the negotiations on the reduction of agricultural subsidies in the new round of multilateral negotiations on the General Agreement on Tariffs and Trade (GATT). Thailand has participated actively and constructively by joining the Cairns group negotiating agriculture in the GATT. So far, as of 1989, nothing has been done on the Farm Act.

As the end of the period covered by the Food and Security Act of 1985 approaches in 1990, Thailand has sought consultations with the U.S. government to gain assurance that Thailand and its rice export will be deleted from the provisions of the new Farm Act. The present U.S. administration seems willing to attempt to do so, but it is unable to give its assurance that such provisions will not appear in the text, because it will be up to the Congress to decide.

As coffee is close to the hearts of the Brazilians and agriculture to the hearts of some Japanese, rice is indeed very close to the hearts of the Thais.

A majority of Thais (over 30 million out of 55 million) are still farmers, and the rest of the Thais are well aware of the poverty and hardship their fellow citizens have faced even without the actions of any economically powerful country. As we enter the last year of the five-year life of the act, nothing has yet been done to remedy the injuries incurred by Thai farmers or to insure against future effects of such provision.

### *Textiles*

Textile trade has been under the special regime of Multifiber Arrangements (MFA) since the early 1970s. Under the MFAs (now MFA IV), there are many bilateral agreements, including one between Thailand and the United States. News about disputes over the textile trade has appeared periodically. Some of the disputes resulted from Thailand's practices, others from practices of the United States. MFA IV has been more restrictive than earlier arrangements, partly because of heavy U.S. lobbying for coverage of more items such as ramie silk. The latest development has been the negotiations on the new bilateral agreement between Thailand and the United States to replace the agreement that was due to expire in December 1988. The negotiations have proved difficult because Thailand cannot accept the present overall cap, which has been in place for the last five years. This provision compares unfavorably with provisions for other countries and has had an immense adverse effect on Thailand's growth rate. The cap on nonspecific categories is not acceptable to Thai exporters. Consequently, the textile trade since December 1988 has been conducted without a bilateral agreement but referring to the MFA and Thailand export control based on past performance. The textile issue is one of the few issues on which the Thai private and public sectors have taken a joint and firm stand not to accept a demand. The United States has threatened to call on Thailand often to negotiate a limit on each category that is not quota-free. The textile disputes seem assured to be with both countries for several months ahead.

### *Steel Pipes and Tubes*

As far as the United States is concerned, there are two types of steel trade in the world, that of countries that have signed voluntary export restraint agreements (VER) with the United States and that of countries without such agreements. Thailand's export of steel pipes and tubes to the United States has been free of quotas, thus falling under the non-VER-country category. As steel pipe and tube exports from Thailand have increased, Thailand has begun to receive signals from the United States that it should enter into a VER. The fears of some Thai exporters result from the "melt and pour" provision of the new U.S. Omnibus Trade and

Competitiveness Act of 1989. That provision authorizes the United States to restrict steel imports from non-VER countries if the steel was melted and poured in a VER country. This provision aims to prevent circumvention of VERs on steel. Accordingly, since Thailand imports steel that was melted and poured in Japan, Thailand may face unilateral restrictions from the United States on its export of pipes and tubes that are products of such import steel.

Thailand has started negotiations on this matter with the United States with an aim to securing nonapplication of such a melt and pour provision as well as the antidumping (AD) and countervailing duties (CVD) currently imposed on steel products imported from Thailand. The negotiations seem to be stalled because the United States cannot assure the waiver of these duties once a VER on steel products is concluded between Thailand and the United States. Accordingly, the issue of steel products exported to the United States remains another issue on which further negotiation is called for.

#### *Antidumping and Countervailing Duties*

The duty imposed against dumped imports (AD) and the CVD imposed against subsidized imports are considered by the United States as measures aimed at creating a level playing field. This understanding is generally consistent with the underlying intent of AD and CVD provisions under the GATT. An importing country is permitted to impose AD or CVD, as the case may be, to offset dumping or subsidization by an exporting country in order to create an equal competitive environment based on the notion of comparative advantage. However, one cannot deny that AD and CVD cases are new to Thai exporters and the Thai public. They are seen as barriers to trade and part of a protectionist package perceived to be employed by the U.S. government. Indeed, such perceptions, although not technically correct, have a certain truth in that both AD and CVD do create barriers against exports from Thailand. Furthermore, the GATT requires that for a CVD to be imposed, there has to be proof that both the subsidization and injuries to domestic industries of the importing country exist. Because of a grandfather clause in the GATT, the United States can choose to require only proof of subsidization as an adequate basis for CVD.<sup>1</sup> Only for those exporting countries that are signatories to the GATT Subsidies Code of 1979 is the injury test required to be applied.<sup>2</sup> In this light, although it is correct that CVD is intended to create a level playing field, the waiver of the injury test that has led to an overly easy CVD imposition in turn makes

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<sup>1</sup>Section 303 of the Tariff Act of 1930 (as amended).

<sup>2</sup>Section 701 of *ibid.* (as amended).

U.S. CVD measures very protectionist. The same principle applies to the antidumping duty.

In addition, the instigation and imposition of those duties have had psychological effects on the Thai business and political community as the cases made frequent news in the Thai media. The constant calls for AD and CVD by American industries and the Department of Commerce have created an image of trade frictions between the two countries.

From January 1, 1986, to the present, there have been three major cases involving the imposition of AD on Thai products. For welded carbon steel pipes and tubes, the final affirmative determination of the U.S. International Trade Commission (ITC) was given on March 2, 1986, and has levied over 15 percent in AD on the products. Malleable cast-iron pipe fittings also received final ITC affirmative determination on August 19, 1987, and lastly preliminary determination (affirmative) of almost 20 percent AD on antifriction ballbearings was given on May 25, 1988.

Although the duty rates in CVD cases are not as high, the number of cases has raised concern and confusion among Thai exporters and government officials. Generally, the government has taken a more active role in helping Thai industries to defend themselves in CVD cases than in cases involving AD because CVD is imposed against subsidies by the government, whereas AD is imposed against dumping practices undertaken by the industries themselves. To the present, the CVD cases include welded carbon steel pipes and tubes (affirmative final determination and International Trade Administration [ITA] order on August 15, 1987), textiles (affirmative final determination in 1987), steel-wire nails (affirmative final determination and ITA order on October 2, 1987), rice (ITA order on April 10, 1986), and antifriction ballbearings (initiated in April 1988, ITC affirmative preliminary determination on May 25, 1988). The case of textile products differs from the others, because the Thai Textile Association decided to enter into a suspension agreement with the United States under Section 704 of the Tariff Act of 1930 (as amended) to waive all privileges the industries had received from the Thai government. The garment exporters, however, decided against entering into such an agreement and fought the case until the CVD was reduced to less than 2 percent. With regard to rice, the intention of the U.S. Rice Miller Association that filed the case could be read as an attempt to establish the case that Thailand was a rice export subsidizing country so that certain provisions in the U.S. Farm Act could be applied. For example, export subsidies can be added by the United States in certain instances if U.S. exporters can prove that they have to compete with exports from countries that engage in unfair trade practices, i.e., a country that subsidized its exports. In fact, Thai rice exports to the United States have been minimal, and Thailand's export

subsidies are also minimal. The latter is manifested in the 0.84 percent CVD imposed by the U.S. Commerce Department, especially as compared to almost 200 percent rice export subsidies by the United States under the Farm Act.

In the antifriction ballbearing case, the Thai cabinet has decided that the government will impose an export tax in order to offset subsidies by the government. This tax will eliminate any effect such subsidies can cause to U.S. domestic industries. However, the negotiations between Thai and U.S. commerce officials in December 1988 failed to produce any agreement, because the United States did not accept Thailand's proposal to collect an export tax in lieu of U.S. CVD. All the CVD problems have created trade friction both in form and substance. The two sides need to sit down and examine the issues from a broader perspective to find an acceptable long-term solution.

#### *GSP-Related Issues*

It is known that the United States has attached conditions that a GSP recipient country must fulfill before GSP privileges will be extended. Section 502 (a) through (c) of the U.S. Trade and Tariff Act of 1984 attaches many such conditions, three of which are important to Thailand. First, a recipient country must have effective and adequate protection of intellectual property. Second, a recipient country must open up its market to U.S. products, and third, a country must conform to internationally recognized labor practices. In 1987, three petitions were filed against Thailand by the U.S. private sector. The first one was filed by the U.S. Pharmaceutical Manufacturers' Association (PMA), alleging that Thailand lacks protection of pharmaceutical product patents. The second was by the International Intellectual Property Alliance (IIPA), alleging that Thailand lacks adequate and effective protection of U.S. copyrighted work including computer software. The last one was filed by the AFL-CIO, alleging that Thailand fails to conform to internationally recognized labor standards. The last petition was rejected by the U.S. Trade Representative (USTR). Of the issues negotiated with the United States under Section 502, which preceded all three petitions, the copyright issue seemed to be the most politically controversial. U.S. pressure on Thailand to amend its copyright law to protect U.S. copyrights in conformity with Thailand's alleged obligation under a provision of the Treaty of Amity and Economic Relations of 1968 led to the dissolution of the House of Representatives on April 29, 1988. The copyright negotiations after April 1988 have focused on different aspects, because the United States has decided to join the membership of the Berne Convention on the Protection of Literary and Artistic Works, the multilateral treaty of which Thailand has been a member since 1931. U.S.

works will automatically be given the same protection that Thailand has extended to almost eighty countries that have joined the Berne Convention.

Before discussing the latest Thai-U.S. negotiations on GSP (1988), it is important to have a brief overview of the current status of Thai intellectual property protection laws. Thailand became a member of the Berne Convention under the Berlin Act of 1931. The Copyright Act of 1978 replaced the old Copyright Act of 1931 (Act on the Protection of Literary and Artistic Works) and extends protection to almost all kinds of copyrighted works. However, an ambiguity remains on the scope of protection of computer software, which has been defined by the Thai Juridical Council since 1984 to be covered under the Copyright Act as a work in the scientific domain, but that decision has yet to be finalized by the Thai courts. The Thai Patent Act of 1979 is modeled after the World Intellectual Property Organization (WIPO) model law and is generally accepted by both Thai and foreign investors as up to standard. The problem with the Thai act is that it has six exceptions in Article 9, three of which are of great concern to the United States. The three exceptions refer to the nonpatentability of pharmaceutical products, agricultural machinery, and seeds. The drafters picked these exceptions from WIPO's permitted exclusion lists probably because they felt that these issues might have economic implications for the poor as well as economic and technological developments of the country. As for trademarks, Thailand has a Trademarks Act of 1931. A new bill has recently been drafted to accommodate U.S. concerns such as the increase in penalty for infringers and an extended scope of protection to cover service marks and certification marks.

The latest GSP negotiations with the United States in November and December 1988 were again very controversial. The Thai government has made a number of concessions, yet there are still three major stumbling blocks. The United States decided on January 19, 1989, one day before the inauguration of the new president, to cut four categories of GSP benefits that Thailand has enjoyed. What follows is a summary of the issues in question, the Thai concessions, and the results of the negotiations.

First, regarding the issue of the protection of U.S. copyrighted works in Thailand, the Thai government has asked the Thai Juridical Council to interpret the extent of protection given U.S. copyrighted works under present Thai law. Although the United States is a member of the Paris Act of the Berne Convention, which has much more limited coverage than the Thai law, the result of the Juridical Council's deliberations is that full protection is accorded U.S.-copyrighted works, and this protection is to be applied retroactively to those works that have not yet fallen into the public domain. This latter interpretation runs counter to the opinions of many

leading jurists in the country, who contend that the retroactivity of the protection (not the enforcement) will be applied only when the United States enters into a special agreement with Thailand, in accordance with Thailand's reservations when it entered the Berlin Act of the Berne Convention in 1931. Furthermore, the Thai government has stated that should there be a final adjudication contrary to paragraph 2 by any Thai court of law, the government will take administrative measures to ensure that the U.S.-copyrighted works will enjoy full protection under the Thai Copyright Act.

With regard to the issue of patents, the Thai government has agreed to submit a revised Patents Act to Parliament within two years (Thailand's former position was three years) after the conclusion of the GATT multilateral trade negotiations. The substance of the revisions will be in line with the norms and standards agreed on in those negotiations. In addition, regarding the protection of pharmaceutical products during the time before the Patent Act is amended, the Thai government has expressed its willingness to accord interim measures requiring drug registration applicants to submit to the Thai FDA (Food and Drug Administration) an assessment of pharmacokinetic comparisons between local and foreign recipients and results of studies on dosage regimen establishment and bioequivalence. These additional tests will require up to one and a half years before Thai manufacturers can have their drugs registered. Although the purpose of such requirements is to improve safety and efficacy of drug usage, the byproduct will render U.S. manufacturers a monopoly right to produce and market the products until tests have been completed.

As requested by the U.S. government, the Thai cabinet recently passed a trademark bill that provides protection for service marks and certification marks and increases penalties for infringement. The bill is expected to be submitted to Parliament in the next ordinary session. This bill will greatly benefit U.S. industries that have a comparative advantage in worldwide services.

The Thai government has also supported the United States in the GATT negotiations over intellectual property rights. This role of Thailand is crucial in persuading other developing countries, especially the ASEAN countries, to negotiate the issue in the GATT. The Thai government has already implemented its pledge of support in the midterm review (MTR) GATT negotiations in Montreal, Canada, in the beginning of December 1988.

With regard to market access, the Thai government has already agreed to deeper cuts in tariffs on wheat, apples, and isolated soy protein imported from the United States and has agreed not to raise these tariffs prior to the conclusion of the Uruguay Round. It has also agreed to hold further dialogue on bilateral and multilateral issues of mutual concern.

Despite these concessions, there were three stumbling blocks in the GSP negotiations in November and December 1988. The first is computer software. The Thai government has agreed that computer software should be protected and given equal treatment to other intellectual property under the Thai law. However, the manner and form of protection must be decided upon by Thailand. The Thai government could not accept the U.S. request that, pending the determination of Thai courts, the Thai government would take no action providing for *sui generis* (noncopyright) protection for computer software. This was because the Thai cabinet could not give a promise to a foreign country that Thai legislators would not submit a noncopyright bill. Such a promise would constitute an intervention into the legislative branch, which is contrary to the democratic system.

The Thai prime minister offered to make further concessions that were not accepted by his U.S. counterpart. The concessions stated that "pending the determination of Thai courts, the protection of nationals and companies of both sides regarding computer software shall be equally treated under Thai law" and "pending the determination of any Thai court, the United States and the Thai cabinet will take no legal action to prejudice the interests of both sides on this matter." Thus, the Thai government has offered further concessions even on an issue that had become a stumbling block.

The second disagreement is the issue of patent law amendments. The Thai government has offered the submission of the amended Patent Act to Parliament within two years from the end of the GATT negotiations. The United States requested that Thailand separate its amendments from the GATT and that they be made by the end of 1990. The rationale of the Thai government is that since Thailand has made a commitment to the international community by negotiating the IP issues in the GATT, it should wait for the agreement of the international community on how the substance of patent protection should be internationally accepted. Therefore, to separate the issue from the GATT would create difficulties in dealing with the concerned parties and would be inconsistent with the international principles Thailand has upheld.

The third stumbling block is the above-mentioned interim measures offered by Thailand for pharmaceutical products. However, the United States has asked for a five-year period of exclusive protection as an interim measure. This measure cannot be accepted or even discussed unless the Thai Drug Act is amended. The Thai FDA has no legal power under the present law to prohibit Thai manufacturers from producing and marketing the products in question for five years.

Because of these three stumbling blocks, the USTR recommended that the U.S. president withdraw GSP benefits on several items, such as artificial

flowers, jewelry, and mosaic tiles for walls and floors. Although the economic effects of these cuts can be absorbed by Thai exporters, those concerned with the issue felt that these disagreements should be taken up in an ongoing dialogue, because there are many issues on which agreement could be reached. Moreover, even on the issues on which there was disagreement, the Thai government has given in on several points. Thus, it is not the case that the government has taken rigid positions and was not flexible in the negotiations.

Since the first three months of 1989, much has been speculated about the use of Section 301 as amended by the Omnibus Trade and Competitiveness Act of 1988. Section 301 empowers the U.S. government to adopt retaliatory trade measures against any U.S. trading partners that practice unjustifiable or unreasonable trade policies. Unjustifiable policies and practices are understood in the law to refer to a violation of trade agreements with the United States or a *total denial* of protection of U.S. intellectual property rights. Unreasonable policies and practices are understood to refer to various categories of practices, ranging from the lack of adequate and effective protection of U.S. intellectual property rights to market access of U.S. products and export-targeting practices of an exporting country. The difference between the two grounds for invoking the section is that the latter allows the president to exercise, if he deems appropriate, his discretionary power to follow or not to follow the recommendation of the USTR in light of measures to be adopted under the application of Section 301.

The most likely cause for a possible Section 301 case, initiated either by the USTR or, more likely, U.S. industry, seems to be the stumbling block on interim measures for pharmaceutical patents. The Thai press has also reported from time to time on a possible petition to apply Section 301 action on the grounds of Thailand's denial of access for U.S. cigarettes to enter the Thai market. With regard to computer software, the United States seems likely to be satisfied if, pending the court's ruling on the issue of copyright protection of computer software, there is no noncopyright bill (*sui generis*) for the protection of computer software submitted and passed by the Thai Parliament.

### **The Future of Thailand's Trade Policies and Their Implications for Thai-U.S. Trade Relations**

The above-mentioned trade friction seems to reflect different approaches and policies to trade. Although Thailand has accepted international standards on trade policies, it wants more time to prepare itself to live up to such standards in certain subsectors of trade. For example,

Thailand has accepted the international standard for copyright protection since 1931, has had a WIPO-modeled patent law since 1979, has agreed to participate in setting up a framework of rules on intellectual property in the GATT, has agreed to the reduction and elimination of agricultural subsidies, and so forth. Yet, it has asked for some exceptions before it assumes full U.S. standards for trade practices. For example, Thailand still has exceptions under its law that it need not protect patents of seeds, agricultural machinery, and pharmaceutical products (the law also protects pharmaceutical processes). Furthermore, Thailand still feels that the trend toward imposing countervailing duties against upstream subsidies provided by the government is contrary to its development needs. Moderate subsidies for manufactured exports are still seen to be necessary to help export products to be competitive in the international market.

The United States, however, feels strongly that international standards or even U.S. standards for trade policies and practices should be observed and adopted. Such policies and practices are not only important to the United States, they are also beneficial to the economy of its trading partners. Thus, the argument goes, reduction of subsidies will avoid trade wars and eliminate distortions and therefore be beneficial to everyone. Full protection of all kinds of intellectual property will make U.S. industry more competitive, the economies of its trading partners more organized, induce investment, and so forth.

Such differences in approaches and policies, probably predominated by different perceptions more than anything else, make it difficult for Thailand and the United States to have smooth trade relations. We may speak of a lack of understanding or better yet the lack of sufficient communication and exchanges between people of various professions to assure that the picture of needs and responses will not be lopsided. Such different perceptions, approaches, and policies are difficult to handle, particularly when the United States operates within such a tight timeframe. It is crucial that, with the above constraints, sufficient communication and consultation take place to provide as many alternatives as possible on important issues. In the case of pharmaceutical product patents, the U.S. government has been pressured by industry to force Thailand to protect such patents as soon as possible, while the Thai government has been pressured by its own powerful interest groups not to protect the same patents for fear of imposing hardships on the rural and urban poor in Thailand. Unless and until enough communication takes place to create many alternatives, not only whether or not to amend the law by a certain date, the tension and misunderstanding will persist and may snowball into an image problem in bilateral relations.

Before recommending an approach both sides may consider adopting,

it is important to look at the future of Thailand's trade policies and its implications for Thai-U.S. trade relations.

### *Subsidies*

The government will probably continue to provide reasonable subsidies to exports of industrial goods to make the products competitive in all foreign markets. Therefore, CVD cases from the United States can be expected to continue to be a thorny issue in trade relations, except where Thailand's export products are not produced locally in the United States. Despite the granting of subsidies, the Thai government will make an effort to adjust its investment incentives to avoid unnecessary CVD. For example, measures may be sought to conform to the U.S. criteria of "general availability" for noncountervailable subsidies.

As for agricultural subsidies, the Thai government has never provided extensive export subsidies of agricultural products. Except for sugar, whose export, through internal regulations, is indirectly subsidized by Thai consumers, other major export items receive minimal subsidies. Thus, the U.S. CVD imposed on Thai rice exported to the United States is only about 0.84 percent. Thus, if the United States is not too liberal in investigating upstream subsidies provided by the Thai government for rural development purposes, bilateral relations in areas in which agricultural subsidies are concerned should be normal. Furthermore, Thai-U.S. cooperation in the agricultural subsidies negotiations in the GATT multilateral negotiations will continue to be close and constructive.

An issue that will raise concern in Thailand is the substance of the new version of the Food and Security Act of 1985, which is due to expire in 1990. Thailand will continue to request the deletion of Thailand as a country with unreasonable trade policies because its rice export subsidies are as low as 0.84 percent. Assurances from the current U.S. administration that the new act will not have the effect in depressing Thai rice export prices felt in 1986 are to be sought by the Thai government.

### *Textile Negotiations*

It appears that certain bilateral agreements on textiles will be reached if the United States takes a slightly more flexible stand. Both countries will continue to adhere to their obligations under the MFA, yet bilateral negotiations and disputes are expected to occur from time to time, especially when the United States calls on Thailand to negotiate quotas on both specific and nonspecific items. Cases may be brought up before the Textile Surveillance Board (TSB) if bilateral negotiations fail to achieve satisfactory results. However, in such cases, as in the recent case on luggage, the dispute will probably not be blown out of proportion so that it could affect the overall relationship.

### *Intellectual Property Protection*

The intellectual property protection issue will continue to be a thorny one between the two countries. The Thai government's policy will remain the same: to accord protection of intellectual property in Thailand. The trademark bill, which includes service and certification marks, will be submitted to Parliament. Interim measures on pharmaceutical product protection will be provided. Amendments to the Patent Act will be submitted to Parliament. Their substance will be in accordance with what is agreed on in the multilateral trade negotiations. As for computer software, the government will protect the rights involved in the creation of software according to whatever system is determined by the Thai court and negotiated with interested parties to achieve mutually satisfactory results.

Thailand will continue to be active in ongoing dialogue and multilateral negotiations on a broad range of issues concerning intellectual property. The disputes that may affect bilateral relations, if there are any, will be a result of U.S. pressure on time of implementation. On some issues the government may be able to take immediate action, but others, because of either economic or political considerations, may need more time to implement. Furthermore, decisions should be the outcome of close consultation between two sides. Such decisions are important, because they are the key factor in making the IP dispute self-contained and preventing it from erupting into unnecessary conflicts of broader nature. At the same time such decisions can make both sides feel they have come to an acceptable arrangement on the problem.

### *The Indochinese Market*

Thailand's economic policies are related to recent adjustments in its foreign policies. The prime minister has announced his policy of changing the battlefield in Indochina into a marketplace. Although direct Thai government assistance to Vietnam will not be given until Vietnam withdraws its troops from Cambodia, the government will facilitate the role of the private sector in establishing trade and investment connections with Vietnam. As the markets in the Indochinese countries are opening up, there are opportunities not only for Thailand but for other countries as well. The Thai government policy may produce more joint ventures between Thai and foreign businessmen who want to trade with and invest in Indochinese countries. Both Thailand and the United States will have to prepare themselves for closer economic cooperation in order to contribute to the wellbeing of all peoples in the region when a Cambodian peace settlement is reached. This new facet of Thai-U.S. relations should be explored more closely since it will bring new dimension to the relationship.

### *Asia-Pacific Cooperation*

The idea of Asia-Pacific economic cooperation has recently been emerging, with different variations offered in the ideas of Prime Minister Bob Hawke of Australia, the Japanese Ministry of International Trade and Industry (MITI), and U.S. Senator Bradley. Since the United States and Thailand are Pacific Rim countries, it is a challenge to cooperate in order to identify prospects for as well as the substance and process of Asia-Pacific cooperation. The Thai government's policy seems to be to foster informal cooperation among countries in the Asia-Pacific region with ASEAN as a key factor. This policy, if it is implemented in the near future, will have important implications for Thai-U.S. bilateral relations since, again, it will add a new dimension to trade and investment relations between the two countries.

### **Some Final Thoughts on Future Thai-U.S. Trade Relations**

After analyzing trade frictions and the policies of the Thai government, one can see both obstacles to and challenges for better trade relations between Thailand and the United States. Some of Thailand's policies may already be seen as responding to the challenge for a new look in relations. This section will propose some viewpoints and approaches to trade relations that may turn obstacles to challenges and challenges to reality.

There are several alternatives to think about with regard to a new approach to trade relations between Thailand and the United States. The first calls for a comprehensive package of trade negotiations. A close observer of past trade negotiations would agree that issues have been fragmented and negotiations have not covered all issues of mutual concern. For example, the GSP negotiations have focused only on GSP vis-à-vis IP and market access issues not all of which concern Thailand and the United States. The question of rice subsidies under the Farm Act has not been a major negotiating issue, and nothing has been done about it. The issues of AD, CVD, textiles, and VER on steel pipes remain covered by separate negotiations. It may be more fair and beneficial if all issues of major concern to both sides be included in the negotiations. Furthermore, cross-sectoral exchanges may lead to results that are acceptable to everyone. Separate negotiations make each issue seem too tough and make it hard for a party to yield to demands and pressures from the other side. The issue being negotiated can then easily snowball into a domestic political issue that can be unnecessarily sensitive and consequently hard to handle.

To put this perspective into action, each government needs the political will as well as policy directives to organize a delegation that would

comprise officials from all agencies concerned, with a core agency to be in charge of trade negotiations. Issues on which an agreement can be reached would then be settled; more difficult ones would remain under ongoing dialogue. With this approach, pressure from the United States would probably be reduced, because all issues would be in the process of being discussed and negotiated. For Thailand, trade discussions would not become too politicized, because benefits from one or another sector being negotiated will be seen. When U.S. threats decrease, resistance and dissatisfaction from Thai interest groups and the Thai public will become minimal. Such resistance and dissatisfaction in the face of the threat of U.S. retaliation can become irrational and can impair good and stable trade relations.

A parallel approach that may be taken is negotiation on substantive trade and investment. Under this approach, the United States would identify areas of trade and investment in which American investors have real interests. The Thai government would facilitate access to such areas of trade and investment interests. This approach could serve the interest of both sides, because there are areas of the Thai economy in which American investment and technologies may be needed. With the opening up of Indochinese markets, joint ventures between Thai and U.S. partners could play an important role in fostering even closer relations between Thailand and the United States. The negotiations would be economically constructive, because the private sectors of both countries could work together following a specific policy framework set up by both governments. Areas of the petrochemical industry, telecommunications, air and space management, and high technology investment may be ones in which discussion could take root.

In addition to ASEAN-U.S. initiatives, the concerned authorities on both sides may initiate informal consultations to cooperate in crystallizing the idea and specify the process and substance of a program for Asia-Pacific economic cooperation. Such consultations would provide a third approach to Thai-U.S. trade relations in the future.

The three approaches mentioned above would provide a vehicle for negotiations on all trade issues mentioned in this chapter to take place. At the same time, they would open up new horizons for trade relations between the two countries that would no longer be confined to legalistic issues or politically controversial issues underlined by misunderstanding and mistrust on both sides. These approaches need new perspectives and thinking as well as cooperation from all people concerned from both the public and private sectors of both countries.

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## 8. U.S.-Thai Trade Relations: A View from the American Chamber of Commerce in Thailand

DAVID LYMAN

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Generally speaking, the American Chamber of Commerce in Thailand (AmCham Thailand) is very bullish on Thailand, and we wish American business would take a much greater interest in engaging in trade with and investment in Thailand. Some two thousand companies in the United States account for 80 to 85 percent of America's international trade, of the hundreds of thousands, if not millions, of companies in business in the United States. Most Americans are too parochial, looking exclusively to their domestic market and not looking overseas for additional markets.

In attempting to attain more trade with Thailand and investment in Thailand from the United States, AmCham Thailand in 1986 (when I was president of the Chamber) started what has become known as the "Mini-Ambassador Program." This program was started with the cooperation of the Thai Board of Investment. Americans working in Thailand, when going to their homes in the United States, going to their head offices, or traveling within the United States, volunteer to make presentations to groups interested in doing business with Thailand. These groups include chambers of commerce, district export councils involved with international trade, world trade centers, and law offices whose clients are engaged in international business. The program has proved extremely successful in bringing the Thailand message to the American businessman in the American heartland. It has been so successful that virtually all of the countries of the European Economic Community (EEC) are now adopting similar programs based on our model.

AmCham Thailand not only espouses the American position and the protection of American business interests in Thailand, but we also have "gone to bat" for Thailand. We have spoken with innumerable congressional delegations and the administration on the textile industry and on the

textile issue when it first came up. We petitioned the United States government and the Congress.

On the issue of rice, the American Chamber of Commerce prepared the definitive paper on the impact on U.S.-Thai relations of the rice provisions of the 1985 Food Security Act. The paper was used extensively in the United States. At the time, I testified on and presented that paper before the Foreign Policy Subcommittee of the Agriculture Committee of the United States Senate. I had two visits with the president of the United States; the only subject discussed was rice. I had two rather long visits with then secretary of agriculture Richard Lyng virtually one-on-one; the subject was rice. I must have had ten visits with Secretary of State Shultz, every time in a meeting of some kind; generally the subject that I spoke about was rice. The same subject was discussed with Secretary of Commerce Mac Baldrige, before he died.

Members of the Chamber of Commerce have seen hundreds of members of the United States Congress and the United States Senate on this issue. Each year in June, members of the various American chambers of commerce throughout Asia meet in Washington to visit members of Congress on the Hill as well as the executive branch of the government. We talk with staffers from the various committees and individual legislative and administrative assistants to the congresspersons. Those of us from Thailand (we have sometimes had as many as eight) have taken our messages on rice, textiles, and other matters to each of these people.

The American Chamber of Commerce in Thailand has twice defended Thailand against the Section 301 petitions of the AFL-CIO. We have gone before the United States Trade Representative and testified, and we have written and sent in petitions and supporting papers. AmCham Thailand fought against the Gephardt amendment to the omnibus trade bill, as did virtually every other American chamber throughout Asia. We do our best to be balanced and to try to look after the interests of Thailand when we feel the United States has erred.

How has trade between Thailand and United States been? It started about 150 years ago. Only after World War II did Thai-US trade really begin to develop. Thai exports to the United States increased 66 percent from 1983 to 1986. From 1986 to 1987, they increased 26 percent. From 1987 to 1988, Thai exports to the United States increased 41 percent to US \$3.5 billion! That's not a bad export performance to a country that is allegedly becoming more protectionist. U.S. exports to Thailand have also increased. They have gone from US \$740 million in 1985, increasing 2.7 times, to over US \$2 billion in 1988. That performance is also not bad for exports to a country that is being accused by the United States of engaging in unfair trade practices.

From the business point of view, Thai-American business, Thai-American trade is fantastic. We have a wonderful and fruitful blossoming relationship, which (and I don't mean to be unfair), businessmen feel, if left to businessmen would continue to grow and prosper. That is, of course, an overgeneralization.

The Informal Business Survey shows that the attitude of foreign business executives in Thailand toward doing business in Thailand is exceptionally good. In October 1983, it stated that about 70 percent of foreign chambers of commerce were enthusiastic. The figure dropped in October 1985 to just a little over 20 percent. By March of 1988, it bounced up to about 95 percent. In October 1988 it slipped a little bit to about 90 percent. A survey is being run now for spring 1989; my guess is that the number will remain in about the same range.

We now face an eclipse of this relationship, an undermining of this relationship, by what is or should be solvable economic issues that are highly charged emotionally. This situation has presented both countries with a dilemma to be solved. Each side feels that its position is correct, and perhaps it is in its own way.

I really don't think that intellectual property rights (IPR) is the real issue here. Let me try to put the patent issue (and I'll only touch on the patent issue) in some kind of perspective. I will confine myself to the protection of intellectual property rights for pharmaceuticals, because that is the issue that seems to be leading the pack in terms of emotional response.

The source of my information is a paper prepared in June 1987 endorsed by eight foreign chambers of commerce: the Australian, Franco-Thai, German-Thai, Indian-Thai, Japanese, Thai-Italian, AmCham Thailand, and the British Chamber of Commerce. The information in the paper came from published sources in Thailand, the Ministry of Public Health, the Thai Pharmaceutical Products Association, and the *Thai Pharmaceutical Index* prepared by International Medical Services, a worldwide organization watching and reporting on the marketing of pharmaceuticals around the world. I believe that the information is correct.

The total number of drugs (pharmaceuticals) registered in Thailand that are unique compounds was 5,498 in 1988. These compounds are put together in about 28,000 different presentations, each presentation requiring a separate registration. (The same medication in pill, capsule, and injectable form is three presentations of the same product.) How many of those products are still on patent in their home countries? There are only 93 still on patent in their home countries, a very small percentage. Thus, 98 percent of the registered drugs are off patent, and no intellectual property

rights can be accorded to any of those products. How many of those 93 that are still on patent are being copied in Thailand? The answer is 23.

The total sales of all drugs in Thailand in 1988 was 9,750 million baht (at the exchange rate of the time, about US \$390 million). Of 93 drugs that are patented in their home countries, Thai sales were 718 million baht, or US \$31 million, 8 percent of the total pharmaceutical market.

The sales of those 23 that are copied came to 390 million baht, equivalent to US \$15.5 million or 4 percent of the total pharmaceutical market. That is what the fight is all about!

Is the United States the only country that has patented drugs in that group being copied? The answer is no. Nine countries have drugs registered and, of the nine, eight countries have drugs that are being copied. The United States has 7 out of 23 drugs being copied, the United Kingdom 5 out of 11, the Swiss 1 out of 13, the Swedes 1 out of 5, the Japanese 2 out of 5, and nobody is copying any drug patent in Holland. The Germans have 4 out of 10 being copied, the French 2 out of 4, and the Belgians 6 out of 11. Thus, I really don't think that IPR is the real issue.

From a businessman's point of view—and from what we think is a logical point of view—we are talking about something minuscule, insignificant in dollar terms. What we are really talking about is something much more fundamental, and Surakiart began to touch on it. The simplified graph below illustrates the deadlock on fundamental bilateral issues.

	United States	Thailand
IPR	now	wait for GATT
Rice	wait for GATT	now

To rice you can add textiles, but rice is the fundamental issue, because it is what broke the myth, the illusion, the reality that Thailand has a special relationship with the United States. Adopting the rice provisions of the 1985 Farm Act was the single greatest mistake the United States had made in Thai-American relations since they started, and anyone associated with the decision recognizes that fact. The problem is how to cure it.

In its simplest terms, the U.S. position on IPR is that they must have a solution on intellectual property rights now. On rice, the United States has said let's wait for the GATT so we can handle subsidies all at once. The Thai position is just the opposite. On intellectual property rights, it is let's wait for the GATT so we can have it on a worldwide basis. But on rice, it's let's handle that one now.

The real issue, as we in the business community see it, is that the United States and Thailand are unable to get by that impasse in their negotiations.

Thailand believes that when you reach that kind of situation you try to make a deal. You give here, you push there, you get this, you give up that. The United States is unable to do that. It cannot come up with a package deal. I do not fully understand the mechanics of why they cannot. The feeling within the administration and within Congress is that each issue must be handled and won or lost on its own substantive merits. You cannot link one issue to another to make a deal.

These are impasses that neither Thailand nor the United States can seem to break away from or break through. Somewhere there has to be some middle ground. I don't have a solution on how to do it, but on behalf of the business community I am trying to help identify the real problem. As we see it, once we can find a way to solve the problem of how to talk to each other and make a deal, everything else will fall in place.

Thailand does not want to be painted as a pirate. The United States does not want to be painted as dictatorial. But emotions are building up because we cannot find a way to identify what the problems are, and we haven't been able to find a way to solve them.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: In the past two years, Thailand has doubled its exports to the United States, its number one market. American exports to Thailand have doubled as well in the past two years. These trends illustrate that our two countries enjoy a very strong trade relationship. Moreover, Thailand's exports to the United States grew five times faster than the rest of the world's exports to the United States. Thailand's record of trade with the United States suggests that the United States is not nearly as protectionist as is alleged. To be sure, we have many barriers to trade that hurt the economy as a whole while helping special interests. However, our market is the most open market in the world with the exception of Hong Kong and Singapore. Because we want to open it even further, the United States has been the strongest proponent in the world of multilateral trade negotiations and multilateral liberalization of trade. We want agricultural negotiations to start reducing subsidies starting in 1989, but we have not been able to get other major subsidizing countries to do that. Thailand has been helpful in this process, as one of the principal members of the Cairns group. It is important to distinguish between protectionist rhetoric in the United States, of which there is much, and actual protectionist actions.

There have been many reference to U.S. trade laws. The principal aim of the omnibus trade bill is to open foreign markets. The most important part of the trade act is not Section 301. It is the section that gives the executive branch the negotiating authority to go to the Uruguay Round to negotiate significant cuts in tariffs, the elimination of nontariff barriers and subsidies, and agreements to open up services and other areas. We plan to use that authority as vigorously as we can. On the IPR issue, why is Thailand going in the opposite direction of nearly every other country in Asia? Copyright protection on software has been made explicit in revised copyright laws in Korea, Taiwan, Malaysia, Singapore, and Indonesia. Product patent protection for pharmaceuticals has been provided in revised patent laws in all of those countries as well as the Philippines. This clear pattern should give Thailand the necessary international coverage to see that international

standards have been set at the level of protection that the United States is asking Thailand to provide.

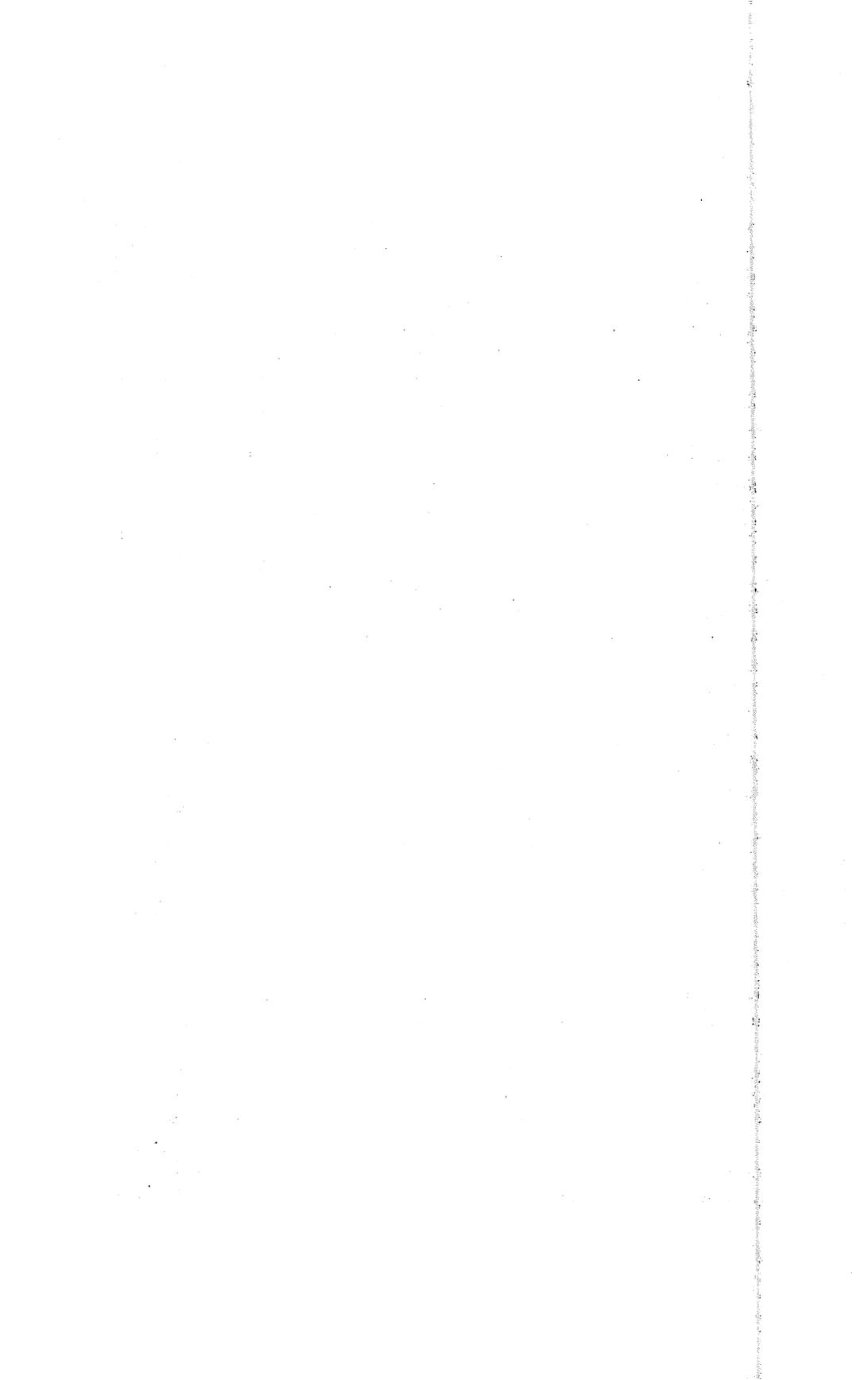
Regarding a "package" deal, it is extremely difficult to have package negotiations in a bilateral context, because they involve cross-issue trade-offs. The United States must be able to sell an agreement to domestic interests, and trade-offs among unrelated issues are not conducive to the appeal of an agreement. There is a framework, however, for a package approach, and that framework exists in the Uruguay Round. It has many advantages. First, there is a comprehensive agenda already established in the Uruguay Round. Thailand can and has brought rice to that agenda, the United States has brought intellectual property, and other countries have brought other issues. In that framework, both the United States and Thailand agree on a major issue, such as strengthening the GATT and negotiations on nontariff barriers. Also, Thailand can build coalitions, as they have on tropical products and agriculture as a whole. Then, it is not just Thailand negotiating with the United States or the EC or Japan, but it is a group of likeminded countries. Coalitions make trade-offs easier, because if Thailand cannot make a concession to the United States on a particular issue, the United States may be able to obtain that concession from another party. At least, then, the United States can go back to the constituent group and claim the success of the negotiations. Perhaps when the United States and Thailand proceed multilaterally in the present multilateral trade negotiations, they will achieve agreement on an issue that may not be feasible bilaterally.

**THAI PARTICIPANT:** For the record, I would like to note how the Generalized System of Preferences (GSP) began, so we can put it in the proper context in our discussion. The GSP was not created by the industrialized countries but was the idea of a noted economist from the developing world, Raul Prebisch. Rightly so, however, countries like the United States have the prerogative to determine which countries it will grant preferential access to its markets. For example, even one of our ASEAN partners, Indonesia, was not a beneficiary until recently. Now, the GSP has become a powerful instrument to force developing countries to conform with the wishes of American interest groups. That is not the spirit in which the GSP was conceived. It is a useful and effective instrument used unilaterally, until it is used to hold developing countries hostage. Is there not a better way for the United States to convince its trading partners to strike agreements on trade issues? It is not worth destroying goodwill and friendship with your trade partners. If the Uruguay Round of multilateral trade negotiations is the answer, then perhaps actions that affect our bilateral trade relations should be postponed until the current round of trade negotiations is concluded.

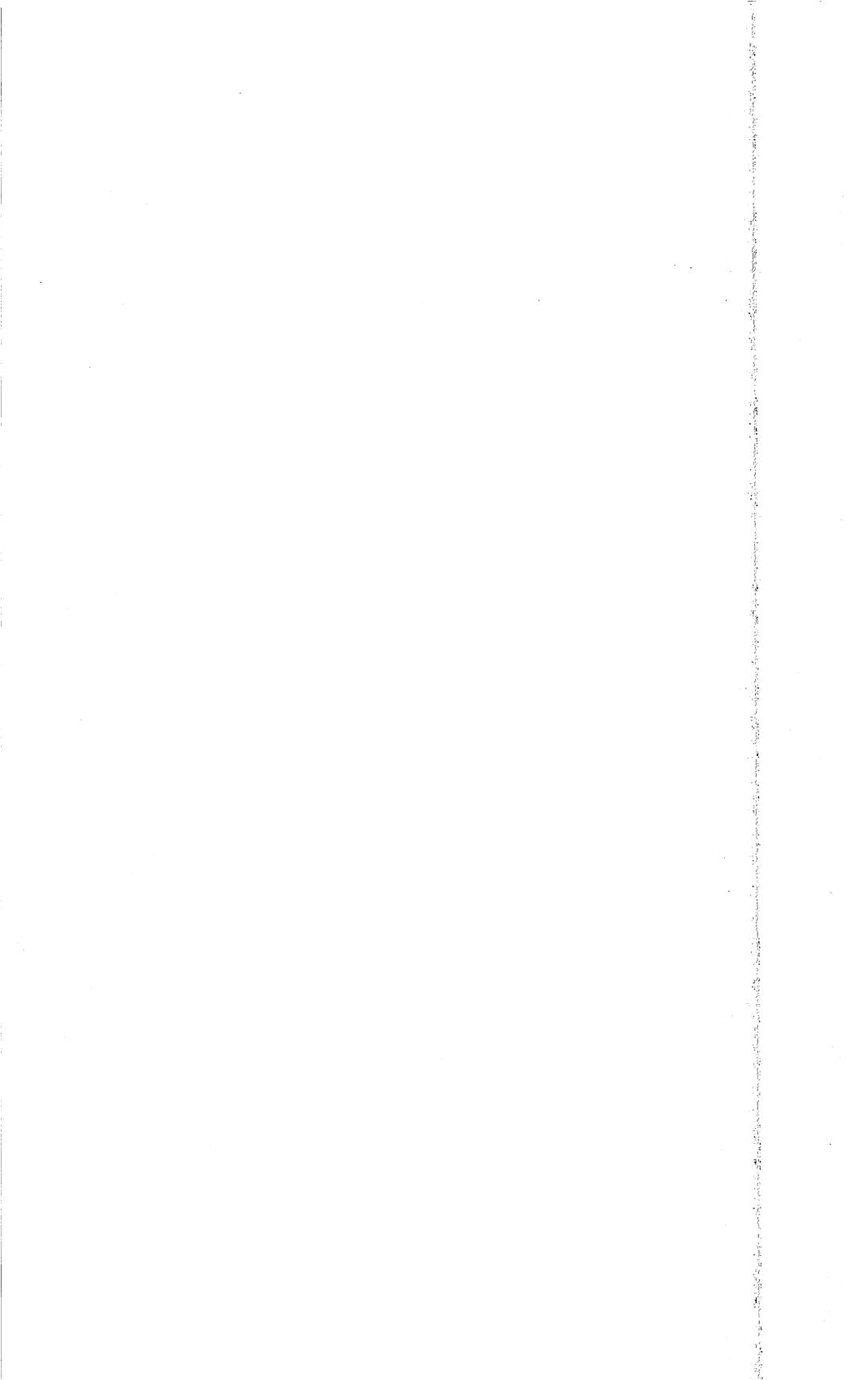
AMERICAN PARTICIPANT: The Thais are both right and wrong about whether Thailand has been singled out by the United States for unfair trade practices. The 1985 Farm Bill is the most atrocious piece of legislation I have seen in years. That bill was motivated primarily by the U.S. Congress. Many officials in the policy-making establishment stood against its passage. Defending the interests of 40,000 rice millers at the expense of essentially the whole of the Thai nation has caused consequences that still trouble us today. However, the IPR disputes and other frictions I attribute to two things. One is the debate over the U.S. trade deficit and all the other rationalities and irrationalities that go along with that. The other is the whole question of Japan and its trade surplus with the United States and what Americans perceive as unfair trading by a major economy in real competition with the United States. Thus, the Congress and other officials have reacted with blanket-style approaches that grab countries like Thailand and others and drag them along. David Lyman's chapter is particularly revealing, for it shows that we are dealing more with feelings and perceptions than large volume. The pharmaceutical numbers are revealing, and so are the views of American business. Now we are dealing with a disruption in our relations that have been marked for so long by reciprocity and cooperation. I have two suggestions.

One is that negotiating style is extremely important over these issues. I would urge all U.S. negotiators to understand not only the principles and specifics of the issues brought to the table but also the history of U.S.-Thai relations over the past several decades, noting the expectations about the relationship that have built up over the years. There is also a need to understand the political situation in Thailand and the role these issues are playing in Thai domestic political affairs. For the Thais, something that would help the atmosphere is to give recognition publicly of what the future may hold for Thailand if it does not grant copyright protection.

THAI PARTICIPANT: When considering Thai domestic politics, it is important to understand the differences between our country and other Asian countries, especially in interpreting our response to issues like IPR. Our government lacks political strength, and it takes time for our government to convince the people concerned to accept what the government sees as proper. That situation is unlike in Korea, Singapore, or Taiwan, where the leadership can dictate to the people what to do and what to think. That is one problem. Another is the culture. You cannot place demands on the Thai people. You must take time, proceed slowly, and one day the Thais will agree. Thailand will need time to adjust politically, especially now as a new government establishes itself.



**Part Five**  
**The U.S. Domestic Scene**



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## 9. Prospects for the American Economy

ALBERT FISHLOW

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The American economy, like the Mississippi River in Jerome Kern's song, just keeps rollin' along. Despite dire and repeated predictions of crises and hard landings, the rate of real growth during the four quarters of 1988 was almost 3 percent, taking into account the negative effects of drought that lowered the rate by some 0.7 percent. This strong performance extended the longest unbroken peacetime expansion since the end of the Second World War. On a year-to-year basis, the gross national product (GNP) for 1988 exceeded that of 1987 by 3.8 percent, a gain above that of recent years. The unemployment rate fell to close to 5 percent for the first time in fourteen years. There was improvement in the trade and current accounts and a reduction in the ratio of the fiscal deficit to income.

With accomplishments like that, it is no surprise that the Republican party retained the White House. Although much attention has been focused on campaign strategy and personalities, the underlying strength of the economy deserves much of the credit for the Bush victory. And it is also no surprise that the magic of the market is enjoying a significant ideological revival, especially when compared to the lagging performance of the centrally planned economies.

Still, particularly now when revisions downward of expected growth have begun to appear and inflation is in the air, doubts about the sustainability of American economic strength abound. Just last November 1988, Morgan Guaranty's respected publication *World Financial Markets* spoke critically of the optimists' views as "so much wishful thinking." And the World Bank in December noted that "the payments disequilibrium of industrial countries, although easing in some respects, remain [sic] unresolved—and they hang precariously over global financial markets." Simple extrapolation is no substitute for analysis.

In this chapter, I will set out the positions of the three dominant schools of thought concerning the prospects for the American economy in the years ahead. Then I will offer my own assessment of their merits, concluding with a discussion of the implications of the evolution of the American economy for global trends, especially for developing countries.

### **An Optimistic Assessment**

The confident view of the American economy sees continuing expansion and gradual improvements in the fiscal and trade deficits. It emphasizes the positive value of the new incentives to private activity provided by reductions in tax rates during the Reagan years and sees their effects in the above-average rates of productivity advance experienced in the 1980s. Defenders of Reaganomics stress that these productivity gains have raised the potential growth rate of the American economy and that it is through future growth that the fiscal deficit can and should be resolved.

They further argue that there is a minimal relationship between the twin deficits. A favorite simple example is Japan's larger relative internal deficit and external surplus. A more sophisticated example is the decline in the dollar exchange rate and a larger external deficit after 1985, even as the fiscal deficit has declined relatively. The external gap is not terribly worrisome, moreover, reflecting the desire of the rest of the world to invest their savings in a vigorous American economy. The causality runs from foreign investment to the import surplus, they contend, not the other way round. There is no reason to doubt continuing confidence in the United States provided that policies remain substantially unchanged.

In the optimistic view, the fiscal deficit, reflecting excess expenditure and entitlement appetites of a Democratic Congress, does not require increased taxes. It will gradually be corrected by controlling outlays as Social Security surpluses mount, receipts grow with economic expansion, and interest rates fall through accommodating monetary policy. Indeed, the deficits are largely offset, in any event, by the rational response of private consumers who take future policy into account and save more than they otherwise might.

These views are largely a composite of the supply-side supporters of Reaganomics. But there is a Keynesian contingent that likewise is reluctant to make fiscal deficit reduction the prime objective of policy. They point to the need for public expenditures for infrastructure as well as social programs and see their beneficial demand effects as staving off possible recessive forces.

### **Danger Lies Ahead**

A much larger mass of professional economic opinion is far less sanguine. Their alternative analysis starts from a different view of Reaganomics as "open-economy Keynesianism." Rapidly expanding American internal demand, sparked by increased fiscal deficits, led the domestic and international recovery. Because demand outstripped domestic supply, it was necessary to attract foreign resources. Higher interest rates relative to Japan and Germany attracted savings, and exchange rates adjusted to

assure the inflow of imports that are the real counterpart of finance; one needs an excess of imports over exports if one is importing capital. The external balance is the direct equilibrating consequence of expansionary fiscal policy.

That strategy for recovery worked well for a while, but its cumulative effects have shown up in a dual instability: A rising flow of interest payments on the internal debt exceeds the growth of income and renders the fiscal situation more precarious, and a rising outflow of dollars to service our external debt cancels improvements on the trade account and renders the balance of payments precarious. Powerful inertial forces mean that even if the right policies are put in place now, improvement will not be immediate.

The preferred and indeed only satisfactory solution, in the second view, is to curb excess demand through a credible fiscal plan. Instead, a much more vigorous monetary policy has been called into place by the fear of new inflationary pressures as utilization of capacity has increased, oil and primary commodity prices have risen, and wage demands have become more intense. That policy is a formula for high interest rates and recession. Such high interest rates, given the highly leveraged position of consumers and producers, creates a possibility of financial panic, as seen in the sharp decline on Wall Street in October 1987. Although now almost forgotten, at the time, everyone was abuzz about the signal it provided for immediate adjustment.

Adherents of the second view typically call for continuing depreciation of the dollar to assure sustained improvement of the trade account. They call for the easing of monetary policy while fiscal discipline, by reducing defense and nondefense expenditures and raising taxes, is restored. Demand in the rest of the world will have to grow in order to absorb more imports as the United States ceases to be the importer of last resort. Such solutions entail a clear problem of policy coordination that cannot be ignored, as the optimists largely do, but they are plausible. Indeed, United States fiscal constraint is argued to be compatible with European and Japanese expansion that takes up the slack.

### **Structural Inadequacy**

The third major school of thought about the American economy emphasizes its loss of competitiveness. The United States is on the decline in relative terms with two direct implications. One is that the country will deindustrialize and thereby lose its capacity for technological advance and rapid productivity growth; like Britain, we will become a service economy condemned to lesser and more passive economic performance. The second implication is that we will not be able to live up to our international

security obligations; a weakened economy will not provide a basis for leadership any more than the Soviet economy was able to underwrite the ambitious plans of the Kremlin.

The problem seen here is not merely the appreciation of the dollar exchange rate in the early 1980s but an inherent failing of the American system. Management is faulted for short-term horizons and its emphasis on finance rather than production. Workers are faulted for lack of motivation and unwillingness to work hard. The public sector is faulted for its failure to provide adequate education, its inability to organize an industrial policy to assist in research and development and the eventual production of technologically advanced products, and its liberal trade policies that expose American producers unfairly. The obvious competitor pointed at here is Japan, but the capacities of a newly unified Europe come 1992 are also a source of increasing worry.

Macroeconomics, which is much at the center of the other two perspectives, is relegated here to a lesser priority. The emphasis is truly on the supply side. A preoccupation with productivity growth leads to a justification for a more interventionist stance for government. The United States potential growth rate must be raised and United States preeminence retained. Typically, the structuralists wish to see the reallocation of government expenditures rather than reduction. Their causality runs from the trade balance to foreign investment. That is, a reduction in net imports will avoid the need for the Japanese and Germans to buy up American assets. The domestic savings rate, which must also increase as the counterpart to net exports, is not fixed. If necessary, taxes can be raised—preferably on consumption goods. Instead of dealing with the external deficit by depreciating the dollar, the government should pressure bilateral trade partners to assure managed improvement in the trade balance and a level playing field in the future.

### **An Assessment**

These three positions characterize the principal schools of thought about future prospects for the American economy. Each emphasizes a different adjustment mechanism that relates the fiscal and external deficits and hence gives priority to very different policies.

I will attempt a synthesis defined by four central propositions. First, fiscal deficits do matter in determining the current account. Second, decline in the United States personal saving rate has been an even larger factor than fiscal deficits in contributing to the underlying excess demand in the American economy. Third, there seems to be a continuing willingness on the part of industrialized countries to finance U.S. external deficits. Fourth, although exchange rates matter, higher rates of productivity

growth and investment are essential to prevent adjustment from occurring through diminishing growth of real income in the United States. Most quantitative analysis of the relationship between the fiscal deficit and current account deficit concur that only half of each dollar of increased fiscal deficit spilled over into the current account deficit in the early 1980s. Two other factors contributed to the rapidly rising flow of external finance. Decline in private savings and increased financial mobility also played a role in greater U.S. reliance upon foreign resources.

Looking forward, the mainstream econometric models project that a reduction in the fiscal deficit will improve the external balance, but only partially and gradually. The effect on the current account deficit is about 0.4 of the change in the fiscal deficit. There is thus a substantiated and important relationship between the twin deficits, but it is not one for one or instantaneous. The reason is that the current account deficit was also explained by two other important factors: declining domestic savings and capital market liberalization that increased mobility of finance at the same time that application in the developing countries became less important.

Thus, if fiscal deficits do matter, so do domestic savings rates. The special feature of the American economy in the 1980s has been a decline in personal savings rates from an order of 7 percent of disposable income in the early 1980s to a low of 3.2 percent in 1987, with a recovery to 4 percent in 1988. This change exceeds in importance the increased governmental deficit in altering the underlying savings-investment balance in the United States. The yuppie generation is not a figment of Madison Avenue's fevered imagination but an accurate description of changed consumption patterns that have been a leading component of increased American demand during the 1980s. Abundant consumer credit played a role in encouraging purchases of durables as well as increases in residential construction. So did capital gains. Studies suggest that takeover activity, by realizing such gains and placing them in the hands of consumers, contributed not to reinvestment but to increased consumption. Note that the decline in savings played the principal part in bringing about the need for external finance after 1985.

External saving became especially responsive in the 1980s as capital markets were liberalized. In particular, Japanese funds no longer were restricted to domestic investment. Instead, Japanese thrift provided a surplus available for foreign application. Because of the debt crisis, flows to developing countries underwent a severe shrinkage. The United States, with its higher real rates of interest, quickly emerged as the favored destination of foreign funds from not only Japan but also Europe. External investors have persisted in their commitment despite repeated concerns that they would abandon American assets because of uncertainty and a

depreciating dollar that translates into negative yen and mark returns. This foreign investment has forestalled the predicted hard landing of sharply increased real interest rates, deep recession, and accelerating inflation fed by dollar depreciation. The United States has not yet experienced a capital market shock like that forcing Latin American debtors into precipitate contraction after 1982. Instead, foreign portfolios have grown and diversified into real assets, real estate, and productive investment after their initial concentration upon public securities. Industrialized country governments have an increasing stake in averting a hard landing.

My fourth proposition is that the depreciating dollar since 1985 has helped to revive export growth and stimulate manufacturing activity. Indeed, the principal motor force for the 1987–88 boom has been the substantial growth of net exports, contributing well over half the rise in demand in that period. Much of the corresponding increase in business investment resulted from the export recovery that proceeded at a pace of almost 30 percent annually during calendar year 1987. Of equal significance, the volume of imports other than petroleum and capital goods sharply declined and turned negative during 1988.

However, reliance on a declining dollar is limited not only by the unhappy reaction of trading partners but also by the domestic reluctance to accede to inflation or recession. A depreciating exchange rate is just a euphemism for a declining real income, and Americans are still not persuaded of its necessity. The price effect of devaluation has been limited because the pass through from foreign producers to consumers has been buffered by the willingness of exporters to accept lower profits. Market share has dominated their pricing decisions, and with the desired continuing demand for imports.

In the end, productivity growth is the critical variable making an improved trade balance and rising real income levels compatible. If external debt had been channeled to investment, that is exactly what would be expected to happen. Repayment would be made from the increases in production that borrowing had made possible. But because so much debt has gone to finance increased consumption, it does not have this self-liquidating quality. More of the burden of debt service will inevitably reside upon decreased future consumption and lower real incomes. Moving to higher investment rates now will cushion that impact.

### **Immediate Prospects**

The Bush administration has thus inherited an economy in better condition than its most severe critics have charged but is unable to rely on the earlier formula of rising consumption for continuing economic success. Each of the twin deficits requires attention in the near term. An

overheating economy above its potential growth path for the first time since the late 1970s and the inflationary impulses emanating from rising oil and commodity prices signal trouble. Reagan not only started from excess capacity; he had the considerable luck of running into rapidly declining oil prices.

The immediate danger comes from generous nominal wage settlements that incorporate high inflationary expectations. Workers seek to catch up. The Reagan years saw real wages lag behind productivity increases, partially as a result of steeper import competition and partly as a result of high unemployment rates earlier in the decade. With labor markets now much tighter, recent collective bargaining agreements appear to be more generous than they had been.

In the face of such mounting inflationary pressures, the Bush administration has not yet elaborated a convincing fiscal strategy. The first budget is largely more of the same: some slowing of expenditure, reliance on growth for revenues, and low interest rates that will save on the cost of financing the public debt. Already the 1989 projections are entirely unrealistic, with required interest rates far below those already current and likely to persist.

Instead, the burden of fighting inflation has fallen on monetary policy by default. The Federal Reserve has taken action to restrict credit to slow down an overheating economy. Uneasy financial markets worry about whether enough has been done; the White House calls for caution lest the policy provoke an economic downturn. Interest rates have risen in the United States, and in order to avoid depreciation of their own currencies and import of higher inflation, other industrialized countries have followed suit. By operating on a single instrument while seeking to achieve multiple objectives, American policy may provoke a wider international downturn rather than the needed readjustment of the American economy in the midst of global prosperity.

The heart of the matter is that adjustment to the new inflationary pressures is much less easily postponed than past delays in response to the fiscal current account deficits. Allies have become more impatient, and the liberal trading system shows signs of fraying. Policy coordination among the industrial countries threatens to become even less possible than during the unprecedented expansion of the last several years.

There is thus new and powerful incentive for a frontal assault on the United States fiscal deficit. Leading that assault will not be an easy task for a new administration pledged to no new taxes and only to expenditure reduction. The obvious target is military expenditures. Both the United States and the Soviet Union find themselves increasingly compelled by economic circumstance to make serious efforts to reduce their outlays on

armaments. Such a mutual accommodation is much more feasible than unilateral steps by either. This magical escape from the bind created by a no tax increase pledge would match the Reagan success in financing an armaments increase *and* domestic consumption through external debt.

Bush's good fortune is that the resurgence in inflation may compel earlier decisions on the economy than his cautious tendencies would otherwise permit. It comes early in his presidency, making some reduction in growth now compatible with later recovery in time to aid re-election hopes. The inflationary threat may allow some retreat on the tax issue in the name of cyclical rather than permanent adjustment. It calls attention to the danger of large wage settlements and helps to stiffen the resistance of private producers. Finally, the threat of a recessionary adjustment in the United States may induce a higher degree of cooperation among the industrial countries in taking up the slack.

Forecasts in spring 1989 reflected little expectation of immediate dramatic change in policy or accelerating economic deterioration. As has become ritual in recent years, recession is predicted for the next year rather than the present; in view of the continuing economic expansion, it is a formula that works. The scenario is for modest change, with prices headed up and production lower, but only slightly. World trade growth moderates from its rapid recovery in 1988.

Inherently, such expectations confirm the underlying strength in the American economy but also a continuing concern for the failure to confront needed adjustment measures. It is an orderly scenario in which financial markets do not go awry or other shocks do not provoke significant downturn. But it is also one of slowing economic growth generalizing to the entire world. For several years predictions that this fundamental disequilibrium could not persist have proved false. The natural consequence is for forecasts to have become more cautious. Have we become too sanguine? Or will our capacity to be helped by favorable external developments continue?

### **Implications**

I do not believe the sky is about to fall. The American economy can sustain its high level of external finance for several more years on a gradually declining path. Paradoxically, the very intensification of the inflationary threat may impel a start on the measures that will make continuing prosperity attainable. But even a soft landing holds dangers for developing countries that have progressively become integrated into the international economy.

First, slower rates of growth in industrialized countries will affect trade.

Even constancy in Organization for Economic Cooperation and Development (OECD) growth rates that compensate for a U.S. decline will work to reduce overall import demand. The American market has been the most open and is characterized by the highest demand elasticity for imports. Moreover, under the impulse of reduced industrial demand, the improved terms of trade for primary products may well suffer a reversal. These consequences place a premium on balanced strategies of economic growth that are partially insulated from international trade fluctuations. Export diversification both in composition and destination is one example; increased attention to the domestic market is another.

At a political level, the slower growth rates may put the liberal trading system under even more pressure. Increased protectionism may well occur and not only in the industrialized countries. New tendencies toward the regionalization of trade and away from a multilateral framework will be reinforced. The choice of a United States orientation toward the Pacific Rim or toward the Western Hemisphere may surface.

Second, the higher interest rate environment will require even more attention to the precarious position of the heavily indebted countries than current debt reduction plans suggest. Debt service concessions are easily canceled by small increases in market rates. Reduction of principal can easily be offset by higher rates. Equally to the point, continued finance of the United States external deficit will compete with the needs of developing countries for resources. At current levels, American demands absorb something like 15 percent of the net saving of Japan and the European Community. Such an intake will only gradually lessen. Developing countries must continue to augment and more efficiently intermediate their domestic saving.

Third, a slowing in economic activity without making significant progress in correcting the fundamental disequilibria can only complicate the future. Uncertainty will persist, and strains among the industrialized countries intensify. Japan is reluctantly being thrust front and center into a position of financial leadership; its role in the Brady Plan and multilateral institutions is indicative. Although the United States has reasserted its political prerogatives in the sphere of East-West negotiations, its role is compromised by the lack of a credible economic policy.

All of these circumstances make a possible recession more than a mere episodic event. They underline the fact that systemic international economic issues must be addressed. The United States does not have the luxury of avoiding them much longer.

How the disequilibrium is addressed will make a difference. Reduced military outlays accompanying reduced political tensions will open up

significant new markets and investment opportunities in Eastern Europe and the Soviet Union. These may well compete with current attention to some developing countries, although also opening possibilities for increased exports to such areas. Disarmament will also spill over from Europe to other areas and have profound implications for expenditure patterns.

But even such a favorable means of reducing the U.S. fiscal deficit should not obscure a fundamental point. Only with sustained higher rates of domestic savings, which may have to increase by more than the decline in military expenditures, will it be possible for the United States to take on the responsibilities of global leadership in the economic as well as the political sphere.

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## 10. The U.S. Domestic Scene

FREDERICK Z. BROWN

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What do Americans in 1989 think about Thailand? What impact does the American domestic scene have upon U.S.-Thailand relations?

An analysis of American attitudes on foreign policy customarily distinguishes between Washington's intellectually incestuous debates (the "inside the beltway" phenomenon) and less intense discussions in the "real America" far away from Washington where most Americans live. That hackneyed distinction has considerable value when examining the state of U.S.-Thai relations. In a world churning with political change, where the Cold War is shifting character dramatically, local and domestic issues still dominate the concerns of the American hinterland and will do so in the 1990 congressional elections, and no doubt beyond.

Most Americans these days worry about the economy, taxes, abortion, drugs, the decay of the highway systems, and the deplorable state of U.S. education—those basic issues touching their lives intimately. This does not mean that foreign affairs are irrelevant but only that esoteric matters such as U.S. relations with a given country in Southeast Asia must be viewed in the context of what really matters to the average American who does not read the *New York Times* or listen to public television's MacNeil-Lehrer Report.

U.S.-Soviet relations, turmoil in the Middle East, and Central America are the front-burner foreign policy fare. Certainly at the moment the disintegration of communism in Eastern Europe and the perils of perestroika in the Soviet Union have seized the public's attention. The economic onslaught from Japan, competitiveness, and other foreign-based miseries are topics of enduring interest for many Americans—but few would be concerned with the security aspect or the larger issues of the crucial U.S. bilateral relationship with Japan. Elsewhere in Asia, Tiananmen Square and the continuing troubles of U.S.-China relations catch U.S. attention and will be followed closely in the future by some.

Media spectacles such as the 1986 Philippine presidential election and Corazon Aquino's "people power" revolution have their day on stage,

and then recede. But relatively few Americans think much about Washington's preoccupations such as the Korean peninsula despite the bloody involvement of the 1950s and continuing U.S. commitment. Taiwan, where "massive retaliation" was the nuclear watchword in the Eisenhower years, has also disappeared as a foreign policy interest simply because it is *not* an issue any more. One American in a thousand cares (or has even heard) about the frigid state of U.S.–New Zealand relations.

As for matters closer to Thailand, the American public has paid very little attention to the phenomenal emergence of the Association of Southeast Asian Nations (ASEAN) as a central fact of political and economic life in Southeast Asia. This is one of those seminally important but *evolutionary*, hence *undramatic*, events that fail to catch the crisis-oriented "sound bites" of the TV network evening news. Fewer Americans still would recognize the implications for U.S. strategic interests of ASEAN's process of maturation. Thailand has much the same problem. Outside Washington there is scant public knowledge of or active interest in the individual countries of Southeast Asia.

The American attitude toward Indochina represents a case of special importance to Thailand because of the linkage in the popular mind between the Vietnam War and U.S. involvement in general in Southeast Asia. Hundreds of thousands of U.S. servicemen, it will be remembered, rotated through the U.S. military facilities on Thai soil during the peak years of the involvement.

There is a basic dichotomy with regard to current attitudes. This is one aspect of the famous "Vietnam Syndrome" that has cast its spell over American life since the 1970s. The effects of the Vietnam War are still felt directly throughout U.S. contemporary life in the drug culture originating in that earlier period, in the ruptured post–World War II premises about the U.S. role in the world, and in the altered relationship between the executive and legislative branches in making and managing foreign policy. Not many youngsters today are prepared to heed John F. Kennedy's call to go anywhere and pay any price to hold high the flag of freedom. Vietnam is largely responsible for the disappearance of what Americans of the old school used to call the "concept of service" in domestic and international affairs.

After the binge of national attention and suffering in the 1960s and 1970s, a collective American schizophrenia, tinged with amnesia, has set in. The American people, when they care to think about it, are ambivalent about Vietnam, indeed about all of Indochina. Only the terrifying prospect of a return to power of the Khmer Rouge in Cambodia has aroused concern in the nation's op-ed pages. Americans are caught between curiosity about what went wrong and a counterimpulse to block out the entire experience. Absorbed in the war's drama and corrosive social impact, they tend

to view the war through cinema and television prisms where Vietnam becomes a fictional country and Vietnamese rarely appear except as targets. Perhaps it's less painful that way. As a people, Americans have become deeply Ameri-centric when dealing with the Vietnam War, and this attitude affects deliberations on current policy, as discussed below. It helps explain why the Prisoner of War/Missing in Action (POW/MIA) question has for fifteen years dominated the public perception of U.S. relations with Vietnam to the virtual exclusion of broader strategic issues.

In the region and beyond Vietnam, Thailand is the most widely identifiable country, but for reasons that hardly cast honor on either the depth of American sense of geopolitics or on Thailand's many enduring and admirable characteristics. The Thai people are seen as straight from central casting of *Anna and the King of Siam* or *The Ugly American*. For tourists, the impressions of Patpong Road's delights and Pataya are likely to be as indelible as those of the Thonburi floating market and Wat Arun. This is unfortunate in view of a bilateral relationship that has been friendly for an unbroken century and a half and that remains the centerpiece of U.S. policy in the region.

So Thailand has a limited public constituency in the United States. It is a sad fact of life which Thai leaders, as well as Americans who care about Thailand, will have to deal with for the foreseeable future.

Inside the beltway—and in such sophisticated academic or urban centers as New York, Los Angeles, and San Francisco, where there is specialized interest in Thailand and no lack of appreciation of the rich bilateral relationship that has been built up over the decades—another set of standards applies. Beginning with the U.S. economic aid programs after World War II, that relationship is now strengthened by the almost 20,000 Thai students who continue to take their education in American universities, the close military-to-military cooperation surrounding the security alliance, and the thriving two-way trade critical to Thailand's booming economy. Thailand's strategic importance as the lynchpin of ASEAN and as the land bridge between Indochina (and China itself) on one hand and peninsular and insular Southeast Asia on the other is well understood. With no other country in the region does the United States pursue such a broad range of programs, activities, and exchanges in both the civil and military fields.

Any State Department briefing paper would make all these facts of geopolitical life—and much more—quite clear. Whatever the security classification, there would be remarkably little dispute on what the bilateral relationship means in terms of the U.S. national interest. The same sort of paper could be written just as well at Berkeley or Cornell.

Yet on another level, certain predispositions attend U.S.-Thai relations officially. Thailand's ability to conduct an omnidirectional, multifaceted

foreign policy is well known and basically accepted. Thailand has managed its national affairs with uncommon success over the centuries only because its leaders have combined cultural finesse with a hard-nosed, often ruthless practicality in handling *farang* (foreigners). For the most part Thailand succeeds without antagonizing the United States even when U.S. interests may be somewhat disadvantaged. What Washington might see as duplicity on the part of Jakarta or Kuala Lumpur may well be seen as clever Thai diplomacy when conducted by Bangkok. What strikes Washington as indecision in Manila plays in Bangkok as "typical Thai indirection." Even in the bureaucracy, the nonconfrontational Thai personality eases tensions. A psycho-sociologist would probably argue that the beauty of Thai women, the delicious complexity of Thai cuisine, and the pervasive sensuality of the Thai way of life also somehow contribute, if subliminally, to greater tolerance by Western governments when dealing with their Thai counterparts and Thai policy. (State Department officials would of course sternly deny this.) In sum, for a variety of reasons there is, I would submit, an unspoken prejudice in favor of Thailand on the part of the Washington establishment.

This pragmatism does not come without a price. While Thailand's flexibility and resourcefulness (avoiding colonialization in the nineteenth century and handling the Japanese in World War II are the standard examples) are universally respected, Americans who deal with the Thai government find the pragmatism of Thai diplomacy occasionally disturbing—these are the negatives of "flexibility."

One example is Thai Prime Minister Chatichai's hosting of Prime Minister Hun Sen of the People's Republic of Kampuchea in January 1989. Coming on the eve of ASEAN's multilateral negotiations on Kampuchea in the Jakarta Informal Meeting (round 2), Chatichai's precipitate welcoming of the adversary Khmer faction was viewed by the rest of ASEAN and by the United States as tactically unwise and damaging to the position of Prince Sihanouk and the noncommunist resistance forces.

Another is Thailand's deepening bilateral ties with the People's Republic of China. No knowledgeable analyst would chide Thailand for pursuing good relations with the Middle Kingdom. But Thailand's acquisition of masses of "friendship price" tanks and artillery from China and other evidence of growing warmth between the two countries have raised diplomatic eyebrows and remain a subject of some concern because of long-term regional implications.

Any objective analysis of U.S.-Thai relations must include a recognition of this pragmatic side of Thai policy—perhaps we should call it *mai pen rai* ("never mind") *realpolitik*—and the reactions that it sometimes engenders among Thailand's allies. It stands in contrast to the almost

universally admiring popular image of Thailand as a country not only of gentle people but also of skilled statesmen who have over the centuries managed to keep Thailand free and independent of foreign control.

What Americans think about Thailand these days is shaped to an extent by events in Cambodia and current efforts by ASEAN and the other members of the Paris International Conference on Cambodia, including the United States, to find a political solution to the long struggle there. But the complexity of the Cambodia problem and the relatively aloof posture of the United States have made it difficult for any but the most dedicated foreign policy buffs to become actively engaged. In Congress, Representatives Solarz, Atkins, Leach, Gilman, Lagomarsino, and Ridge, and Senators McCain, Cranston, Hatfield, Murkowski, Kerry, Kerrey, and a few others are particularly interested in Indochina and, by extension, Thailand's role. Thailand gets generally favorable marks for its efforts in accommodating 325,000 Cambodian refugees, though as noted below, whenever there are reports of human rights violations or "pushbacks" of Vietnamese boat people, Bangkok quickly comes in for criticism.

Thailand has been the object of amazingly little adverse publicity or congressional comment with regard to its role in sustaining the Khmer Rouge—so far, at least. Similarly, Prime Minister Chatchai's announced determination to make Thailand the leader of the "Golden Land," in effect the gateway for trade with Indochina and Burma, has not engendered much of a reaction. In part this is a function of a general disinterest in Indochina affairs and the fact that U.S. business is not yet active in Indochina. More significant perhaps is the reality that those who do care about the issue, as they study Thailand's position, are willing to concede that the United States should not try to dictate or unduly influence Thai policy. There is the unstated belief that having been the central participant in the Indochina tragedy from 1954 to 1975, the United States is ill-placed to tell Thailand how to suck geopolitical eggs.

This hands-off attitude (a localized version of "let ASEAN take the lead," the principle that has guided U.S. policy on Cambodia), however, is not immutable. There is a rising tide of criticism in the Congress and the media of the Bush administration's policy of aiding Prince Sihanouk in his unholy alliance with Pol Pot and the Khmer Rouge. If the Khmer Rouge were to threaten to take power in Cambodia once again, it is certain that Thailand, with China, would be the focal point of harsh criticism across the board. Damage to the bilateral relationship would result. Although this damage would not be permanent, there would bound to be detrimental spinoffs in other aspects of the relationship, some of which, as noted below, are already somewhat tender.

Trade and economics are the cutting edge of American domestic

attitudes toward Thailand. Given its burgeoning economic growth, Thailand will soon be baptized a newly industrialized country (NIC) and join the "little tigers" of South Korea, Taiwan, Hong Kong, and Singapore. The United States played a major role in this transformation, not only as market for Thailand's commodity exports and light manufactures but also as a supplier of advice and resources. The United States, for example, assisted in a broadly based developing of Thailand's impoverished Northeast region. While today it remains poorer than other regions, the Northeast was changed from a seedbed for a virulent communist insurgency in the early 1960s into a showcase of agricultural and communal development enterprise less than two decades later. Elsewhere, to cite a few of many examples, the United States provided substantial assistance in the dairy, corn, and miracle rice culture sectors, all of which have become raging success stories. This is not to overblow the American factor—it was the Thai government and the Thai people who did the work and should get the credit—but only to note that when such long-term development projects fulfill their mission successfully, they tend to be largely forgotten.

The evolution of Thailand from one of the United States' largest Asian recipients of economic development assistance after World War II and through the 1960s to its present prosperous state has not been without bilateral stresses and strains. But when all things are considered, what is remarkable is that these have been so few and with, relatively speaking, so little pain. Precisely because of the smoothness of this decades-long transition, it is to be expected that whatever differences in trade and economic policy do surface receive inordinate attention, especially on the Thai side. Much of the fabric of the relationship consists of attempts to resolve differences in the area of trade and economic relations, and we can expect that this trend will continue well into the 1990s.

If a bilateral issue involves trade, U.S. congressional attitudes and actions are automatically constituent oriented. This is another of the facts of life of American domestic politics, and it is one that Bangkok must constantly face in its dealings with Washington. One long-standing contentious issue has been Thai textile exports to the United States: in the view of congressmen from southern textile states, these exports threaten domestic producers. In the mid-1980s, Representative Ed Jenkins of Georgia introduced a bill imposing certain restrictions upon importation of foreign textiles. The bill was hotly debated but never became law, in good measure because of executive branch resistance. Nonetheless, in Bangkok the Jenkins Bill became a symbol of heavy-handed American business and congressional pressure that could seriously damage a key Thai industry. The textile problem has been adjusted by other means, but the Jenkins cloud—or something like it—hovers over the heads of Thai politicians and over U.S.-Thai relations.

More recently, the focal point of congressional interest has been intellectual property rights: copyrights, trademarks, and patents. In 1987, this issue assumed immense proportions in Thai domestic politics because of the perception that Washington was trying to dictate passage of Thai laws that would regulate abuse of U.S. copyrighted material. The domestic furor contributed to the fall of the Prem government in the summer of 1988. Since then the sting has been taken out of the copyright issue because the United States finally adhered to the Bern Convention (to which Thailand had been a signatory for some time), thus binding Thailand to respect the regulations set out in the General Agreement on Tariffs and Trade (GATT) in treating U.S. intellectual property. Although there is still a problem regarding protection of U.S. computer software, the Thai government has indicated it will do what is politically feasible (but not commit itself to "best efforts," as requested by the United States) to pass the necessary legislation in 1990.

Patents are now the thorniest issue, particularly in generic pharmaceutical drugs. The industry has a strong lobby on Capitol Hill. The recent introduction of Thai legislation "in the spirit of the GATT" addressing the problem has helped quiet congressional concerns for the moment. The law must be passed, however, and then the test will be how effectively it is implemented.

Tobacco has also stimulated unhappiness in both the United States and Thailand among antismoking militants who view American pressure on Thailand to permit advertising of U.S. cigarettes as a ridiculous hypocrisy in view of U.S. strictures on tobacco ads. This objection is above and beyond the basic question of market access, which is obviously not something the Thai tobacco monopoly wants to see. But senators and representatives from North and South Carolina (and other less well known tobacco states) are bent upon achieving open access no matter what the cost to Thai lungs and hearts. Their argument, of course, is that almost all males in Thailand smoke, so why should the Thai rice farmer be prevented from ruining his health with quality American products if that is his choice. This sort of bickering does little to improve the larger bilateral relationship.

Beyond strictly trade implications, the entire process of applying or threatening sanctions under U.S. law for what the United States considers Thai "violations" is seen by not a few in Thailand as an exercise of American arrogance. For the sports-minded United States, quite understandably, it is a matter of achieving a "level playing field."

This raises another aspect of the bilateral relationship with Thailand that is replicated to a degree in the U.S.-Philippine relationship. Thailand has always felt that among the nations of Southeast Asia, it has enjoyed something of a special status vis-à-vis the United States. Perhaps this

assumption goes back to the nineteenth century when King Mongkut (Rama IV) offered several pairs of elephants to President Buchanan as a gesture of assistance and friendship to a still young United States. In 1861, Abraham Lincoln, in his own handwriting, thanked the king for his kind offer but declined, noting that the American climate was not suitable for such beasts and that the United States was finding steam locomotion a satisfactory form of heavy transport. Every Thai schoolboy student of history knows this story. In terms of bilateral political bonding, elephants are more important than level playing fields.

After World War II, as colonial empires disintegrated and Indochina heated up, the United States was Thailand's protector and, as noted above, was instrumental in launching Thailand's economic development. To a remarkable extent, the Thais still look upon themselves as "developing," as the legitimate recipient of the protective status a child expects from a parent. Most important, they see themselves as a loyal ally of the United States during some hard years in the 1960s. There is a perception of an ungrateful United States pushing a still vulnerable Thailand out into the cold, competitive world. And no doubt there is not a little resentment of the fact that, despite Washington's protestations of the value it places on the bilateral relationship, the last American president to visit Bangkok was Richard Nixon in 1969. But without passing judgment on its legitimacy, it is accurate to say that the Thai sense of being undervalued and overlooked would not meet great sympathy in either the American public or the media.

It is worth noting the obvious here: that the United States sometimes does not understand, or may simply ignore, the domestic pressures upon its foreign dialogue partners. The State Department policy makers may understand—they after all are the keepers of the sacred bilateral flame—but the Commerce Department and the U.S. Special Trade Representatives (USTR) office dance to the tune of another orchestra, one which gets its music from the voting public and the business interest groups. For the most part, the media present a picture more in harmony with the latter view.

This ethnocentric orientation extends well beyond trade matters into Thai treatment of Indochinese refugees, narcotics control, and other bilateral issues of concern to various parts of the American public. It is a cause of immense anxiety to the Thai embassy in Washington, which is constantly buffeted by congressional staffers and private groups on a range of "critical concerns" on which action is demanded at once. It also pains officials in Bangkok whose job is to satisfy Thai national interests while attempting to keep the U.S. relationship on an even keel.

For example, Thailand was accused in the media recently of "throwing

back" dissident Burmese students who had crossed the border to escape persecution by the Rangoon government. This Thai action stimulated congressional calls for pressure on Bangkok, including rupture of relations. Lost was the fact that Thailand had over many months extended sanctuary and humanitarian aid to tens of thousands of Burmese students or the political reality that Thailand shares a thousand-mile-long border with Burma and has its own requirements for maintaining communication with Rangoon, no matter how reprehensible the regime may be.

Another example is the bad press Thailand received because of the presence of Thai guest workers in a Libyan factory identified by the United States as manufacturing chemical weapons. There are more than 30,000 Thai workers in Libya and a total of 200,000 working in various Middle Eastern countries. Many come from relatively depressed Muslim areas of southern Thailand. Their salaries are high by Thai domestic standards, and the income remitted back to Thailand has helped fuel the country's economic growth. But the presence of a few Thais in the suspect Libyan facility (which hired them from a private firm, not from the Thai government) stirred up a strong, adverse American reaction. The Thais believe themselves victims of the tide of American anti-Gaddafi and antiterrorism sentiment. But more important, once again they are taken aback by what they deem a disproportionate impact the incident seemed to have on American perceptions of Thailand and on U.S.-Thai relations.

With regard to the U.S. international narcotics control campaign, Thailand has for decades had a reputation as a key *producer* of illegal drugs. Few outside Washington have followed Bangkok's steady effort to stamp out opium production on Thai soil through crop eradication (including risky, cross-border operations into Burma), crop substitution in hill tribe areas (backed energetically by the royal family), and enforcement in cooperation with the U.S. Drug Enforcement Agency. This campaign against production has been successful to the point that Thailand must import opium for legal drug purposes. Thailand, of course, gets virtually no public recognition for this success but must now cope with the increasingly publicized fact that it has become a leading narcotics *trafficking* pipeline, with opium pouring through its territory from Laos and Burma, the new production centers.

A case can be made for the proposition that the problems Thailand faces in defending its own interests in the thickets and swamps of the American domestic political and business scene are really no different from those of any medium-sized developing country. Like many other countries, Thailand has to swallow this reality: in the bilateral relationship, what seems consummately important on the streets of Bangkok often does not get even passing notice in Washington. While this may be galling to the

feisty Bangkok media, it would be manifestly untrue and politically misleading for any American administration to maintain that the bilateral relationship with Thailand transcends a regional significance. Thailand's other ASEAN colleagues suffer from the same limitations. Indonesia, which is tacitly recognized as first among equals in the ASEAN hierarchy, is barely visible in either Washington's day-to-day business or the popular American media. As noted above, even the Philippines, which by rights should have some sort of special claim, is unlikely to attract much attention unless Aquino falls and chaos threatens (not impossible, given the events of early December 1989). In a very real sense, the noncommunist countries of Southeast Asia are suffering from their success.

In November 1989, Prime Minister Chatichai was scheduled to visit Washington during the same period that President Bush was planning to receive, seriatim, President Aquino of the Philippines and several other heads of government, not to mention the U.S.-backed opposition candidate in Nicaragua, who probably gets more publicity than any of the other visitors. For every minute President Bush would spend briefing in preparation to receive Chatichai, he would spend an hour per day preparing for the Malta "nonsummit summit" with Soviet President Gorbachev the following month.

Such is the climate in which the Thai government must conduct business with its great power patron. It can perhaps take consolation in the knowledge that a hundred other countries are noticed far less than Thailand. More important, over the past decade the representatives of the Thai government working the Washington scene have become more sophisticated in their approach to the various bureaucracies that make up the town's power structure. The Thai military and intelligence organizations have always had special entree with their American counterparts. But Thai diplomats have also learned what access button to push, be it with USTR, the editorial boards of the *Washington Post* or the *Wall Street Journal*, or the ubiquitous congressional staffers who run Capitol Hill's committees.

So we should shed no tears for Thailand's ability these days to influence issues of special concern to His Majesty's government. When push comes to shove, as American politicians are fond of saying, Thailand is well and favorably known to the people and institutions who count in Washington—and Thailand seems to know who they are.

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## Discussion Excerpts

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THAI DISCUSSANT: We must remember that domestic solutions to international economic problems are inadequate in today's world economy, and that is particularly so in the case of the United States. The problem of the trade and fiscal imbalances in the United States must be solved through coordination of policies between the United States and its major trading partners, namely, Japan and West Germany. The success or failure of the solution will depend partly on the ability of the United States to push its trading partners into managing their own economies and helping the United States reverse its own deficits by attending to trade imbalances. Failure to do so will not only affect the U.S. economy severely, but repercussions will be felt all over the world.

I am optimistic where the U.S. economy is concerned. I have been hearing gloom predicted for the U.S. economy by both economists and market gurus, but year after year, the expected outcome has not materialized, except for the short-term self-fulfilling prophecy leading to the October stock market crash of 1987. On the contrary, the United States and world economies are still on an upward trend, one of the longest upturns in postwar history. Statistics indicate that growth in gross national product (GNP) in 1988 was 3.8 percent instead of the 3.4 percent registered in 1987. Unemployment was down from 6.2 percent in 1987 to just over 5 percent for last year. The trade and current account deficits were down from US \$160 billion and US \$154 billion in 1987 to \$126.5 billion and \$136.6 billion, respectively, estimated for 1988. Although for 1989 most predictions point to a slowdown in the growth rate, the trade and current balances appear to be heading toward further improvement.

Certainly, concern with the short term cannot be ruled out. Since March 1988, the Federal Reserve under Alan Greenspan has been combatting inflation by tightening monetary policy with federal funds still in the red, shooting from 6.5 to 9.7 percent since then. The Fed's tight policy has earned much confidence in the financial world. This is generally ascribed to the good timing of monetary policy relative to economic

conditions and a stable real rate of inflation despite fear that it will rise. However, these salable circumstances have been changing, raising doubts about whether monetary tightening will be able to contain inflation. Inflation began to show signs of acceleration, producing a price jump of 1 percent in January over the December index. This is the highest rise since October of 1985, and it may have resulted from the slowdown in productivity and higher labor costs. Furthermore, addiction to high interest rates has grown. It should be kept in mind that the Bush deficit reduction policy is based on high economic growth and low interest rates, which are incompatible with the Fed's current stance. Greenspan has to begin carefully to toe the line between pressures arising from his own stated goal of controlling inflation and political considerations without causing disruption or apprehension in the financial world. This is not an easy task.

AMERICAN PARTICIPANT: An important element to be recognized in the operation of Congress is the committee structure. There is no doubt that the 435 members of Congress are very sensitive to immediate pressures from their constituents. But it is also true that almost every proposal in Congress goes to committees first. The Ways and Means Committee has handled a massive load of trade concerns over the past three years, dealing with tremendous pressures on trade. The officials on these committees are attuned to the international ramifications of the actions of Congress. They are the ones familiar with international obligations, and they are the ones who deal with the administration and recognize the concerns that exist with respect to our relations with other countries. Getting bills through Congress is difficult. This difficulty is the best built-in safety valve in the process and is to everyone's advantage. If it were easy to get bills through, the present trade bill might have been a repeat of Smoot-Hawley and may have been passed in 1985 instead of 1988.

Looking at the trade bill again, the pressures really began to build in 1985 as we saw a sharp decline in the trade deficit. In 1985 there was a split between the administration and Congress on this issue. At that time, the administration felt that it did not need to cooperate with Congress on a trade bill, because it thought it could block what it perceived as a Democratic initiative. The bill that appeared on the floor in 1985 was one that should never have passed, and it is a good thing that it did not. The committee structure does help dispel some of the pressures on members of Congress.

AMERICAN DISCUSSANT: Differences in the outlook of Congress and the executive branch are especially pertinent to trade issues. Agencies in the executive branch that have become involved in foreign policy issues over the past fifteen years look to U.S. domestic constituencies for reference of

the interests they are trying to pursue. In the interagency process of the executive branch during December and January, when the issue of the Generalized System of Preferences (GSP) was being sorted out, there was anything but unanimity among the agencies that had a role to play in that process. The State Department was having an increasingly difficult time making a case for an internationalist position in the face of the view offered by the other elements within the executive branch that had become involved in the issue.

In terms of congressional interest in Thailand, another major issue of concern is Indochinese refugees. There is good reason for that. During the past thirteen years in which the United States and Thailand have been working together, a large community of Vietnamese citizens has settled in the United States. That community numbers over 1 million people, and many are U.S. citizens and registered voters. Letters to congressmen on refugee issues far outnumber those on any other issue. Thai policy makers should be aware of the gravity of this issue as Congress looks to issues that may be of concern to Thailand in the future.

On drug policies, an issue very important to Congress, many members of Congress see Thailand's opium eradication as a successful example of narcotic control policies. There is, however, a new aspect to the issue. As the production of opium and derivatives increases, notably in Burma and Laos, and faced with the inability to control this flow, Thailand will increasingly be seen as a conduit for those drugs into the international marketplace. Having largely succeeded in the area of opium eradication, Thailand will need to turn to the interdiction of those drugs as they flow out of Burma and Laos. That will be necessary for Thailand to maintain a positive stature in the eyes of Congress in the future.

In addition, diplomats in the U.S. missions abroad are sensitive to keeping channels open with Congress. Officials of the countries concerned must be able to get their messages to the members of Congress. They cannot simply rely on the executive branch to bring their message to Congress. The U.S. missions play a key role in channeling information.

AMERICAN PARTICIPANT: Regardless of whether legislation passes, congressional statements and speeches have a great impact—even legislation such as the Jenkins Bill that is not passed into law. We will see more congressional interest in Cambodia not because Congress is interested in a compromise settlement for the Cambodian people and the complexities involved therein, but because the Vietnamese have started to move and have been quite successful in portraying themselves as a benign force in the region. The tension coming from the Congress arises from the concern over Pol Pot. There is not one member of Congress or the executive branch that would support the return of the Khmer Rouge. The simplistic

view that is likely to arise from Congress is that we should take all measures possible to prevent the return of the Khmer Rouge and Pol Pot especially. Congressman Stephen Solarz understands the complexities, as do other members of the Foreign Affairs Committee. However, if Cambodia becomes a popular issue on the Hill, Thailand may find itself in a position where it will need to address the Congress more frequently to explain the complexities of this issue.

**THAI PARTICIPANT:** American decision makers often do not understand much about the political process in Thailand. However, we are aware of the processes involved in decision making in the U.S. Congress. We understand very well why the Congress has to react to the demands of its constituencies, because Thai politicians must do the same. Although congressional members are preoccupied with constituent demands, a number of them have become outward-looking because of America's enhanced role in world affairs. However, they still take an inward approach to foreign policy issues. On drugs, we agree that Thailand should be active in preventing the outflow of drugs from Southeast Asia. However, the United States must do something about the internal problems in the United States that generate demand for these drugs. One issue involved here is Bush's recent ban on the import of semiautomatic weapons. That ban does not bear on guns produced within the country, however.

Regarding trade, America's inability to deal with internal problems produces pressures that come to bear on countries like Thailand. And it is by applying such pressures that the Congress approaches a solution to the problem. This situation must change or frictions among states will increase. Yesterday we agreed that Thailand needs to change some things on the domestic scene. But the United States must try also. The U.S. political system requires bargaining back and forth, and I hope this exchange does not prolong a solution to such pressing problems as the narcotics issue.

**AMERICAN PARTICIPANT:** One of my concerns in this era is that the growth of what we loosely refer to as "democratization" now unfolding in Asia is not necessarily compatible with the other trend, internationalization. The issue of governability for modern democracies is a serious one. Perhaps it is not by accident that at least two and maybe all three of the most prominent economies of the market-oriented world are in some state of political precariousness today. One example is that the Takeshita government is deeply in trouble. Instabilities erupted over the recent tax bill, and the Recruit scandal certainly has had an impact. The Kohl government is facing difficulties also. In the United States, we are facing difficulties at the executive level. It is enormously difficult to function in an atmosphere

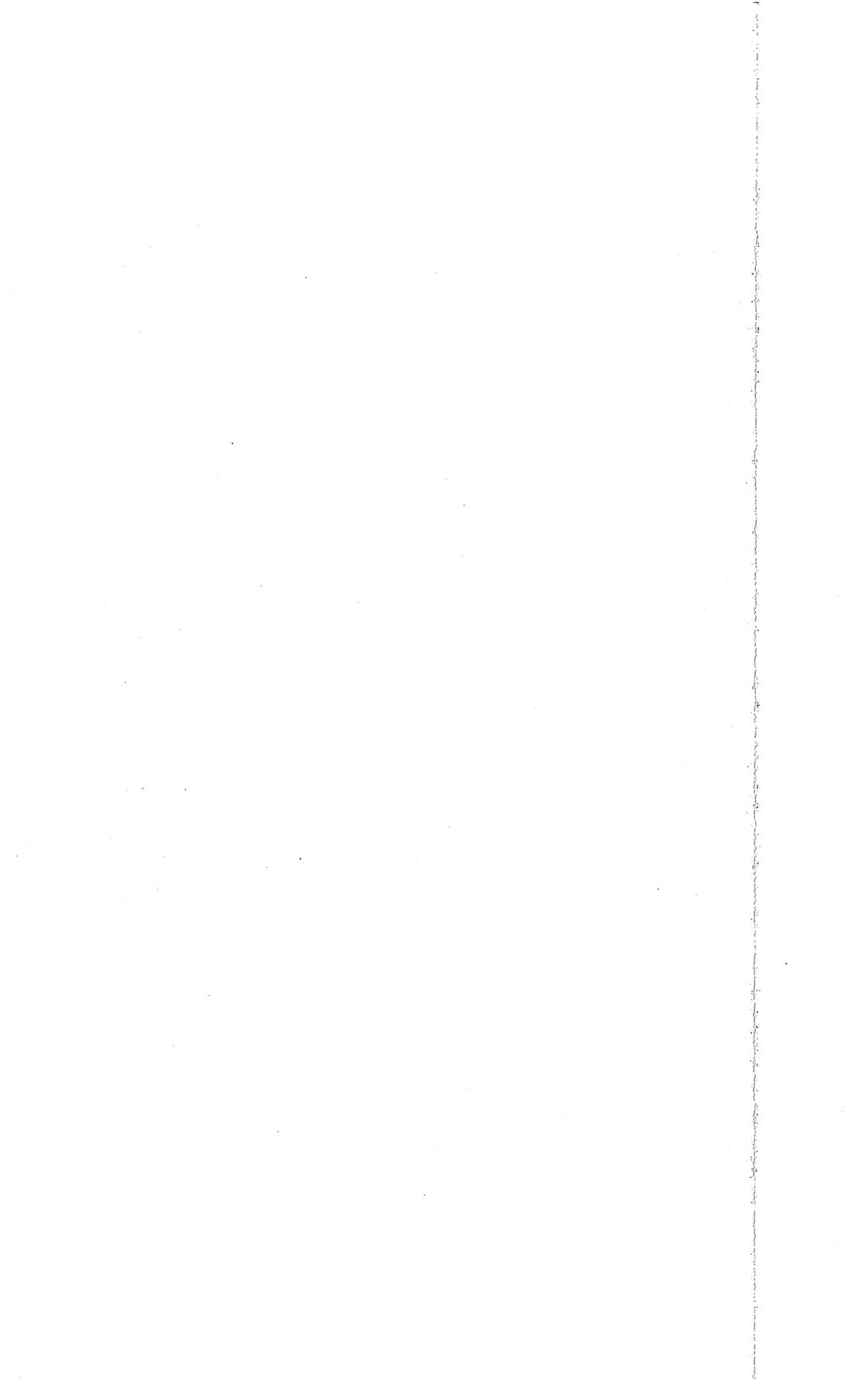
where, in many societies, interest groups have become much more powerful, mastering the art of communication and influence. The National Rifle Association is one example of such pressures in this country. The timing of decision making is now just as important as decision making itself. You must raise the level of crisis so high in order to mobilize public support in favor of one issue or another. This situation is now arising in U.S.-Thai relations. If crisis is high on the Thai side, it must be raised even higher in this country to make an impact.

When you add to this political situation the greater degree of interdependence among societies that cannot easily be meshed in terms of their respective interests, the complexities of the problem begin to emerge. This is not just a U.S.-Thai problem but a much broader problem over which we need a great deal of discussion along many lines.

Let us say that there is an alternative to treating the United States tough. Throughout Asia, the government that has most effectively played on the American scene is Taiwan. They have many domestic organizations in this country to build up congressional support for their causes even though every recent administration has argued that our relations with the People's Republic of China are extremely important. In the final analysis, Americans would rather be loved than respected.

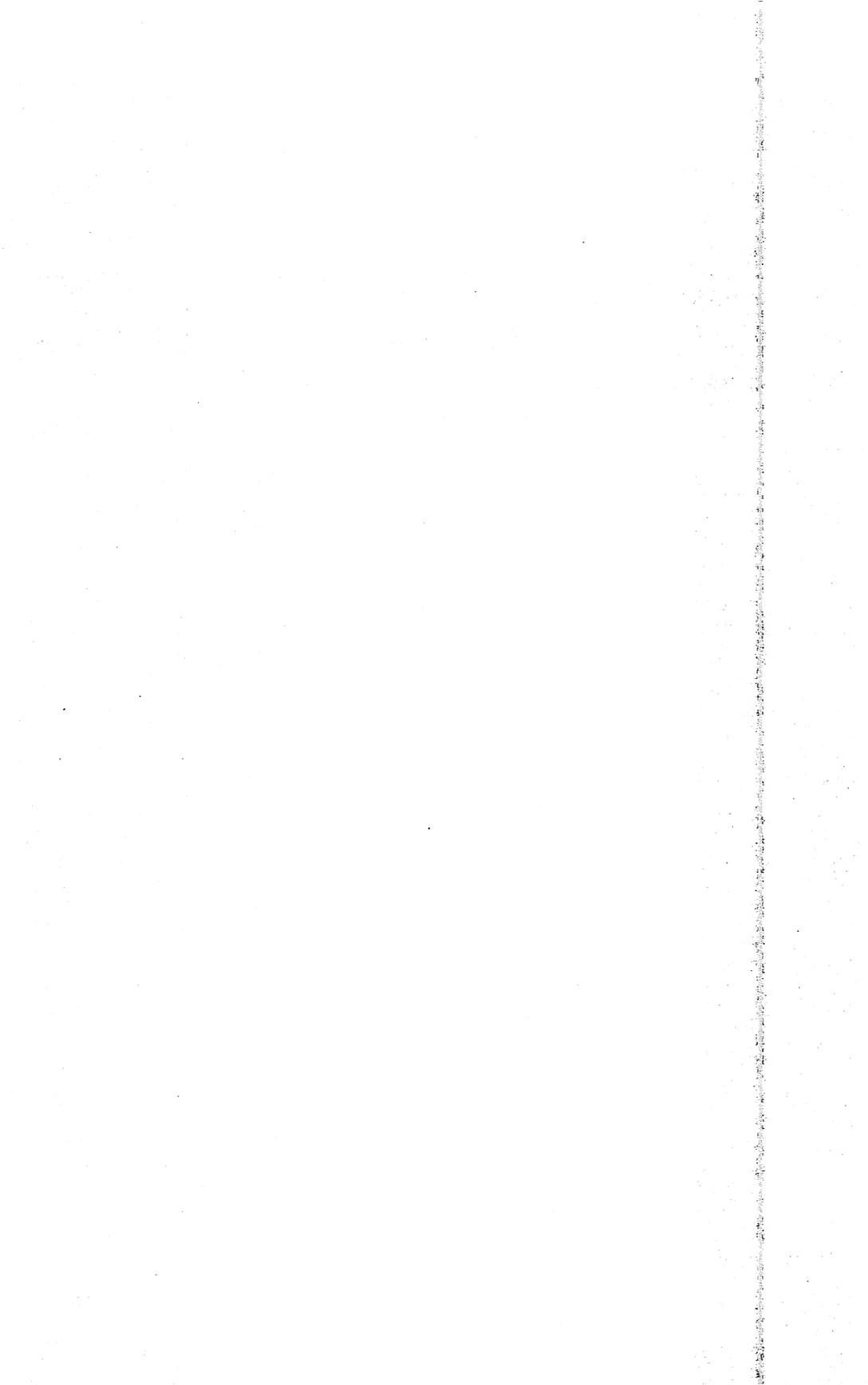
AMERICAN DISCUSSANT: The issue of macroeconomic coordination among the industrialized countries is indispensable. The circumstances of the United States in the world are such that a coordinated approach is absolutely essential if a shift in the U.S. internal and external imbalances are to be rectified. However, the United States is still a major actor. U.S. debt is denominated in dollars. Our debt is also strength in opening up possibilities for negotiation.

The United States is making its decisions using a very different logic from concern with what is happening throughout the world, and this includes conditions in Japan and Germany. Its logic relates to political balancing and responding to domestic political pressures. With respect to the trade balance, the United States is in the position of having a longer time to continue with a trade deficit before it becomes a central problem. The fiscal deficit is a signal of long-term trends. What happens to developing countries? There is the contradiction of helping the heavily indebted South American countries but also helping the developing economies of the Pacific Rim, making capital available to them. Using the World Bank to bail out Latin America will make less funds available for China, Thailand, Malaysia, and Indonesia.



**Part Six**

**Bilateral Issues on Investment,  
the Service Sector, and Science  
and Technology**



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## 11. The Hardware and Software of Development

JEFFREY RACE

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Let me begin by explaining briefly how I come to the question of the “hardware and software” of Thai development. My experience with Thailand began in 1967, and I have lived in or regularly visited the country since then, as a graduate student, postgraduate research fellow, university instructor, consultant in technology transfer and strategic planning, and proprietor of my own manufacturing firm.

Thus, my conclusions may differ from those of others, because my experience differs. Because I have worked in many areas—official, academic, and private; both as a consultant and as a principal—I have been privileged to see problems of economic development in both a theoretical and a practical way. My own sometimes costly but amusing experiences may help others to understand modern Thai economic history and to do even better in the future.

### **Critical Factors in Thai Economic Development: An Approach**

My approach is to extract from modern Thai economic history conclusions to assist in evaluating Thai policy priorities today. To do this we need to understand what about Thai economic development is different from the experience of other comparable nations and what factors account for these differences. With these conclusions in hand, we can assign priorities for current policy. My own approach is that—although the critical factors ultimately appear in the values of economic variables (e.g., savings rates, growth rates, distribution of economic activity by sector—the critical factors themselves are not economic. Rather, an economist would consider them to be parameters that define the relationships between his strictly economic variables. In a word, although we are looking at economic consequences, we will look at “noneconomic” factors. In my own

view, only in this way can we understand what is unusual or unique about the history of Thai economic development.<sup>1</sup>

To achieve significant insights we need to ask significant questions. What is unusual or unique about the history of Thai economic development? At least three things stand out: (1) there was a relatively high growth rate; (2) it continued over a long period from the nineteenth century, significantly interrupted only by the Great Depression and World War II; and (3) it spread broadly throughout the economy rather than remaining in one or a few sectors.

Some observers point to the relatively high growth rates in recent years of the industrial sector, the service sector, or the export sector and offer persuasive analyses in narrow economic terms. Such analyses are interesting and useful. But, in fact, Thailand's current record of economic successes only replicates its earlier successes over more than a century in other sectors across the board: mining, agriculture, fisheries, forestry, and transport. These successes occurred before "economic development" became a scientific discipline. Something else must be at work.

All scientific analysis is comparative. With what should we compare Thailand's record? Reasonable comparisons are with neighboring countries having similar agro-economic environments, cultures, and transport opportunities. Immediate comparisons can be made with Burma, Cambodia, and Vietnam and a less immediate one can be made with China. The experiences of the Philippines and Indonesia are also relevant, although a chapter of this length can only be suggestive of insights for further study. Compared with these other countries, over the long haul Thailand's economic record is markedly different in average rate of growth, sustained temporal duration, and sectoral scope. These are the areas that most need explaining, and the explanations will give the richest clues for policy guidance in the present day.

Could we gain useful conclusions from a traditional "land-labor-capital" or "factor endowment" approach? I judge not. The sun shines and the rain falls in all these countries. Their lands are fertile; all have extensive coastlines giving access to world markets. Looking back a century, cultural levels were roughly comparable. Such comparisons founded on the standard tools in the economist's kit might work for a landlocked, multiracial, preliterate society elsewhere, but it gives few interesting answers in Asia. The interesting and significant answers lie elsewhere. In short, what is to

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<sup>1</sup>Jeffrey Race, "Institutional Constraints on the Transfer of Technology to Small Farmers," *Economic Bulletin for Asia and the Pacific* (United Nations Economic and Social Commission for Asia and the Pacific, Bangkok), 27:1 (June 1976), pp. 41–61, and "Turning Parameters into Variables in the Theory of Economic Growth" (unpublished paper, 1976).

be explained is not Thailand's unusual success in "export-oriented industrialization," the current fad, but Thailand's unusual success—period.

### Candidate Critical Factors

Although each observer will have his own list of favorite candidates, mine consists of the following: (1) relative openness of the economy, (2) relative strength of the legal system, (3) commitment to developing human capital, (4) cultivation of an entrepreneurial class, (5) receptivity to new ideas, and (6) relatively sound rule with relative continuity of policies. Other observers might focus on different or additional factors. For me, these six are sufficient to account for Thailand's success. Let me elaborate briefly on each.

*Relative openness of the economy.* The key date is 1856, and the key historical event is the Bowring Treaty under which then Siam agreed to a regime of limited free trade with certain maximum duties to be levied.<sup>2</sup> This course of action was controversial among the Thai elite and not entirely voluntary. However, it *was* adopted, and its adoption has made a difference. Leaders of other countries made other choices with different consequences. The point is that Thai leaders chose the path of openness.

The practical consequence of this decision is that ever since, Thailand has developed as a relatively open, market-oriented economy, along the lines of international comparative advantage. Thailand's economy remains such relative to the countries we have selected for comparison, even though there have been some periods (e.g., the 1950s and 1960s) when more emphasis was placed on import substitution and other economic goals, such as building up state enterprises or reducing the role of local Chinese businessmen.

We can contrast this relative Thai openness with the integration of the economies under comparison into colonial trading blocs or, later after independence, with the promotion of strongly autarchic policies in Vietnam, Burma, China, and Indonesia.

*Commitment to developing a legal system as a secure framework for commercial activities.* A reliable legal system is one of those parameters that an economist takes for granted. From a sociologist's viewpoint, a legal system is the matrix in which commercial activities based on contract become possible. In everyday economic life, one doesn't see or feel the legal system, but—like air—if it is weak, one slowly suffocates, and if it is not there, one dies quickly. Like all human institutions, today's Thai legal system has its imperfections. But in comparison to what preceded it in

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<sup>2</sup>James C. Ingram, *Economic Change in Thailand, 1850–1970* (Stanford: Stanford University Press, 1971).

Thailand and in a comparative regional perspective, the modernization of the Thai legal system from the late nineteenth century onward was a crucial positive factor partially accounting for the differential Thai economic success.

The legal systems established under the authority of the colonial powers also served as a matrix for contract-based economic development during a prolonged period. However, in the postcolonial period, these systems have eroded—most clearly in Burma and Vietnam, and more recently and to a lesser extent in the Philippines, Singapore, and Malaysia.

*Commitment to the development of human capital.* Another marked feature of the royal campaign to modernize the economy started in the nineteenth century was the emphasis on the development of human capital by the expansion of the educational system and the sending of Thai citizens abroad for training in a variety of disciplines, including technical fields, law, medicine, and administration. Characteristic of the Thais was the absence of a bias against foreign things or methods. It is reasonable to assume that the economic consequences of this choice were as profound as the political consequences, which included the overthrow of the absolute monarchy in 1932 and the upheaval that drove out the quasi-absolute military successor regime in 1973. These consequences were accepted and considered favorable by the nation.

*Cultivation of an entrepreneurial class.* The encouragement of immigration by different ethnic groups with a view to developing the economy was a conscious policy of the Thai elites. The intention was the same as that of the colonial rulers of neighboring countries (the British in Burma and Malaya, the French in Indochina, and the Dutch in Indonesia), and the results were the same. But the important difference was in the Thai cultural backdrop. The Thais are genuinely tolerant and welcomed Scandinavians to develop forestry; other Europeans to develop rail systems, banking, and communications; and Chinese to develop mining, trade, crafts, finance, and some types of agriculture. Immigrants were encouraged to come, to marry, and to assimilate if they chose or to retain elements of cultural distinctiveness (e.g., religion). The king became the protector of all religions. The openness of the Thai elites sprang from a cultural attitude, not solely from economic motives. Accordingly, the immigrant groups experienced greater emotional and financial security, and thus they could stay on in Thailand and prosper in a way that was denied them in countries like Vietnam, Burma, and Indonesia when the colonial authorities withdrew. Again, the Thai choice differed from that of its neighbors, and it had different consequences.

*Openness to ideas.* Another marked feature of Thai development was the willingness to accept new ways of doing things from abroad. Perhaps

because of cultural factors or perhaps because the Thais have never been colonized, the Thais have no “chip on the shoulder” regarding foreigners or foreign ways. They are neither worshipful nor resentful: New ways are evaluated pragmatically. Looking back a long way, one can see this openness at work in the adoption of the modern Thai legal system, an eclectic mixture of substantive and procedural provisions from many countries, mostly in the civil law tradition but with a few elements of common law as well. More recently, the Civil Service Commission has adopted a positive classification system based on a U.S. model.

*Relatively sound rule with relative continuity of policies.* Although this factor is judgmental, it is clearly also of overwhelming importance in the sound development of the country. Political scientists may debate why it is so, but the Thai political and administrative systems have not been used historically to extract excessive economic resources from the Thai population. Elites maintained political dominance and appropriated a substantial proportion of national income, but their means of rule were not harsh, and the services they provided (protection, administration, and development) were in reasonable proportion to what they took. This type of rule contrasts with the situations of Vietnam, Indonesia, and China, where the use of political power for economic extraction led to radicalization and revolt.<sup>3</sup> Furthermore, and again for reasons that analysts debate, the Thai political system in the modern period has generally not used its power to extract economic resources from its neighbors.

Accordingly, as a broad generalization, Thailand has avoided during the period of its modern development the internal revolutions and external wars that have slowed the development of many comparably situated countries, for example, Burma, Vietnam, China, the Philippines, and Indonesia. The extremely important practical economic consequence is that without the diversion and destruction of resources that accompany war and revolution, compound interest has almost continuously worked to increase the capital stock and resulting income levels of the country.

## The Results

The combination of all the factors cited above resulted in many favorable outcomes relative to comparably situated countries. At least four stand out: (1) relatively high, steady growth over a prolonged period since

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<sup>3</sup>For a theoretical analysis from a sociologist's perspective, which highlights the political and economic consequences, refer to Gerhard E. Lenski, *Power and Privilege: A Theory of Social Stratification* (New York: McGraw-Hill, 1966). For an economic analysis specifically of Vietnam, refer to Robert L. Sansom, *The Economics of Insurgency in the Mekong Delta of Vietnam* (Cambridge, Mass.: MIT Press, 1970).

the mid-nineteenth century; (2) not an "enclave" economy but broad development across many sectors, including agriculture, fisheries, mining, transport and communications, and more recently industrial production and services; (3) accumulation of capital in the hands of native entrepreneurs or immigrant entrepreneurs with a strong economic and cultural orientation to the country; and (4) relative efficiency of the economy in its use of investment resources. This fourth point may indeed be taken as a summary index of the resulting soundness of the economy, and the comparative data are particularly persuasive.

In an earlier study, I devised an index, gross investment efficiency, to capture relative economic efficiency.<sup>4</sup> It is calculated as the ratio of gross domestic capital formation (GDCF) (as a percentage of gross domestic product) to per capita GDP growth rate. As shown in Table 1, Thailand's average gross investment efficiency index for 1975 to 1979 was calculated to be 4.34. In contrast, the Philippine index was 9.14. This means in simple terms that to obtain one percentage point of growth during the period under analysis, Thailand had to invest just over 4 percent of its income, whereas the Philippines had to invest 9 percent. The Thai economy was thus highly efficient and that of the Philippines much less so. (Parenthetically we might observe that the Philippines was such a prodigious borrower, ultimately with such a poor servicing capability, because of this relative investment inefficiency. The Indonesian figure may have been atypically high during the period under analysis because of the steep rise in oil prices and resulting foreign-source income after 1973.)

### **Inferences and Conclusions**

To the extent the above observations are correct, we have a basis from which to draw conclusions about current policy priorities. The principal inference is that Thailand's factor endowment is an essential component of economic success but not the distinguishing component. To develop the metaphor in the title of this chapter, the crucial distinguishing factors in Thai economic success are not to be found in the "hardware": land, labor, and capital. Irrigation works were important; railroads were important; ports, roads, power, and telephone systems were important. But to come into being and bring the benefits they did, these "hardware" items required "software."

It is thus to the "software" that we must look. In this category, we would include the cultural attitudes of pragmatism, receptivity to new ideas,

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<sup>4</sup>Jeffrey Race, "Where World Trends Are Heading: The View from Asia" (paper presented at the Annual Meeting of the Association for Asian Studies, Chicago, April 3, 1982).

**Table 1**  
Indicators of Investment Efficiency, 1975–1979

	(1) GDP Growth Rate, Average 1975–79	(2) Population Growth Rate, Average 1975–79	(3)=(1)–(2) Average Growth Rate Per Capita	(4) GDCF/GDP, Average 1975–79	(5)=(4)/(3) Gross Investment Efficiency
Thailand	8.42	2.48	5.94	25.80	4.34
Malaysia	7.00	2.70	4.30	25.00	5.81
Indonesia	6.28	2.00	4.28	21.10	4.93
Philippines	6.04	2.80	3.24	29.66	9.15

SOURCE: Above figures compiled from aggregate data published in Asian Development Bank, *Key Indicators of Developing Member Countries of the Asian Development Bank*, (Manila, 1979) (published annually).

conservative consistency, and tolerance to foreigners. We would then include the societal consequences of these cultural attitudes, such as the legal system, the commitment to developing human capital, and mildness of rule. For the “land, labor, and capital,” the Thai people and their leaders deserve no credit, as these were gifts of providence. But for the “software” of cultural openness to experience and of sound and relatively consistent decisions based on mutuality rather than violence, the Thai people and their kings can claim true credit. Their decisions during the nineteenth century were to some extent natural extensions of their personalities and culture and to some extent conscious choices to which they had alternatives. Constructing the “hardware” was the easy part. Constructing the “software” was controversial, challenging to vested interests, and demanding of political will. The historical record shows that other countries made other choices.

If the preceding analysis is correct, what are the implications for today? At a general level, we can say that the key decisions of Thai leaders a century ago were to adjust the social “software” to take maximum advantage of the physical “hardware” of development. As the “software” was (according to our argument) the central differentiating factor then, it is reasonable to believe that it would remain so now. The “software” remains the appropriate subject of current focus. As the economy grows more sophisticated, so must the “software” keep pace or even anticipate (as it did in the nineteenth century). “Hardware” items—roads, ports,

airports, and buildings—remain essential, but only appropriate “software” can achieve their potential.

### **Policy Implications for Today**

It is a particularly favorable time for Thailand to alter existing institutions, since “times are good.” When economic conditions deteriorate, as inevitably they must in a cyclical world, managed change will become more difficult.

#### *The Legal System*

The top priority for “software” reform should now be the legal system, as it was at the start of the modern development process in the nineteenth century.<sup>5</sup> Thailand’s baseline is good and getting better, but priority resources devoted to the legal system would produce extensive benefits. Four areas might be candidates for attention.

*The substance of legislation.* Technological advance and changing commercial practices have made many provisions obsolete and generated loopholes in other areas. In still other cases, the absence of legislation has inhibited development.

*Speed.* Justice delayed is justice denied. In many areas, the slowness of established legal processes, compared to the increasing swiftness of commercial activities, adds significantly to the cost or risk of doing business. A good example is the Thai practice of discontinuous hearings.

*Efficiency of judicial processes.* Many measures could increase the efficiency of use of judicial time. Two such measures are the adoption of discovery methods to economize on courtroom time and the preparation of verbatim transcripts by court reporters, rather than the present practice of employing the judge to dictate summaries of testimony.

*Difficulty in obtaining interim relief.* Many ordinary conflicts in everyday life demand interim relief, but in contrast with many other countries, such relief is very difficult to provide in Thai courts. No doubt there are sound historic reasons for this judicial reluctance to furnish interim remedies. Such reluctance, however well founded, is having severe and increasing costs. Timely reconsideration might produce many benefits.

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<sup>5</sup>A fellow contributor to this volume, David Lyman of the Bangkok law firm of Telleke & Gibbons, has authored a fair and well-documented overview and critique of the Thai legal system from the viewpoint of a litigator: “Thailand’s Judicial System and the Procedures for Civil Proceedings: An Overview,” paper presented at the 1987 International Conference on Trial Practices and Procedures in Indonesia; available from Telleke & Gibbons, Bangkok, or Datasearch Resources, Singapore.

Recent press articles suggest that many Thai legal practitioners themselves see the urgency of legal reform.<sup>6</sup> Their efforts in this direction deserve every kind of support.

### *The Revenue System*

The system for mobilizing public resources is another very high priority area. Money is the lifeblood of government, but many parts of the present revenue system serve the Thai nation poorly. The difficulty is not that various parts of the system are corrupt, but that the corruption, particularly in the customs, business, and land tax areas, is so pervasive and accepted that it becomes routine. Participants display little sense of shame, guilt, or wrongdoing for a very practical reason. In many areas, commercial practices and the letter of the law have with time so diverged that it is difficult or impossible to behave honestly even for those who wish to do so. With a wink and a nod, participants make informal accommodations to reality. This is so well known that even the minister of finance (a former businessman) has commented publicly—and humorously—on the endemic nature of tax evasion.

More important than the revenue loss is that such a state of affairs destroys trust, reduces predictability, and brings the entire system of legality into contempt. Modern economic systems reach a peak of efficiency only on the basis of trust, predictability, and legality. Thus, strictly in practical terms, reform of the weak elements of the present system would pay dividends far beyond the financial. Some reforms, for example adoption of a value-added taxation system, are now under consideration.

### *Human Capital*

With the increasing sophistication of the Thai economy and its integration into the world economy, resources devoted to enhancing human capital will produce ever larger returns. Strong candidates for increased financial resources are foreign language training and scientific and technological education.

However, other improvements not requiring additional resources could fruitfully be adopted. One would be the implementation of lateral career entry provisions into government service. In practice, lateral movement is now very difficult, with the result that each career pyramid tends toward lifetime employment with promotion opportunities open solely to its own personnel. Once a participant leaves, he is definitively out. The frictional effects of this practice, locking personnel both in and out, sap economic efficiency.

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<sup>6</sup>“Sweeping Revisions of Laws Proposed,” *The Nation* (Bangkok), January 17, 1989, pp. 1–2.

A second improvement with big potential benefits would be the establishment of pay comparability among the private sector, public enterprises, and the civil service. Short-term budgetary costs for increased civil service pay would be recovered from the increased efficiency of the entire economy. The ill effects of the present lack of comparability are well known.<sup>7</sup> Political will invested in a comparability program would pay big benefits across the board, particularly if combined with provisions for lateral movement and entry.

### *Intellectual Property Rights*

Thailand's current stance on the protection of intellectual property is contrary to the nation's long and proud tradition of being a leader in developing a reliable legal system, and it is contrary to the nation's own needs as it develops from an agricultural through an industrial to a service economy. Unlike many other Asian countries, Thailand has never based its economic growth on "copycat" production. On the contrary, ever since the great reforms of the nineteenth century, Thailand has prided itself on adopting advanced legal procedures and provisions. The nation is an active participant in international legal agreements and in a famous case pursued a dispute before the International Court of Justice and adhered to a ruling unfavorable to itself. Many of Thailand's friends find it baffling for public spokesmen to say that the country as a matter of policy will not respect the intellectual property rights of others because it would be economically disadvantageous to do so. It is as if the Bangkok Tourist Police were to pursue snatchers of purses but not of watches, arguing to tourists that Thailand is a poor country and cannot afford to pay for the watches it needs. The character of public discussion suggests that Thai leaders do not perceive that they are placing their country, which had been well regarded, in an extremely unfavorable light. Inasmuch as Thailand ultimately must adhere to internationally accepted standards, the benefits of the present stance seem ephemeral and hardly worth the damage inflicted on the nation's reputation.

### *Improving Public Policy Making and Continuity*

As the system of parliamentary democracy is increasingly institutionalized, power formerly mostly with the cabinet and the bureaucracy must come to be shared with Parliament. Experience in the United States legislature suggests that parliamentary staffs must have broad familiarity with issues, facts, and analytical methods, comparable to that of the

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<sup>7</sup>"High Rate of Brain Drain in Civil Service" *The Nation*, February 26, 1989.

executive agencies whose work they monitor. Thus, at this stage of Thai development, another important area of emphasis should be the expansion of the parliamentary staff system, particularly the training of personnel.

### **Conclusion**

East Asia is a fascinating laboratory for comparative social and economic study. The case of Thailand is valuable for what it teaches about the necessary and sufficient conclusions for broad and prolonged economic success. Its experience suggests that “land, labor, and capital”—the contents of every economist’s toolbox—are not enough for such economic success. What Thailand added, through the wisdom of its people and the blessings of its religion and culture, has significant implications for other nations and for its own current policy choices.

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## 12. Thai-American Relations: Trade in Services

SOMJAI PHAGAPHASVIVAT

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Whereas trade in goods has long been conceptualized, studied, and analyzed, the attempt to define services is a recent phenomenon. The earliest attempt was made by T. P. Hill in 1977.<sup>1</sup> Hill distinguished services from goods by drawing attention to their characteristic nonstorability. In general terms, most economists agree that services are an economic output having the following qualifications:<sup>2</sup>

1. *Intangibility.* Unlike goods, services are intangible or of a non-material nature. Insurance, banking, tourist, and consultancy are examples.

2. *Nonstorability.* It is not possible to lay up stocks of services or transport them.

3. *Direct interaction between providers and users.* As services produced must be immediately consumed, they require a direct interaction between the providers of services and the users. The interaction could take the form of long distance services such as telecommunication and transportation or services that require physical proximity like consultancy or medical service.

In the case that there is physical proximity, the important issue of the "right to establish" arises. This sort of right refers to factor flow of capital and labor. Some economists have made an attempt to classify services into factor and nonfactor services. Factor services refer to income and payments for the use of factors of production, that is, capital and labor such as investment income and workers' remittances. Nonfactor services include banking, insurance, tourism, transportation, telecommunication and others.

Services can be defined according to broad or narrow concepts. In the

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<sup>1</sup>T. P. Hill, "On Goods and Services," *Review of Income and Wealth* 23, no. 4 (December 1977).

<sup>2</sup>Ad Koekkoek, "Developing Countries and Services in the Uruguay Round," *Intereconomics*, September–October 1987.

**Table 1**  
Share of Services in GDP, 1977–1987  
(million dollars U.S.)

	GDP	Agriculture and Mining	Industry	Services	Services as a Percentage of GDP
1977	16141.2	4493.1	3257.3	8390.8	51.9
1978	19529.0	5449.8	3906.3	10172.9	52.0
1979	22352.6	6105.8	4704.4	11544.2	51.6
1980	26340.4	7000.0	5597.4	13743.0	52.1
1981	30407.8	7381.7	6778.4	16247.6	53.4
1982	32800.1	7278.0	7054.4	18467.7	56.3
1983	36402.2	8518.0	7774.4	20147.2	55.3
1984	38936.5	8325.8	8722.0	21888.7	56.2
1985	40576.0	8402.5	8978.2	23195.2	57.1
1986	43981.6	8720.4	10143.7	25117.6	57.1
1987	48928.7	9306.6	11779.8	27842.3	56.9

SOURCE: National Economic and Social Development Board, Thailand.

broader definition, services are equivalent to “invisible trade.” This definition covers shipment, transportation, travel, other private and public services, labor, and investment income. In the narrow sense services exclude factor services, that is, investment income and workers’ remittances or remunerations.

### **The Importance of the Service Sector to Thailand**

Services have long been an important sector in Thailand’s economy. Since 1977, the share of services in its gross domestic product (GDP) has exceeded 50 percent (see Table 1).<sup>3</sup>

In 1977, the total value of services amounted to U.S. \$8,390.8 million, representing 52.0 percent of GDP, compared to 27.8 percent for agriculture and mining and 20.2 percent for industry. The figure for the service sector rose steadily to U.S. \$27,842.3 million in 1987, representing 57.0 percent of GDP, compared to 19 percent for agriculture and mining, and 24 percent for industry.

<sup>3</sup>Services here include construction, electricity, water, transport and communication, wholesale and retail, banking, insurance, immovable property, residential services, public administration, defense, and others.

**Table 2**  
**Receipts from Services and Exports, 1977–1987**  
 (million dollars U.S.)

Year	Total Receipts	Export Receipts	Service Receipts	Service/Export	Growth
1977	3409.4	2818.5	590.9	17.3	
1978	4175.0	3290.0	885.0	21.2	49.8
1979	5441.7	4275.2	1166.5	21.4	31.8
1980	7022.8	5281.6	1741.2	24.8	49.3
1981	8064.7	6008.7	2056.0	25.5	18.1
1982	8658.9	6288.1	2370.8	27.4	15.3
1983	8488.5	5803.0	2685.5	31.6	13.3
1984	9850.5	6940.8	2909.7	29.5	8.3
1985	11103.3	7668.1	3435.2	30.9	18.1
1986	12765.9	9259.3	3506.6	27.5	2.1
1987	16211.5	11924.0	4287.5	26.4	22.3
Average				25.8	22.8

SOURCE: Bank of Thailand.

Trade in services has been a major component in the country's balance of payments. In 1977, receipts from trade in services amounted to U.S. \$590.9 million, accounting for 17.3 percent of total receipts from exports and services. Service income shot up to \$4,287.5 million in 1987, making up 26.4 percent of the total receipts from exports and services. Between 1977 and 1987, the average growth in receipts from trade in services was 22.8 percent, which was considered quite remarkable.

Thailand has been suffering a deficit in its trade in services. The net deficit totaled U.S. \$274 million in 1983, and the amount slackened to \$170.7 million in 1987. On the receipt side, income from tourism has topped the list. In 1983, income from tourism was \$1,002.0 million, representing 37.3 percent of the total income from trade in services. Its growth rate stood at 20 percent per annum. In 1987, the revenue from tourism amounted to \$2,001.0 million, thus making up 46.7 percent of the total revenue from trade in services. The second biggest income producing category in the service sector was "other services," the bulk of which was made up by workers' remittances. This income rose from \$988.3 million in 1983 to \$1,153.5 million in 1987.

On the expenditure side, heading the list was investment income sent abroad by foreign enterprises operating in Thailand. In 1987, payment of

**Table 3**  
**Balance of Services and Payments, 1983–1987**  
 (million dollars U.S.)

	1983	1984	1985	1986	1987
Receipts	2685.5	2909.7	3435.2	3506.6	4287.5
Transport and freight	238.5	282.4	369.5	361.0	402.0
Other transports	143.8	160.7	143.2	118.2	337.8
Tourism	1002.0	1092.7	1270.7	1492.8	2001.0
Investment income	209.1	208.4	266.2	248.4	265.5
Government service	103.8	101.3	155.5	119.8	127.7
Other services	988.3	1064.1	1230.0	1166.3	1153.5
Expenses	-2959.7	-3271.0	-3820.4	-3863.1	-4458.1
Transport and freight	-1052.5	-1116.9	-1170.2	-1133.0	-1524.5
Other transports	-122.4	-109.9	-141.3	-132.8	-151.3
Tourism	-315.8	-291.6	-304.9	-311.9	-396.1
Investment income	-1166.4	-1417.2	-1793.1	-1881.9	-1923.5
Government service	-58.4	-49.2	-77.9	-69.0	-107.6
Other services	-244.1	-286.2	-333.0	-334.4	-355.2
Net balance of service	-274.3	-361.3	-385.2	-356.5	-170.6

SOURCE: Bank of Thailand.

dividends, capital gains, and interest to foreign countries was as high as U.S. \$1,923.5 million, or 43.1 percent of total expenditures. The figure contrasts markedly with receipts from investment income, which in 1987 were only \$265.5 million. The second largest deficit in the country's trade in services was in transportation and sea freight. In 1987, the deficit in this subsector was U.S. \$1,524.5 million, which accounted for 34.2 percent of total expenditures in the trade in services. In fact, Thailand would have enjoyed a surplus in its trade in services if investment income were not included (see Table 3).

Between 1977 and 1987, Thailand suffered from deficits in its balance of trade and services with the exception of 1986, when it enjoyed a small surplus of U.S. \$24 million. However, the deficits in the balance of services have been declining, owing to the receipts from tourism and workers' remittances, which have become significant earners (see Table 4).

The country's service sector has always been an important source of employment. However, data on employment in services are fraught with measurement problems because a significant portion of service sector

**Table 4**  
**Balance of Trade and Services, 1977–1987**  
 (million dollars U.S.)

Year	Trade Balance	Net Services	Net Goods and Services
1977	– 650.4	– 277.3	– 927.7
1978	– 709.5	– 260.9	– 970.4
1979	– 1300.4	– 452.2	– 1752.6
1980	– 1583.0	– 290.5	– 1873.6
1981	– 1775.0	– 614.6	– 2389.6
1982	– 672.1	– 421.6	– 1093.7
1983	– 2632.2	– 274.3	– 2906.5
1984	– 1782.6	– 361.3	– 2143.9
1985	– 1417.5	– 385.2	– 1856.8
1986	380.6	– 356.5	24.0
1987	– 434.0	– 170.6	– 604.6

SOURCE: Bank of Thailand.

employment is informal, part-time, or self-employment. In 1983, the share of services in national employment was 23.4 percent.<sup>4</sup> The percentage rose to 30.5 percent in 1987, indicating the growing importance of the service sector in the country's employment. The share of services in national employment in Thailand is lower than the share of services in GDP; in other words, service employees have above average labor productivity (see Table 5).

Within the service sector, 33.7 percent is employed by the private sector, 22.3 percent by the government sector. A total of 27.2 percent is self-employed in the service sector, while 14.5 percent is involved in the family business. The remaining 2 percent is wage earners in the service sector.

### **Thai-American Trade in Services: The Thai Perspective**

Thailand has an overall service deficit with the United States, but that deficit has been declining since 1985. Between 1980 and 1984, the average deficit in services was U.S. \$453.32 million. From 1985 through 1987, the average deficit was reduced to \$257.80 million; and during that period

<sup>4</sup>Chia Siow Yue, "The Services Sector in the ASEAN Region" (National University of Singapore).

**Table 5**  
**National Employment Classified by Types of Activities, 1987**  
**(in thousands)**

Type	National Employment	Agriculture	Mining	Industry	Services	Services as a Percentage of National Employment
All employment	25,694	14,924	77	2,832	7,850	(30.5)
Wage earners	336	82		90	163	(48.5)
Employment in the government sector	1,832	33	1	43	1,756	(95.8)
Employment in the private sector	6,138	1,745	56	1,677	2,652	(43.2)
Self-employment	8,419	5,623	11	648	2,136	(25.3)
Employment in family business	8,968	7,442	8	373	1,144	(12.7)

SOURCE: National Statistics Office, Thailand.

Thailand could have enjoyed a surplus in the service sector if payments to the United States for investment income had been excluded.

The biggest expense item in services for Thailand vis-à-vis the United States is investment income, which has risen steadily. In 1978, the payment of investment income to the United States amounted to U.S. \$80.8 million. However, the figure shot up to \$456.1 million in 1985 and has remained in that vicinity ever since. The second largest expense has been in cost, insurance, and freight (CIF), which has been quite stable since 1980. In 1987, the total expense in this sector amounted to \$307.7 million, compared to \$337.8 million in 1980. Expenditures for travel and tourism was the third highest, followed by the category of "other services." This latter included remittances of foreign employees or workers. Expenses in tourism averaged \$125.9 million between 1983 and 1986. The amount rose to \$168.8 million in 1967. Expenses for "other services" fluctuated in the range of \$95.0 million to \$255.7 million between 1980 and 1987. Workers' remittances, included in the category "other services," accounted for the largest amount of receipts in services for Thailand vis-à-vis the United States. In 1984, the amount was U.S. \$178.8 million. It shot up to \$398.9 million a year later. In 1987, the total amount of receipts was \$473.2 million.

The second largest amount of receipts for Thailand was in travel and tourism. In 1978, the surplus was only U.S. \$30.9 million. However, the amount rose substantially after 1984. In 1987, the surplus amounted to \$149.6 million. The receipts from freight and insurance, investment income, and government services were comparatively close, approaching \$70.4 million in 1987.

The biggest deficit in services for Thailand vis-à-vis the United States was investment income, followed by freight, including insurance, and tourism. In 1987, the deficit for investment income was U.S. \$384.3 million, followed by \$237.3 million for freight and insurance, and \$19.2 for tourism.

Thailand's greatest surplus was in workers' remittances, in the category "other services." The surplus in this category in 1987 was U.S. \$361.1 million. The other surplus for Thailand was in government service, which recorded a surplus of \$32.4 million in 1987 (see Table 6).

### **Thai-American Trade in Services: The U.S. Perspective**

International trade in services has been the focus of recent international attention. Interest in services was first expressed in the period following the GATT (General Agreement on Tariffs and Trade) Ministerial Conference in 1982, and services have since been a continuing theme for discussion both within the GATT and in other contexts.

The controversy around their inclusion in the GATT framework during the Uruguay Round at Punta del Este 1986 may indicate the growing concern and importance of services in the international community.<sup>5</sup> The United States and the "group of ten led" by India and Brazil would like to "delink" the GATT from services, as proposed by the United States. In the compromise reached at Punta del Este, services were negotiated under the aegis of the Trade Negotiating Committee of the GATT, deliberately leaving aside the question of whether GATT would be augmented or bypassed. Thus, services might be expected to be of growing importance as a focus of future international discussion.

The concern over the trade in services is particularly acute in the case of the United States. Since the mid-1970s, the United States has undergone certain structural adjustments in its economy. The country's trade balance has greatly deteriorated since 1984, with deficits exceeding U.S. \$100 billion (see Table 7). Its huge budget deficits could restrain its economic growth. In light of the circumstances, the U.S. presidential administration,

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<sup>5</sup>For more details, see Jagdish N. Bhagwati, "Trade in Services and the Multilateral Trade Negotiations," *The World Bank Economic Review* 1, no. 4, pp. 549–569.

under pressure from Congress, has tried to redress the situation by resorting to a combination of protectionist threats and trade liberalization as required from its trading partners, on the one hand, and linking trade liberalization with service liberalization, on the other hand. Trade in modern services is an area that offers the United States, like other industrialized countries, scope for adjusting its economy because of the advantage it enjoys over its developing trading partners. Liberalization of trade in services could function as a self-sustaining generator of growth for the United States, as trade liberalization was in the 1950s and 1960s.

**Table 6**  
Balance of Payments Between Thailand and the United States  
(million dollars U.S.)

	1978	1979	1980	1981	1982
<i>Merchandise</i>					
Exports (FOB)	423.8	536.3	465.1	534.1	684.6
Imports (FOB)	-862.0	-1338.0	-1767.6	-1349.7	-1240.7
Balance of trade	-438.3	-801.7	-1302.5	-815.6	-556.0
<i>Services</i>					
Income	199.0	255.4	290.4	341.6	386.3
Transport and freight	10.4	10.1	13.6	20.7	20.4
Other transport	20.8	43.8	32.7	22.2	60.0
Tourism	30.9	30.0	43.1	49.7	62.3
Investment income	23.6	29.9	38.4	52.3	41.6
Government service	14.1	15.4	21.4	35.2	40.9
Other services	99.2	126.2	141.2	161.5	161.1
Expenses	-374.2	-537.6	-714.7	-805.9	-846.3
Transport and freight	-178.9	-236.5	-337.8	-296.0	-283.5
Other transport	-12.4	-21.9	-34.3	-42.7	-35.6
Tourism	-42.3	-57.1	-66.5	-94.9	-97.3
Investment income	-80.8	137.9	-168.1	-232.7	-291.9
Government service	-8.9	-11.4	-13.1	-25.4	-26.1
Other services	-50.9	-72.9	-95.0	-114.1	-108.9
Balance of services	-175.3	-282.3	-424.3	-464.3	-460.0
Net capital transfer	15.7	22.4	52.3	61.6	49.1
Private	8.4	12.6	34.9	32.5	30.5
Government	7.3	9.8	17.4	29.1	18.5
Balance of payments	597.8	-1061.0	-1674.6	-1218.3	-966.9

*(Continued)*

**Table 6 (Continued)**

	1983	1984	1985	1986	1987
<i>Merchandise</i>					
Exports (FOB)	773.9	1034.4	1326.7	1552.5	2021.7
Imports (FOB)	-1306.3	-1384.0	-1023.5	-1005.9	-1738.0
Balance of trade	-532.4	-349.6	303.2	546.6	283.7
<i>Services</i>					
Income	389.4	482.9	754.2	750.9	868.9
Transport and freight	29.8	37.4	46.1	50.5	70.4
Other transport	69.3	80.4	44.4	44.9	44.4
Tourism	62.7	102.7	124.2	134.3	149.6
Investment income	29.3	43.3	76.8	55.4	63.9
Government service	43.1	40.2	63.9	59.9	67.5
Other services	155.3	178.8	398.9	406.0	473.2
Expenses	-832.9	-957.4	-994.2	-1028.6	-1124.6
Transport and freight	-293.7	-318.2	-239.7	-241.9	-307.7
Other transport	-45.5	-42.0	-52.0	-51.5	-52.5
Tourism	-123.8	-124.5	-124.6	-130.8	-168.8
Investment income	-255.4	-338.9	-456.1	-468.8	-448.2
Government service	-20.9	-24.4	-15.5	-25.5	-35.4
Other services	-93.6	-109.4	-106.4	-110.1	-112.1
Balance of services	-443.5	-474.5	-240.0	-277.7	-255.7
Net capital transfer	55.6	76.3	68.4	77.4	84.4
Private	26.0	38.3	37.1	46.7	60.9
Government	29.6	38.0	31.3	30.6	23.6
Balance of payments	-920.4	-747.8	131.6	346.3	112.5

SOURCE: Bank of Thailand

Given the extent of the trade and current account deficits of the United States, it is inevitable that the measures undertaken by the administration would not be aimed at any particular country or group of countries, but would be global. The most threatening situation is in East Asia, where the U.S. trade deficits have been growing enormously, particularly with Japan, South Korea, and Taiwan. The same trend can also be perceived in U.S.-ASEAN trade relations. U.S. trade deficits vis-à-vis ASEAN grew from U.S. \$2.5 billion in 1982 to \$7.0 billion in 1985. In 1986, because of a decline of \$1.3 billion in the value of ASEAN petroleum-related shipments to the United States, the U.S. trade deficit with ASEAN fell to \$6.0 billion. The growing deficit suffered by the United States with ASEAN was attributed to the rise in manufactured exports by the ASEAN countries.

**Table 7**  
**Trade and Current Account Balances of the United States**  
 (billion dollars U.S.)

Year	Merchandise Exports	Merchandise Imports	Trade Balance	Current Account Balance
1982	212.3	254.9	-42.6	-8.7
1983	200.5	269.9	-69.4	-46.3
1984	218.7	346.4	-127.7	-107.1
1985	212.8	352.5	-139.7	-115.1
1986	227.2	382.3	-155.1	-138.8
1987	254.1	424.4	-170.3	-154.0

Prior to 1985, trade relations between Thailand and the United States were characterized by deficits on the Thai side. Deficits also existed in the balance of services and the balance of payments. However, in 1985 for the first time, trade relations favored Thailand, which enjoyed a surplus of \$303.2 million. The Thai surplus has prevailed ever since, at \$546.6 million and \$283.7 million in 1986 and 1987, respectively. Thailand's favorable situation has also been reflected in the balance of payments since 1985. However, the trade surplus enjoyed by Thailand vis-à-vis the United States since 1985 has remained very small compared to the surpluses enjoyed by Japan and the NICs, especially South Korea and Taiwan. Nevertheless, the small size of the surplus should not be taken as an indication that the U.S. administration would be comparatively lenient in dealing with Thailand.

### **Issues in Thai-American Trade in Services**

The service sector has become the most important sector in the Thai economy. Its share in the country's gross domestic product has already exceeded 50 percent. The expansion of the service sector in Thailand can be attributed partly to a Thai protectionist posture taken both for legal protection and as an entrenched policy. In this sense, the full liberalization of services could be disruptive for the country. However, the degree of protection and its importance in Thai-American relations varies from one subsector to the other. Among the various services, banking, finance, and insurance are the most interesting issues that have drawn attention from the American side.

*Banking*

Rules and regulations on banking and foreign participation in the Thai banking system are governed by the Bank of Thailand Act of 1942 and the Commercial Banking Act of 1962, amended in 1979, as well as subsequent rulings and announcements by the Bank of Thailand and the Finance Ministry. Foreign commercial banks can participate in the Thai banking system in any of the five following ways: setting up a representative office, opening a branch, equity participation with Thai partners, takeover or acquisition of a foreign bank, or acquiring equity participation in a finance company.

Foreign access to the Thai banking system has been restricted in two ways. The first restriction involves the setting up of foreign branches. Although at present there are fifteen domestic commercial banks and fourteen foreign commercial banks, the current Thai policy is to prohibit the setting up of new banks. This policy applies to both domestic and foreign commercial banks and might thus be considered a nondiscriminatory measure. However, existing foreign commercial banks are prohibited from establishing branches, whereas Thai banks are allowed to do so with approval from the Bank of Thailand.<sup>6</sup> As a result, whereas the number of Thai commercial bank offices amounts to 1,997 spread throughout the whole kingdom, the number of foreign commercial bank offices remains very limited. Thai policy in this area could be considered to hamper effective market access for foreign commercial banks.

The second restriction involves the ceiling of a 25 percent stake taken up by foreign shareholders, with each foreign shareholder permitted to hold up to a maximum of 5 percent equity in a commercial bank. This legal stipulation could help avoid the takeover of a Thai commercial bank by foreigners. As a result of the two restrictions, the share of foreign banks in assets, deposits, and loans as compared to Thai commercial banks has been very small, at less than 5 percent (see Table 8).

In Thailand, there are fourteen foreign commercial banks of which three are American: Citibank, Bank of America, and Chase Manhattan Bank. Prior to 1987, Citibank was the country's leading foreign bank in terms of total assets, deposits, and loans. However, because of rising Japanese investment in Thailand, Japanese banks, Mitsui and the Bank of Tokyo, have become the country's top foreign banks in terms of assets, deposits, and loans.

In view of the limited role enjoyed by foreign banks and particularly American banks, mounting pressure for liberalization has been exerted by

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<sup>6</sup>The prohibition is not prescribed by legal disposition but has been adopted as the Thai government's official policy.

**Table 8**  
**Comparison Between Thai and Foreign Banks**  
**(billion dollars U.S.)**

	1985	%	1986	%	1987	%
<i>Assets</i>						
Thai commercial banks	30.9	95.8	33.6	96.4	39.6	95.7
Foreign banks	1.3	4.1	1.2	3.5	1.7	4.2
Total	32.2	100.0	34.8	100.0	41.3	100.0
<i>Deposits</i>						
Thai commercial banks	24.0	97.9	26.8	97.7	30.9	98.0
Foreign banks	0.5	2.0	0.6	2.2	0.6	1.9
Total	24.5	100.0	27.4	100.0	31.5	100.0
<i>Loans</i>						
Thai commercial banks	22.7	95.8	23.6	96.2	28.1	95.9
Foreign banks	1.0	4.1	0.9	3.7	1.2	4.0
Total	23.7	100.0	24.5	100.0	29.3	100.0

the American side, particularly on the right of establishment and effective market access. Right of establishment refers to the setting up of foreign commercial banks; effective market access refers to the establishment of branches and automated teller machines (ATMs), which are treated as a branch and currently prohibited. To a lesser degree, pressure is also aimed at expanding the limit imposed on foreign shareholding.

#### *Finance and Securities*

Like banking, foreign access to the Thai finance and securities field has been hampered by the Finance and Securities Act of 1979, which limits foreign shareholding to a maximum of 25 percent for finance firms and 49 percent for securities firms. A further limitation involves the right of establishment and effective market access. According to government policy, no new finance and securities firms and branches are allowed to set up. Although the policy is considered nondiscriminatory and a national treatment, nevertheless, it is deemed an obstacle to foreign access to the Thai finance and securities market. Foreign ventures in Thai financial circles are limited to partial equity participation or to setting up a representative office.

In the field of finance and securities, American ventures remain limited. A few American banks, such as Bankers' Trust, have acquired a certain stake

by joining with Thai partners. Others, like Citibank and the Bank of America, have financed subsidiaries. However, with the Thai securities market set to take off, growing interest among American investors and their financial intermediaries can be anticipated, and liberalization in the field of finance and securities could become an issue in Thai-American relations. To ease pressures, the Finance Ministry has offered to sell ailing finance and securities firms to foreigners, including Americans, under a life-boat scheme with certain privileges attached.

### *Insurance*

In Thailand, there are altogether seventy-five life and nonlife insurance companies. Of the total number, five are foreign insurance companies, including two American firms: New Hampshire Insurance and Signa Insurance (see Table 9). Although foreign insurance firms are limited in number, their role and market share are significant, indicating their superior efficiency and competitiveness over Thai firms (see Table 10).

Insurance business in Thailand has been regulated by the Life and Nonlife Insurance Act of 1957 with subsequent ministerial regulations and announcements.<sup>7</sup> Foreign access to the Thai insurance business has been hampered by the following: (1) since 1978, foreign insurance companies have not been allowed to establish branches in Thailand, because the number of insurance firms is considered high enough; (2) whereas Thai insurance companies are allowed to open branches all over the country, foreign firms are not permitted to do so; and (3) foreign shareholding limits for insurance firms are set at 15 percent for firms registered after 1967 and 25 percent for firms registered prior to 1967.

Given the protectionist policies adopted by the Thai government and mounting American pressures for trade liberalization in the service sector of developing countries, including Thailand, the contending issues between Thailand and the United States can be expected to involve the right of establishment, effective market access, and the lifting of foreign shareholding limits. Although liberalization of the Thai financial sector may be an important issue in the trade in services for the United States, liberalization is not necessarily against Thai interests, given the country's investment-saving gap (see Table 11).

### **The Thai Position in the Negotiations on Trade in Services with the United States**

The United States has adopted the strategy of pressing for liberalization of trade in services as a *quid pro quo* for concessions given to trade in

<sup>7</sup>Ministerial regulation no. 3, 1957, dated March 6, 1978.

**Table 9**  
Life and Nonlife Insurance Companies in Thailand, 1987

Type of Insurance	Number of Domestic Firms	Number of Foreign Firms	Total
Life insurance	7	0	7
Nonlife insurance	52	4	56
Life and nonlife insurance	4	1	5
Health insurance	6	0	6
Reinsurance	1	0	1
Total	70	5	75

SOURCE: Insurance Office, Thailand.

**Table 10**  
Comparison of Thai and Foreign Insurance Firms, 1987

	Number of Policies (million)	Percent	Amount Insured (million dollars U.S.)	Percent	Profit (Loss) (million dollars U.S.)
<i>Life insurance</i>					
Domestic Firms	1,974	87	3.55	57	(1.72)
Foreign Firms	295	13	2.70	43	11.90
Total	2,269	100	6.25	100	10.18
<i>Nonlife insurance</i>					
Domestic Firms	1,107.78	90	43.20	82	
Foreign Firms	123.25	10	9.59	18	
Total	1,231.03	100	52.79	100	

goods. The pressure on trade in services has been made both at the bilateral and the multilateral levels. The GATT has been used as a forum for applying the pressure. Because of this logic, the Uruguay Round became a focal point of interest for the United States, which demanded to be included in the negotiations from the outset.

Between the two extreme positions of the United States, on the one hand, which required the inclusion of trade in services as part of the GATT framework, and, on the other hand, that of the group of ten, led by Brazil and India, which demanded the exclusion of services from the

**Table 11**  
Thailand's Investment and Savings

Year	Gross National Savings (billion dollars U.S.)	Gross Domestic Investment (billion dollars U.S.)	GNS/GDP (percent)	GDI/GDP (percent)	GDI/GNS (billion dollars U.S.)	GNS/GDI (percent)
1982	6.7	7.6	20.4	23.1	0.9	88.1
1983	6.8	9.4	18.7	25.9	2.6	72.0
1984	7.8	9.7	19.9	24.9	1.9	80.4
1985	8.1	9.7	20.1	24.1	1.6	83.5
1986	10.1	9.9	23.1	22.5	-0.2	102.0
1987	11.3	11.7	23.1	23.9	0.4	96.6
1988	13.3	15.1	23.8	26.9	1.8	88.1
1989	15.1	18.2	24.0	28.9	3.1	83.0

SOURCES: National Economic and Social Development Board and the Bank of Thailand.

GATT negotiations, Thailand opted for the compromise, which was finally adopted at Punta del Este in 1986. Thailand's position reflected its strategy well. Put under unavoidable pressure from the United States, one of the country's most important partners along with Japan and the European Community, Thailand would prefer to opt for multilateral negotiations where it can increase its bargaining power through alliances with other developing countries, particularly its ASEAN partners.

The content of the Thai position on negotiations on trade in services with the United States could be summarized as follows: (1) Although Thailand supported the U.S. proposal to include trade in services in the GATT negotiations, the country is reluctant to agree with the American deadline set for 1990, the end of the Uruguay Round, for the completion of the agreement on trade in services. (2) If Thailand were to agree on the principle of liberalization in services, it could only accept gradual liberalization, given different levels of development among different countries. Otherwise free trade would only be achieved at the expense of developing countries. The principle of free trade would imply only freer and fairer trade and not full liberalization. By the same logic, special or differential treatment is considered a very important principle for the country. And safeguard mechanisms must also be recognized for developing countries in cases of disruptions caused by applying the liberalization measures in trade in services. (3) The principle of national treatment as advocated by the United States must be understood as equivalent treatment but not

identical treatment. (4) If Thailand is to liberalize any category of traded services, comparative advantage needs to be considered. If Thailand has to yield on certain sectors, such as the financial sector, it needs certain concessions from the United States in areas in which the United States has the advantage, particularly areas requiring personal attention such as airlines, hotels, and workers. Workers' migration, not only for skilled labor but also for unskilled labor, must be accepted. Factor mobility in traded services for Thailand would include not only capital but also labor.

In the area of financial relations between Thailand and the United States, which has drawn attention from both sides, a certain flexibility could be anticipated during negotiations. If the existing protection is still greatly needed for the Thai banking, finance, and insurance business, the country's prevalent investment-savings gap coupled with the necessity to boost the capital market in line with the expected economic growth rate require a certain measure of liberalization for the country's own benefit. The wave of internationalization that saw foreign funds flow into the Securities Exchange of Thailand (SET) in 1987 and 1988 could also be considered a favorable sign for financial liberalization. Despite the massive inflow of foreign funds into the SET, American participation in the Thai capital market remained very limited.<sup>8</sup> Negotiations could call for a higher American stake and justify certain concessions on the Thai side. However, liberalization of the Thai financial sector, although somewhat desirable, will be limited in scope. The principle of gradual liberalization will be applied, allowing a few more foreign banks and insurance companies to be set up, probably with certain conditions. Measures on effective market access for foreign financial institutions could include an allowance to set up one or two branches up-country or to set up ATMs in conjunction with domestic commercial banks. If foreign equity participation in Thai financial institutions is to be encouraged, it is doubtful that the ceiling on foreign shareholding would be lifted.

## Conclusions

Like other developing countries facing a world of growing protectionism, particularly from major trading partners, Thailand, as a small state, could not avoid joining forces with the other nations, particularly the ASEAN nations, in its negotiations with the United States. However, it is doubtful that this strategy will work. There is little that developing countries targeted for bilateralism, like Thailand, can do when the strong

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<sup>8</sup>The low degree of participation of American investors in the Thai capital market is attributable to the absence of a treaty of taxation avoidance between the United States and Thailand.

have always prevailed over the weak. However, Thailand may find some consolation in the fact that the trade surplus that Thailand has enjoyed vis-à-vis the United States has been small, implying less pressure from the American side for Thai concessions. The service issue is also dependent on the Thai response to U.S. pressure regarding intellectual property and trade liberalization for other American products. Given all the pending jigsaw puzzle-type linkages in Thai-American relations, the potential for liberalization of the Thai service sector appears to be limited both in scope and extent.

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## 13. Science and Technology and National Development: The Case of Thailand

LIKHIT DHIRAVEGIN

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The process of national development is a complex one involving two main elements, political development and economic growth. Generally, political development, a term whose definition has no consensus among political scientists, means an increase in popular participation in the political process, and economic growth usually involves a higher degree of industrialization. At the present moment, there seem to be two major trends. The first is political liberalism, an emphasis on opening up the political system. This trend is apparent in countries that have been noted for authoritarian governments, such as the Republic of Korea, Taiwan, and Thailand, and socialist states such as China, the Soviet Union, and Vietnam. The direct election of the president in the Republic of Korea, the presence at the top echelon of power of a native Taiwanese in Taipei, the seating of a prime minister who was an elected member of the House of Representatives in the "halfway democracy" in Thailand, the four modernizations and the "open door" policy of China, *glasnost* and *perestroika* in the Soviet Union, and the changes introduced recently in Vietnam are cases in point. Burma, a hermit kingdom for twenty-six years under a socialist program known as the "Burmese way to socialism" under a one-party system saw a demand for a multiparty system and the installation of a democratic government. The list can be extended. This trend of democratic demands or liberalization of the political structure and process is discernible in both the socialist camp and those market economy nations operating under authoritarian or semiauthoritarian regimes.

The second trend, probably concomitant with the first one, is the aspiration to become an industrial nation. Many countries in the areas marked as the third world have been striving to achieve the status of newly industrialized countries, or NICs. Numerous seminars have been held and volumes of books and research reports have been prepared on the subject. Thailand is no exception in its desire to catch up with the Republic of

Korea, Taiwan, Singapore, and Hong Kong. But until recently, the important issue of technology and science policy had not been given wide attention by the general public. The late minister of science, technology, and energy Damrong Lathapiphat did much to stir up consciousness of the significance of science and technology as an integral part of national development, most notably industrial development. Thanks to his strenuous efforts, the general public has become more attentive to this issue. Technological issues have been relatively widely carried by the mass media. The shortage of well-qualified engineers, for instance, has been voiced by academicians, planners, and the private sector. Of more significance, the debate on whether Thailand can or should become a NIC has been high on the agenda of seminar debates.

This chapter will discuss four important issues that are closely related. The first is the debate on the question of Thailand becoming a NIC. The pros and cons and the alternatives will be discussed. The second is the need for a science policy laid down by visionary leaders that will determine the type of future the country is heading toward. The third issue is the question of technology development and technology transfer. An attempt will be made to elaborate on the distinctions among technology transfer, technology transplant, and technical transfer. Last will be an overall picture of the process of national development. Here, the issue of the linkage between political development, broadly defined, and industrial development will be discussed.

### **Thailand's Future: NIC, NAC, or NIASC?**

Thailand is becoming a NIC, the saying goes these days. In fact, it is almost a cliché. But whether Thailand can or should become a NIC has been a controversial issue. First, let us start with the question of whether Thailand can become a NIC. Such a question requires a time frame. Usually, when the question is asked, people have in mind the near future, say, the next decade or by about the turn of the century. It is argued that if the status of a NIC is determined by a greater proportion of exports occupied by industrial manufactured products than agricultural produce, the quantitative data suggest that Thailand is embarking upon that cherished status. But critics would be quick to point out that the proportion of exports is not the only criterion. To be a NIC, one economist has argued, the growth of the economy of the country must be more than 50 percent accounted for by the industrial sector, the income per capita must be at least U.S. \$1,800.00 and, in addition, greater than half of its exports must be industrial products. By these criteria, Thailand has yet to fulfill two of the requirements: a greater income per capita (presently Thailand's income per capita is only half of what is required) and an overall economic growth with the industrial sector being the greater by proportion.

Putting aside the definition, and focusing on the one requirement Thailand now fulfills, exports of industrial products, two disturbing facts are apparent. First, the main products exported include textiles, garments, jewelry, canned food, artificial flowers, electrical appliances, and machine tools. Most exported items are consumer goods that do not require sophisticated technology. Such products do not lead to many linkage industries, as the production of cars will give rise to such related industries as steel, paint, tires, and electronic devices. But more important, many of the products are made either with imported technology of the turnkey type or with foreign investment. The local contents are the raw materials and cheap labor. In sophisticated products, even the raw materials may be imported.

Products “made in Thailand” are in essence “made on Thai soil” with imported technology and, in many cases, imported raw materials, using Thailand as a transit point for assembly while enjoying investment incentives, cheap labor and raw material, generalized system of preferences (GSP) benefits and quota advantages. As such, the high figure for exports may be misleading, and the state of industrial development may well be a mirage that distorts economic reality. The impressive growth rate, existing or projected, although correct in quantitative terms, may have to be modified qualitatively, not to mention the absence of equitable income distribution, an important point to be discussed.

There is also the argument about whether Thailand should aspire to become a NIC or a NAC (newly agroindustrialized country) or, more ambitiously, a NIASC (newly industrialized agricultural and services country). Many argue that compared to Korea, Taiwan, Singapore, and Hong Kong, Thailand enjoys more raw materials and greater agricultural produce. Thus, the pattern of Thailand’s economic development need not duplicate that of the four. Thailand should take advantage of its abundant agricultural produce to feed its agroindustry, processed food products, and processed raw materials, in addition to its burgeoning industrial production. The more ambitious aim of becoming a NIASC, once propounded by the secretary-general of the National Economic and Social Development Board, Dr. Sanohh Unakul, would encompass three sectors, industry, agriculture, and services, the last of which Thailand has been widely noted for. The tourism industry, accommodations, and the much-talked-about service on Thai International Airways certainly lend credence to such an idea. Hospitality is part of the Thai culture, so it is argued, and it is responsible for the various kinds of services in which Thailand excels. But such services are on the soft side. What about management, banking services, ship repair, business transactions, transport, and communication? Can Thailand also attempt to master these services?

As the argument on what pattern the Thai economy should follow

continues to capture the minds and energy of scholars and technocrats, the trend of industrialization is inevitable, thanks to investment policy and the concomitant influx of foreign capital. But Thailand must brace itself for such development trends in several areas. The first is the need for a pool of scientists and engineers. The demand for an increasing number of engineers has led to acute shortage. The two thousand engineers produced locally (as opposed to the far greater number in Japan and the Republic of Korea) are indicative of serious problems. If this shortage cannot be rectified, expatriates will have to be used as an alternative. This may not be healthy for the country in the long run. Second, there must be a conscious effort for *technology transfer*, defined as full knowledge up to the point of manufacturing regarding the piece of machine imported—not just the use of it, which corresponds to *technology transplant*, or the know-how required to operate the machine, corresponding to *technical transfer*. Third, Thailand must take precautions against the exploitation of the laxity of rules and regulations, GSP, quotas, and environmental control measures by foreign investors. The important thing is not to allow a quick profit, a one-shot investment. Fourth, impressive economic growth may inflate the egos of planners, but the issue of distribution has to be given serious attention. After all, economic growth rate is just an average figure. The big and more relevant question is growth for whom? In the final analysis, no one will object to Thailand becoming a NIC, but everyone has the legitimate right to ask what he or she will get out of the new status, be it NIC, NAC, NIASC, or any other fancy name.

As industrialization is an inevitable trend, NIC, NAC, or NIASC, there is a need for technological development or importation. The neo-classical economists who follow the “land, capital, and labor” equation of investment miss an important missing link sometimes termed the “black box.” The excessive units on the output side when put up against the cost input cannot be attributed to anything but technology. The end product that begets twenty units against the input of “land, capital, and labor”—or three units—results from the cost of brain or technological know-how. Technology is an important element that leads to value-added merchandise. But technology is not part of the marketable product in the context of Thailand. It simply does not exist. As a result, the little technology that exists is imported. There is thus a need to come up with a science and technology development policy. An industrial development policy cannot be divorced from a technological development policy. The significance of a science and technology policy can scarcely be overemphasized.

### **The Need for a Science Policy**

Economists trained in technologically oriented societies such as the United States and Western European countries may unconsciously take

science and technology for granted when they discuss economic planning for their countries. The assumption in Thailand is that when firms start to industrialize, they will purchase machinery from abroad. The focus of interest of the economists responsible for planning in Thailand is the economic growth rate and structural change in the economy from an agriculture-dominated economy to a modern economy in which agriculture and industry exist side by side. Despite the apparent success of such a plan, in essence, what appears in Thailand today could be termed a mirage. For whatever manufactured products are exported, one has to ask with whose technology, how much local raw material was used, from where was the major part of the capital invested, and with what type of administration were the products produced? Many of the products that bear the mark "made in Thailand" are products geographically made in Thailand in the sense that the factory was moved from, say, Japan and installed in Thailand by Japanese investors with imported raw materials and Japanese management and technical know-how. The only local content is cheap labor.

Each individual country has to accommodate its science and technology needs by taking into account the local situation and the future direction in which it wants to move. Indonesia, for instance, has come up with a policy that puts great emphasis on communications and transportation as well as ship building and marine science. This policy will fit the local context. The insularity of Indonesia will require sophisticated communications and transportation for economic as well as political integrative objectives. Marine science will allow the country to harvest the riches under the ocean that surrounds the four thousand—some islands. There is thus a clear objective in Indonesia's science and technology policy that will serve to reinforce national development policy.

In the case of Thailand, emphasis has been put on the microlevel of science and technology development. Various centers have been set up geared toward the development of specific areas. But what has yet to be taken into account is whether the various policies are related to the process of industrialization. Of more significance, is there is any science policy that spells out in detail the direction in which Thailand will be heading? What areas of specialization would Thailand like to develop? The answers to these questions are crucial, given the scarcity of resources and comparative-advantage considerations. If Thailand is to be able to compete in the world market, it has to decide in what products it wants to excel and from there develop the appropriate science and technology with the allocated resources. A careful study of areas of specialization for which Thailand should strive is imperative before a decision is made.

Because of the absence of the scientific and technological atmosphere that prevails in the Western countries, attempts must be made to incorporate science and technology policy in the development plans. The Sixth

National Economic and Social Development Plan has a science and technology policy component. But it is still broad and serves only as a general guideline rather than a plan for specific action to be undertaken step by step leading to the ultimate goal of a science and technology-based national development policy.

The need for such a policy goes without saying, and leaders of the country will have to start addressing themselves to the issue. The twenty-first century, which will dawn in less than a decade and a half, will propel many countries in the region to compete with one another. It is widely believed that the twenty-first century will be the century of Asia and the Pacific. Trade, economic activities, and science and technology will be greatly developed in the region, which covers a vast area and the bulk of the world's population. In the new century, the region of Asia and the Pacific will consist of three types of countries classified by the level of their economic development. The first type, which is the elite group, will consist of countries that cater to high-tech industrial products such as computers, industrial robots, satellites, and refined agricultural produce made possible by biotechnology and genetic engineering. This group of countries will include the United States, Japan, Canada, and Australia. The second group will be called the newly industrialized countries, which include presently the Republic of Korea, Singapore, Taiwan, and Hong Kong. Other countries in the region will join this group in due course as the century turns. The third group will be developing countries with the characteristic agricultural produce, textile industry, consumer products, and handicraft products. Which group Thailand will belong to will depend on how its present leaders view the future of the country and start to prepare the path for it. Without a science and technology policy, the development pattern will drift along with a greater degree of technology dependency as time progresses.

To develop a sound science and technology policy, first, the leaders must be aware of the significant role played by science and technology. Second, the leaders must be visionary, or there will be no perspective and hence no prospects for the future of the country. Development patterns would then at best be growth-oriented but piecemeal and random. Third, political will is required to nurture a coherent policy so that the country's energy can be turned resolutely toward the aimed direction.

There is, thus, an urgent need to have a science policy that is specific—a science policy that incorporates sweeping and vague statements is of little use here. A careful analysis of the potential for development specifically related to the direction in which the country is moving has yet to be performed. The broadly defined agroindustry as the objective of Thailand's development pattern leaves much to be desired. Without a clearly defined

direction for Thailand's future development that is closely tied in with a clear science and technology policy, educational institutes such as universities are by necessity forced to carry on as they have in decades past, training students in the arts without any clearly defined objectives.

### **Technology Transfer: Basic Concepts**

Technology transfer is one of the topics often discussed at academic seminars. The core concept is the economic benefit one country, usually a less developed one, can enjoy from its transactions with a more advanced nation. Technology transfer is closely linked with trade and investment. It is argued that trade, especially the purchase of technological know-how, can result in the transfer of new technology to the recipient country. One of the aims of foreign capital investment is to introduce new equipment and production techniques into the recipient country. The end result, apart from economic growth and employment opportunity, is that the recipient can obtain new technology to serve as a base for economic development and growth.

Economic relations between Japan and Thailand can be taken as example. Complaints have been voiced that Japan has no intention of transferring its technology to Thailand in earnest. Although this complaint is valid and attempts should be made by Japan to rectify the problem, it must be pointed out that for successful technology transfer, the recipient country must also have an "absorptive capacity."

First, there must be sufficient basic knowledge in the recipient country on the advancement of technology. In other words, there must be an awareness of what has been going on in the world of technology and of new discoveries in science and new industrial products, especially with regard to the industrial production process. This basic information is a *sine qua non* for technology adoption and a prerequisite for the absorptive capacity for the transfer of new technology.

Second, technology is for production purposes. And when it is to be applied to the industrialization process, operators in the private sector must have the right frame of mind. For example, industrialists have to be receptive to innovation and quick to adjust to new developments. They also have to have an industrial culture, that is, an orientation toward entrepreneurship with a modern outlook, putting emphasis on research and development. This industrial culture is in contrast to merchants' or commercial culture, in which modern technology is merely taken as a tool to boost profits. There is no consciousness to build technology with one's own research and development unit. The tendency is to import, because the aim is only to apply new technology for quick gains rather than as a foundation for the overall national development process. The absence of

this component of the absorptive capacity on the part of the recipient country will make technology transfer difficult regardless of efforts.

### *An Illusive Concept*

In a sense, technology transfer is an illusive concept. The problem stems from the vagueness of the term and the loose way it has been used. When people talk about technology transfer, they usually use it as a comprehensive term blanketing everything that is taken as knowledge about technology. But in fact, as was touched upon earlier, it is necessary to distinguish among technology transplant, technical transfer, and technology transfer. A clear understanding of the three terms is imperative in analyzing the problems of economic transactions between advanced and developing countries, especially in regard to technology transfer. The relationship between Japan and Thailand is a good example.

Technology transplant is a common phenomenon in many developing countries purchasing turnkey equipment. A factory equipped with modern machinery can be transplanted by shipping the necessary machines to be installed in the developing country. In other words, a modern production unit can be built almost instantly without going through the process of research and development or the accumulation of knowledge through "trial and error." The recipient of this modern technology can run the store by pushing the buttons. When the machines become outdated, they will be replaced by a new model.

Superficially, technology through purchase is a form of technology transfer, but in fact it is more appropriately referred to as technology transplant. Although the purchase of modern technology can help produce high-quality merchandise, it is different from technology transfer in which the recipient nation can become self-reliant and can itself come up with new inventions.

Closely related to technology transplant is technical transfer. It is one thing to run a machine, but it is quite another to know how to build a machine. Numerous Thais have been selected and sent to Japan for training, especially under short-course programs lasting six to twelve months. Although the courses are useful, they have to be understood as providing "technical transfer," not "technology transfer." The trainees are learning to work a machine or going a step further and learning how the machine works in order to be able to do repair work. There is a world of difference between knowing how to work a machine or how a machine works and knowing how to make or build a machine. The operational aspect of a machine is ultimately a transfer of technical know-how, a point not to be confused with technology transfer.

Technology transfer, in the context of our discussion, requires that the

technology is transferred “wholesale” in the sense of providing complete knowledge of the modern technology. The recipient nation can then use that knowledge as a foundation for further research to improve the existing technology and to come up with creative, innovative technology through research and development. In the final analysis, technology transfer connotes the idea of self-reliance in technology to a considerable degree. But the recipient nation must have absorptive capacity and must be ready to continue on where the technology that has been transferred by another country leaves off.

### *A Legitimate Question*

Again using Japan, a country that has had close economic relations with Thailand, as an illustration, a legitimate question is what are the proportions of technology transplant, technical transfer, and technology transfer that Japan has contributed to Thailand? There is also a need to specify the areas where Thailand has benefited from its relations with Japan, through technology transplant, technical transfer, and technology transfer, to get an accurate picture. There is a tendency among Japanese aid and embassy officials to gloss over the distinctions and make general remarks about the aid programme with Thailand, lumping the numbers together.

For example, it is a common practice to cite the number of factories, machines, computers, scholarships, and short-course trainings given to Thailand as technology transfer. Clear lines must be drawn here and a clear categorization among technology transplant, technical transfer, and technology transfer must be made as a first step toward improving the two countries' technological relations. Needless to say, the host country, Thailand, must first of all have a clear understanding if it is to start on a new direction. Moreover, the host country needs also to be self-critical to reap the full benefit of its transactions with advanced countries such as Japan, the United States, Germany, and many others.

As attempts to distinguish among technology transplant, technical transfer, and technology transfer have not been a common practice, there have not been efforts to categorize aid given to Thailand as more of the transplant type, the technical type, or the transfer type. Impressionistic evidence would indicate that most aid or benefits that Thailand enjoys from its transactions with Japan falls into the technology transplant and technical transfer categories rather than the category of technology transfer. The absence of the absorptive capacity and the absence of awareness of the significant differences on the part of policy makers are partly responsible for the present state of affairs in Thai-Japanese economic and technology relations.

The dominance of technology transplant and technical transfer has

caused Thailand to become more dependent on Japan for new technology. It has resulted in technological slavery, a situation detrimental to technological self-reliance. Technological dependence means economic dependence. Economic dependence, in turn, means technological dependence. This vicious circle can only be broken by the correct perception of the problem and a correct approach to bringing about a solution of the problem.

### *Means for Technology Transfer*

Technology plays a vital role in bringing about value-added merchandise. Indeed, the trade deficit Thailand suffers with Japan can be seen clearly in the lower value of the types of commodities Thailand exports to Japan. The attempt to exchange a sophisticated computer for a shipload of bananas, the latter being poor in value-added, is indicative of the situation that arises in trade between countries at different levels of economic development. Japan is a highly industrialized country, whereas Thailand is still striving to become a newly industrialized nation.

The above phenomenon can be attributed to the absence of technology in Thailand. The absence of technology is responsible for the absence of manufactured products that will earn for the country substantial foreign reserves to trade for necessary products from Japan based on comparative advantage. It is now accepted that the traditional formula of land, labor, and capital as the three components on the input side of production is no longer sufficient. The value of the three components added up will be far lower than the value of the finished product. A computer, for instance, could be about one hundred times higher in value than the raw materials used plus the cost of labor and land investment for the production of the set. The component that raises the value has been termed the "black box." It is technological know-how or the cost of brain power that brings up the value of the product. Viewed in this context, technological know-how is essential in a modern economy, especially in the industrial sector. But it is a well-known fact that technology cannot be picked up in a vacuum. Long years of costly and painstaking research are required for the production of quality products, through the research and development programs adopted as part of the process of bringing about innovation. There is thus a price for technology, and its acquisition requires paying the owner whose patent has been registered and whose rights have been accordingly protected. Intellectual property rights protection is important to encourage scientific research because such research has economic value apart from earnings from the discovery. The United States has been vocal in campaigning for the protection of intellectual property rights because of cases in which such rights have been overlooked and pirating has resulted.

It is easy to be sympathetic to the United States, whose complaints are well taken, but it is also easy to see the simple logic entertained by some of the developing countries. It is convenient to steal from the guy next door who has already mastered the technology in need, although it is difficult to justify outright theft or pirating. The temptation to steal other people's technology may stem from the lack of funds for research or simply the lack of capacity to conduct a sophisticated research project that entails costly operations and high-level training. In order to keep pace with the world or simply to come up with marketable products, some unscrupulous companies in the developing countries resort to stealing by copying or imitating the patented technology of another country. It is a form of technology transfer, however illegal and immoral.

If the need for developing countries to have technological know-how is acute, in lieu of unjustifiable pirating, an alternative is for the governments of those countries to come up with a policy to promote technology transfer by granting privileges to companies that invest a certain sum of money for research and development. Another method is for the government to earmark a certain amount of money in the annual national budget for technology purchases. A policy of negotiating for the purchase of technological know-how at friendship prices and then selling it to private firms at cost could be an attractive form of technology transfer in which technology is transplanted first and then produced. The Japanese government practiced this kind of subsidy during the early years of the Meiji Restoration. The government started a pilot factory and after successful experiments would sell it to a private firm. The government also started state-owned enterprises and transferred ownership to private firms after a period of experimentation. To be sure, there were some scandals involving the sales, but on the whole, the process of industrialization through such methods was successful.

Another means through which the government could foster technological transfer is through negotiations for aid. Aid could be sought from an advanced country in the form of grants to cover intellectual property rights fees. The technological know-how would then be transferred to qualified candidates among companies at home. The government could also promote joint ventures with companies in an advanced country with the fees for technology paid by the government of the advanced country through aid. The advanced country is given an opportunity to have its nationals invest in the developing country.

Whatever methods a developing country chooses to employ must be clear, honest, and legal operations that protect the advanced country's technological initiative and creativity. But, in the final analysis, such methods will also protect the developing countries when, in due course,

these countries reach the stage at which they too have to guard their intellectual innovations. Most important, the scheme selected will have to enable the recipient country to make a breakthrough in developing its own technology.

### **Technological Know-how and Industrial Development for Thailand**

Technological know-how can come in various fields and be used for various purposes including economic development, management of production security, and services such as public health and medical services. In our discussion, we will focus on technology for industrial development. This choice is in line with the national economic and social development plans that aim at turning Thailand into an industrialized country by the turn of the twenty-first century.

Technology for industrial development programs as specified by the Ministry of Science, Technology, and Energy comes in various forms. The most relevant form today is support for research, development, and engineering (RD&E). This support will pave the way for industrial production by the research-development-engineering process that will be tested in pilot projects before it is launched for commercial purposes on a full scale.

Generally, technology development in Thailand can be divided into three fields for which three centers have been established, the Materialogy Centre, the Electronic and Computer Centre, and the Bio-tech Centre. The three centers are attached to the Ministry of Science, Technology, and Energy, but experts from various sectors are pulled in to make contributions.

The three centers can serve as indicators of the direction of technological development of the country. The first two centers are for industrial development, and the third is geared toward agricultural or agroindustry development. It is hoped that the three centers can serve as springboards ushering Thailand into the twenty-first century as an industrial country along the lines of other newly industrialized countries.

The acquisition of needed technology for the country's purpose will come in many forms. First, technology will be derived by purchase. Thailand has already paid substantial sums for the transfer of technology by paying patent and copyright fees. Technology has also come in the form of turnkey machines from industrially developed countries. (See Tables 1 and 2.)

Second, technology will be obtained through assistance and aid programs. An agreement for scientific and technological cooperation between Thailand and the Republic of Korea has been signed. The Scientific

**Table 1**  
**Technology Fees Paid by Thailand, 1982–1986**  
 (million baht)

Country	1982	1983	1984	1985	1986
United States	454.89	418.85	463.76	434.59	465.98
Canada	0.06	4.11	1.92	5.82	0.46
<b>Europe</b>					
Austria	—	—	—	—	—
Belgium	2.10	3.26	51.26	4.67	8.09
Cyprus	1.71	—	—	—	—
Denmark	21.60	34.34	14.72	23.54	21.29
Great Britain	138.27	162.64	146.11	217.91	135.27
France	2.28	3.67	5.72	16.23	17.89
Germany	43.60	29.18	102.38	121.28	121.17
Italy	36.69	14.53	14.04	10.16	7.30
Lichtenstein	—	0.23	—	0.38	—
Holland	20.94	100.51	131.12	86.49	121.69
Norway	4.71	4.14	3.08	5.25	10.78
Poland	0.33	1.41	2.60	—	—
Scotland	4.94	1.71	—	4.94	—
Sweden	53.08	13.55	10.47	6.12	7.19
Switzerland	56.89	86.24	141.49	152.20	186.65
<b>Asia</b>					
Hong Kong	78.74	82.75	98.98	102.49	114.84
India	1.64	5.59	4.29	6.20	4.78
Israel	—	—	0.44	0.89	1.07
Japan	544.81	571.12	751.90	789.50	803.31
Malaysia	4.18	5.81	3.54	2.68	5.96
Philippines	2.07	2.91	3.05	1.17	—
Singapore	13.02	11.57	25.65	31.86	22.15
Taiwan	—	1.84	5.43	5.66	9.03
Korea	—	3.33	1.87	3.88	2.74
Australia	4.75	5.93	8.28	9.45	21.37
New Zealand	0.73	1.20	1.74	1.47	0.26
<b>Total</b>	<b>1,492.03</b>	<b>1,570.42</b>	<b>1,993.84</b>	<b>2,044.83</b>	<b>2,089.27</b>

SOURCE: Bank of Thailand, *Report on Technology Transfer*, no. 2 (Bangkok: Technology Transfer Center, Office of the Permanent Secretary, Ministry of Science, Technology, and Energy, 1987), p. 70.

**Table 2**  
Remittances for Various Fees, Classified by Type of Industry  
(one thousand baht)

Industry	Type of Fee							Total
	Patent	Trademark	Royalty	Engineering Fee	Training Fee	Management Fee		
Rubber	39,003.02	—	33,264.74	—	—	3,646.76	74,914.52	
Textiles	70,867.80	389.53	82,240.78	2,173.26	414.75	3,661.47	159,747.59	
Food and beverages	123,818.04	31,710.14	92,107.59	600.59	26.70	8,725.19	256,988.25	
Medicine	93,008.77	—	15,361.12	—	—	577.48	108,947.37	
Fuel	9,190.41	—	38,886.85	—	—	—	48,077.26	
Cosmetics	73,076.05	—	54,664.69	—	—	7,789.14	135,529.88	
Paint	22,281.67	—	4,810.16	54.17	—	—	27,146.00	
Chemicals	48,062.80	—	19,259.30	—	—	—	67,322.10	
Batteries	6,888.57	592.94	—	—	—	—	7,481.51	
Electrical appliances	121,174.54	270.04	46,336.90	3,900.81	—	6,374.88	178,057.17	
Automobiles and parts	225,478.41	301.99	12,676.27	18,043.22	—	3,500.00	259,999.89	
Other	370,547.55	2,180.51	280,800.90	17,506.76	750.23	48,837.70	720,623.65	
Total	1,203,397.63	35,445.15	680,409.30	42,278.81	1,191.68	83,112.62	2,017,959.65	

SOURCE: Bank of Thailand, compiled by the Technology Transfer Center, Office of the Permanent Secretary, Ministry of Science, Technology, and Energy, 1987.

and Technological Cooperation Agreement between Thailand and the United States was signed in Washington, D.C., on April 13, 1984. A loan contract and aid program was signed on August 15, 1985, with USAID. According to the agreement, Thailand will receive a grant in aid of U.S. \$8.5 million and a soft loan of \$26.5 million. The Thai side will pay counterpart funding of \$14 million (\$9.5 million from the national budget and \$4.5 million from the private sector). The money is for RD&E under the supervision of the Science and Technology Development Board (STDE). Negotiations with similar objectives are being undertaken with other countries at the moment.

Third, human resources development will provide another form of technology transfer. Scholarships and research fellowships provided by foreign governments and foundations enhance human resources development by training engineers, computer experts, and management specialists, for example.

Foreign investment is a fourth form of technology transfer. The importation of machines by foreign investors helps increase production and improve quality. But there has yet to be a study of whether it is technology transfer that has actually occurred or only technology transplant, as defined previously.

Fifth, research projects by Thai scientists and engineers is another form of technology development. Projects being conducted at King Mongkut Institute of Technology, Chulalongkorn University, and Thailand Institute of Scientific and Technological Research are examples of research and development undertaken by native scientists. Efforts will be made in the future to encourage research and development by private firms as a policy of the Ministry of Science, Technology and Energy.

### **The University as an Agent for Technology Transfer in Thailand**

Universities and other higher educational institutions are agents through which knowledge in the fields of physical science, social science, and the humanities is developed and disseminated. With regard to science and technology transfer, universities can be functional in two broad areas. First, universities are places where training takes place in both basic science and applied science. In short, universities are responsible for human resource development. Second, research projects conducted by universities can be applied in industrial development and other areas to increase the quality of life of the people. Research projects by faculty members can be of service to the community. A considerable number of research projects are commissioned by firms or foreign organizations.

If universities are to serve as agents for technology transfer, guidelines

must be laid down in government policy. As in other areas of development, science and technology cannot and should not proceed at random. Given the scarcity of human and natural resources characteristic of a developing country such as Thailand, the available resources should be used optimally.

Two familiar functions of university science training should be reflected in policy. The first is to train students in basic science in general. This training serves as the foundation for further discoveries that will add to the richness and theoretical rigor of a field. But of more relevance for society is training in applied science. Using the basic knowledge, how can theories be developed to serve society? In an age in which national development planning is part of government policy for many countries, science and technology development has also to be guided by plans or policies. Universities, which are directly responsible for training and research, have to be guided by a science policy that also determines how resources should be channeled. The significance of such a science policy cannot be overemphasized.

### **The State of Being An Agent for Technology Transfer of Universities in Thailand**

As the situation stands now in higher educational institutions in Thailand, departments or faculties that offer courses or subjects directly related to training in science and technology constitute about 27.5 percent of the total (see Table 3). This percentage indicates that the majority of subjects taught in Thai universities are in the social sciences and humanities.

An important question to look at is how many of the graduates from departments or faculties that offer training in science and technology are engaged in jobs that are directly related to their training. To be sure, medical doctors, engineers, chemists, and pharmacists are more likely than those trained in physics to use their knowledge in their jobs. It is common knowledge that many people who are scientists by training wind up working as teachers or administrators in a bureaucracy. Many people who are trained at the University of Agriculture end up working at a desk rather than out in the field.

A second question is whether there are specific directions in which particular universities in Thailand are moving. That is, are there any particular specializations that certain universities intend to address in their training programs or research projects? If there were guidelines on the direction in which the national development program and science and technology policy planned to develop, universities could likewise channel their resources. But as long as such direction is absent, educational

**Table 3**  
Science Courses Taught in Thai Universities

University	Number of Departments Offering Science Subjects	Number of Departments Not Offering Science Subjects	Total
1. Chulalongkorn	8 (12.5%)	56 (87.5%)	64
2. Kasetsart	8 (13.1%)	53 (86.9%)	61
3. Khon Kaen	15 (68.2%)	7 (31.8%)	22
4. Chiang Mai	13 (24%)	41 (76%)	54
5. Thammasat	5 (16.7%)	25 (83.3%)	30
6. Mahidol	14 (82.4%)	3 (17.6%)	17
7. Sinakharinwirot	18 (31%)	40 (69%)	58
8. Silpakorn	3 (8.3%)	33 (91.7%)	36
9. Prince of Songkhla	15 (26.3%)	42 (73.7%)	57
10. King Mongkut's Institute of Technology, Latkabang Campus	14 (66.7%)	7 (33.3%)	21
11. King Mongkut's Institute of Technology, Thonburi Campus	2 (100%)	0	2
12. University of Medicine (Pra Monkut)			
13. Institute of Technology and Vocational Education (Bangkok)	1 (100%)	0	1
	1 (50%)	1 (50%)	2
Total	117 (27.5%)	308 (72.5%)	425

institutions will continue to follow the conventional pattern of offering courses in basic science and providing a liberal arts type of education that offers a broad perspective but does not provide for the application of such training to achieve specific objectives or peculiar characteristics of a locale.

Third, have there been any attempts to bring forth linkages between training courses and research undertakings with industrial development? As a rule in Thailand, such linkages are rare. Knowledge for knowledge's sake is the rule of thumb. The implications of such a course of action can be observed in a comparison between Great Britain and Japan. Judged from the greater number of the Nobel Prize winners, Great Britain far exceeds Japan in the pool of human brains, especially first-rate scientists. But it is commonly known that in terms of industrial development and business volume, especially trade, Japan races far ahead of Great Britain. Indeed,

India, which has the third largest number of scientists, after the United States and the Soviet Union, is now light-years behind Japan in industrial development. Thai universities and their training programs and research projects suffer from the same flaw of a failure to link science training with industrial development.

Fourth, do universities in Thailand undertake the development of their institutions to reflect their philosophies? All universities have eloquent statements about their institutions' philosophy that run the gamut of training experts for society and its development to pursuing academic excellence. However, Thammasat University at its new campus at Rangsit, Pathumthani Province, has come up with something that can be said to reflect its unique philosophy of serving society. The new Faculty of Science and Technology puts great emphasis on training students for the main objective of helping the rural development program that is the emphasis of the university's social function. Indeed, Thammasat University had as its objective in instituting the new faculty its application to the rural development program rather than offering a course in science in general that would duplicate programs of other institutions.

It may be tentatively concluded that universities in Thailand, despite their role in training and conducting research, do not perform the practical role of an agent of technology transfer. This shortcoming stems from the lack of a *clearly defined* science and technology development policy laid down by the government. There is as yet no clear linkage between national (economic) development policy and science policy. It was not until the fifth national development plan and not until the minister of science, technology, and energy committed suicide that the science and technology development plan was incorporated in the national economic and social development plan. Universities are thus proceeding with a minimum of linkage with national development policy.

## **Conclusion**

To get a clear picture of the national development process, it is useful to briefly discuss modern Thai history. Historians often point out that the critical year in which Siam embarked upon a new course in its relations with the world community was 1855, when a treaty of friendship and commerce was concluded between Siam under King Rama IV (or King Mongkut) and Great Britain. The treaty had the effect of throwing Siam's door wide open for trade and myriad Western influences. The treaty served as a spearhead for Siam's closer relations with other foreign powers at the time. Similar treaties with other countries such as France, the Netherlands, the United States, and Germany were later concluded.

The economic impact of the treaties could be seen in many aspects of

Siamese life. First, the 3 percent tariff *ad valorem* led to the influx of cheap foreign products, most notably textiles. This influx had the effect of killing cottage industries, for it was cheaper to buy from abroad than to manufacture for domestic consumption. It also had a second effect of turning the Siamese economy from a subsistence economy to a money and market economy. Soon this effect was reinforced by the coming of a railway system that penetrated the outlying areas following King Chulalongkorn's reforms. When the Thai market was opened to free trade, the export of rice, which was in great demand, led to the expansion of rice growing for export. Siam developed a specialization in rice growing. More important, the Siamese economy became more tied in with the world market, and production that hitherto was done mainly for domestic consumption became what one scholar termed "dependent commodity production." But dependency on the world market is inevitable in an export economy, as contemporary Japan is a good case in point.

After Siam was opened in 1855 for trade and cultural influences, subsequent reforms launched by King Chulalongkorn that reached a peak in 1892 turned the traditional Siamese kingdom with its strong Hindu-Buddhist influences into a modern nation-state. The country's economy was opened up for an increasing volume of trade and dynamic business transactions. The country became a major rice and foodstuff exporter, while at the same time the influx of foreign goods, which hitherto were mainly from China, became greater in volume and variety. With the coming of trade in rice, land became more valuable. The Tangsit irrigation project launched by a private company during King Chulalongkorn's reign only added to the high value of paddy fields. In short, the 1855 treaty that flung open the door of Siam had the effect of turning Siam from an agrarian subsistence economy into a money and market economy tied in with the world market. But the country remained generally an exporter of agricultural produce and resource industries. The chief exports of Siam until the early 1960s were the traditional products of rice, teak, tin, and rubber.

Then came the second phase of economic change. When Field Marshal Sarit Thanarat seized political power in 1958 and became premier, the country's economy was still agrarian-oriented. Major consumer goods were imported. The basic export items were the same as before with additional cash crops. Then, in the early 1960s, the Sarit government launched the first economic plan to coincide with the policy of the World Bank and the U.N. Development Decade. Sarit was also instrumental in setting up new government agencies geared toward a new economic development program. Such agencies as the National Economic Development Board (presently the National Economic and Social Development Board), the Ministry of National Development, the National Statistics

Bureau, and the National Institute of Development Administration (NIDA) were set up by Sarit. Of the greatest significance was the development of import-substituting industries. Foreign investment was encouraged by all means at the government's disposal. Sarit followed a liberal economic policy at the height of American involvement in the region. He made use of all the capable technocrats. The policy of national development launched by Sarit was followed by his successors Field Marshal Thanom Kittikachorn and Field Marshal Praphat Charusathien until the October 14, 1973, student-led uprising brought an end to the era.

The significant impact of the fifteen-year development program was to transform the country into a semiindustrialized nation with more cash crops replacing traditional export items. The influx of foreign investment in the form of joint ventures brought in new scientific technology and management science. The joint ventures led to the gradual transformation of family businesses into multinational corporations. The Vietnam War and the stationing of American bases and troops in Thailand added energy to the dynamic economy. Indeed, at the heyday of the second phase of economic development, such business dynamism and economic growth were registered that it was dubbed by some a "golden age."

Ironically, the economic change brought about by Sarit and his successors had unwittingly led to an imbalance between economic development and political development. The imbalance led to political tension, and soon pent-up frustration was unleashed when the shell of political control under the dictatorial system was broken by demonstrations and conflict within the elite. But in economic terms, once the change has taken place, there is no turning back. The country was caught in the wheels of a new economic structure marked by a higher degree of industrialization, foreign investment, and modern economic life characterized by a high level of consumption.

In brief, since the first economic plan was launched in the early 1960s, the country has been transformed into a semiindustrial national with increased exports of cash crops, manufactured products, and processed raw materials. However, it is still an economy in which agricultural produce is the main source of export earnings.

The third important phase in Thailand's economic development was a time of export promotion in industrial policy. This third phase started roughly when General Prem Tinasulanonda came to power in 1980. A greater volume of foreign investment could be detected. Under the Prem government for eight and a half years, the country exported more manufactured products. The main export items were garments, textiles, jewelry, canned food, artificial flowers, and machine tools. There were discussions about Thailand becoming the next NIC. Yen appreciation, the liberal financial policy of the Taiwanese government, the expansion into ASEAN of

the Republic of Korea, and the uncertain future of the island of Hong Kong have all added to the tendency of these countries to invest abroad. Because of its political stability and other economic advantages, Thailand has become one of the most favorable countries for investment. There has been an astronomical increase in foreign investment in various industries, most notably those for export. It is certain that in due course Thailand will enter the group of NICs.

This observation was also made by Dr. Saburo Okita, former minister of foreign affairs of Japan. He said that the 1960s saw Japan's surge in economic growth. The 1970s saw the birth of the four Asian NICs, and the 1980s were the beginning of economic growth for other Asian countries such as Thailand and Malaysia. By the turn of the century, Thailand can be expected to be well on its way to becoming a new NIC.

The two trends, the development of the democratic political process and industrial development, have been looming large, especially in Thailand. National development process can no longer be compartmentalized by freezing the political process while concentrating on economic development. Indeed, the development of a democratic form of government and economic development have been seen as closely intertwined. In the case of Thailand, one can argue that democratic development under the existing "halfway democracy" has to continue to serve as a foundation for economic development. But such a development program will have to be supported by the development of local self-government and intermediate institutions, parties, and interest groups, to serve as a link between the top and the bottom. Meanwhile, the mobilization of human and natural resources will have to be a joint effort by the political system and science and technology.

In order for the Thai political system to remain viable in the future and support the development of science and technology, there are three essential areas in which preparations must take place. First, the national government and the political system will have to accommodate the participation of new social forces. At the same time, there must be room for the old elements, the traditional bureaucrats, to have a part in the system. Whatever the form of government, participation is an integral part. Gone are the days of strong rule by a single domineering figure such as Sarit. Thai society has become too complex for so simple a political system. The existing "halfway democracy" is, in a sense, a fine combination of the traditional Thai system and that of the West. The hybrid seems to be functioning, although people are a bit impatient with the slow process that is characteristic of an open political system. If the weaknesses of the present system can be rectified—MPs can be taught to have more discipline, unity within political parties can be achieved, and so on—it should continue to perform the minimum function required of a semidemocracy.

Second, at the local level, there must be a genuine effort to develop local self-government to serve as the foundation on which the democratic process at the national level can develop. Indeed, the political system in Thailand can be conceptualized as three levels: the superstructure, the intermediate structure, and the infrastructure. The three structures are complementary. The superstructure consists of the Constitution, parliament, and the government. The infrastructure serves as the foundation. It is the people who are self-governed in the local government units. The intermediate structure serves to link the infrastructure and the superstructure. It consists of political parties and interest groups.

Third, a viable political system will have to be nurtured by a sound economy. In order to develop the political system for the future, Thailand must move ahead with its economic development program. As the twenty-first century is drawing near and Thailand is slowly joining the newly industrialized countries, there is a great need for the country to mobilize its human and natural resources for more efficient production in the agricultural, industrial, and services sectors. The need to link human and natural resources is imperative. Two significant factors that will be instrumental in linking the human and natural resources are the political system and technological know-how. The political system will have to be such that it will allow people of talent to come to the forefront and take part in the national development effort. In a socialist system, this goal is achieved through political mobilization. In our case, the "halfway democracy" may be the answer, but the political system alone will not be sufficient. Maoist China is an example in which mobilization of the masses was efficiently done through the party mechanism, but the shunning of the equally important science and technology reduced China to a nation far behind its counterparts. The ten years wasted had a tremendous cost for China. Mobilization of the human element would have required that they be both politicized and technologized.

The concept of the interaction between political and technological development is still a novelty in Thai society. It will take time and effort to get the message across. Few leaders have both insight and foresight; the political game is such that politicians cater to the short-term perspective. Rectification of this situation will have to occur. There will have to be a guarantee of a continued tenure, long enough to complete the national development program, but not so long as to turn it into a permanent dictatorship. The golden mean is difficult to achieve, but finding it is the challenge that reformers in Thailand will have to meet.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: Likhit is too hard on Thailand and too pessimistic. He uses terms such as mirage. He bases his conclusions on the supposition that most industries in Thailand today operate with relatively low technology and that workers are in general taught how to operate machines rather than how they work. He suggests that often the only local content in a product is cheap labor. It is true that many of the new industrial operations have arisen because Japan is seeking a lower-cost production base offshore owing to the rising value of the yen over the past three years. And yes, the presence in Thailand of the Japanese generally has nothing to do with a desire to help Thailand technologically. However, with or without such a desire by Japan, there will be an inevitable spillover, and it is going on now. The result will be very positive for Thailand. Thai workers will become more interested in the new technologies and the machines, and they will come to see working with machines as part of the natural order of making a living.

Likhit rightly points out that the number of college graduates in Thailand is still alarmingly low. However, the presence of industrial facilities in Thailand, what Likhit calls technology “transplant,” will play a valuable role in creating an industrial mentality that will spill off into an independent R & D (research and development) program and evolve into true technological transfer. Likhit faults the government for not having a coherent science policy, but I think he underplays the role that private entrepreneurs will play and historically have played. As Race pointed out, private entrepreneurship has always been a strong point in Thai economic development. The Koreans have complained about the same thing over time—that the Japanese will not give up anything of any value. Yet, at the same time, the Koreans have built a very broadly based industrial sector in large part growing out of licensing arrangements with the Japanese. To this day, every Korean car, video cassette recorder, and video camera is built around a key Japanese component. One day, the Koreans want to make that component themselves, but in the meantime they are learning much about

how to make such components. Moreover, I would caution Thailand against jumping too far into an R & D policy. There is not one major Asian industrial power that has taken that approach. The Japanese were world-famous until only several years ago for not doing anything by way of R & D but licensing technology from abroad.

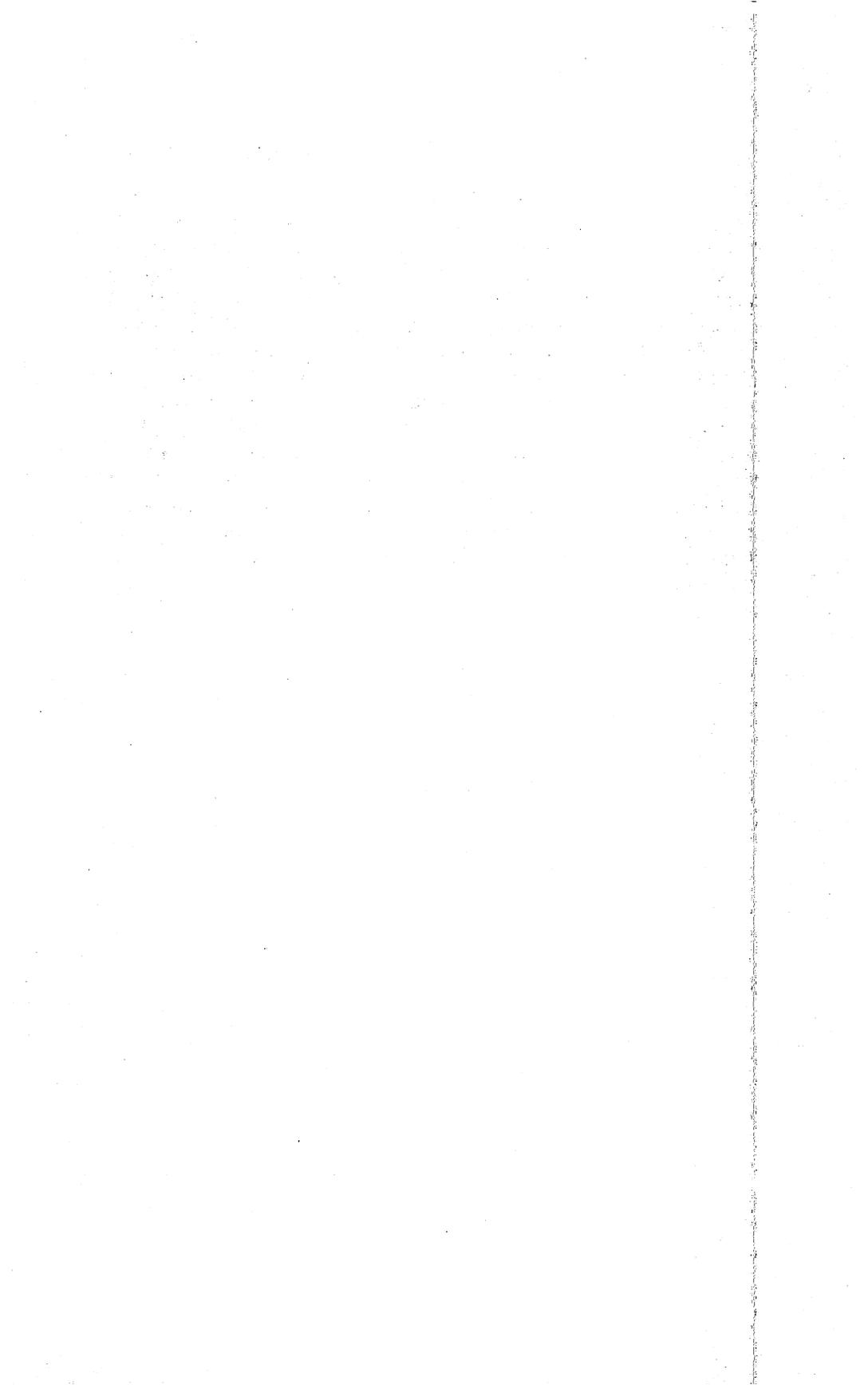
On finance, as banks like the Bangkok Bank reach premier regional status, U.S. banks are declining compared to other world-class financial institutions. The rise of the yen has kicked nearly all of the U.S. banks out of the top ten listing. Given this situation, I would predict that the U.S. Trade Representative will be dealing assertively with trade in financial services in the near future.

THAI PARTICIPANT: Likhit certainly would not disagree that the rapid transfer of technology to Thailand over the past few years has had a tremendous beneficial impact on the level of development of science and technology in Thailand. And he probably would not refute my observation that Thai technology is now sought after by third countries like China and India. After the visit of Prime Minister Chatichai to India, there has been talk about the possibility of a Thai automotive industry establishing its presence in India. Likhit may not be surprised to learn that although the Thai automotive industry bears some non-Thai names like Isuzu or Mazda, there are many components actually being made in Thailand right now, including engines. We are now developing engines, albeit with Japanese technology and components, but nevertheless it is not purely a matter of technological transplant. On the role of Sino-Thai businesses, it is true, contrary to Likhit's pessimism, that many younger-generation entrepreneurs are learning new methods in science and technology. Many of these students are studying in Thailand at technological institutes.

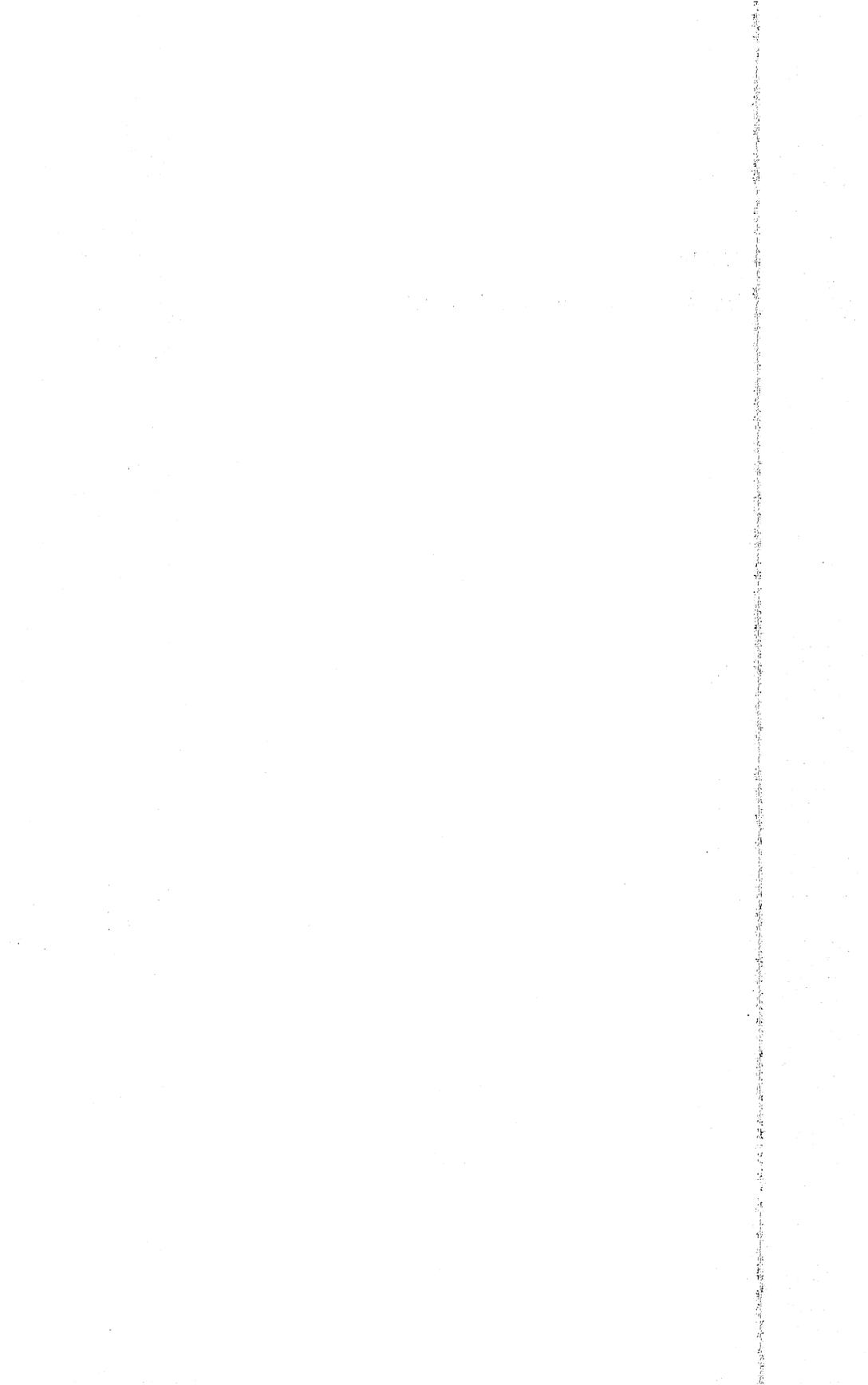
AMERICAN PARTICIPANT: Likhit is correct in saying that most of the innovation in technology is coming from the outside. But we all started that way. The United States began that way, and so did Japan, Korea, and Taiwan. It is difficult to pinpoint a time when these countries became original thinkers. It happens with an open economy through foreign investment and technology transfer. The key is keeping the society and the economy open to the kinds of things that Likhit has condemned as "transplants." This openness is critical.

THAI PARTICIPANT: Science and technology is extremely important to Thailand today. I have, however, several problems with Likhit's analysis. First, he argues that Thailand does not possess the wherewithal to become a NIC. Every person would acknowledge that Thailand does not, at present,

possess sufficient capability to become a NIC. The belief that Thailand is the newest NIC was a creation of the press more than anything else, so I think that to take upon oneself the burden of disproving it is missing the point. Second, on Likhit's definitions of transplant and transfer, transplant is a prelude to transfer, something that motivates innovation. Third, Likhit bemoans the lack of a science policy, but there are few coherent policies in Thailand on anything, not just science and technology. It has never been necessary for Thailand to have such policies in order to have progress. And last, Likhit is proposing that we have an indigenous science and technology program instead of a foreign-developed program. The irony is that Likhit is overcome by a Western paradigm. He is referring mainly to industry, the production of capital goods. What about technology in agroindustries and agriculture in general? Thailand is now almost ready to export technology in agriculture, for example, in freshwater shrimp farming.



**Part Seven**  
**The Thai Domestic Scene**



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## 14. The Role of Major Political Forces in the Thai Political Process

SUCHIT BUNBONGKARN

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The 1988 election marked a new step in Thai political development, because political parties gained more control over the government decision-making process. The participatory politics that reemerged in 1979 have increasingly been accepted by the politicized public in both urban and rural areas. The smooth transfer of power from a non-member of Parliament, Prime Minister General Prem Tinsulanond, to an elected politician, General Chatichai Choonhavan, after the elections demonstrated the growing strength of participatory political institutions and the decline of the bureaucracy's political eminence. In addition, the political involvement of economic elites has manifested itself clearly in this period. A number of its members gained access to government decision-making bodies through the elections and became cabinet members, party leaders, and leading figures in the House of Representatives. It has become common practice for the economic elite to use political parties as a ladder to top political posts. Although their involvement in party politics has contributed to the development of the Thai party system because the financial strength of political parties came mostly from their contributions, it is too early to conclude that participatory politics is now institutionalized. The ability of representative government to maintain long-term political stability is still in doubt. The military continues to be an influential rival force to the participatory institutions.

Several questions have arisen regarding the current stage of Thai political development. Is the system of participatory politics in Thailand effective in responding to the demands of various socioeconomic groups? Will it be able to develop into a more stable and institutionalized democratic system? Will it be dominated by the economic elite and respond primarily to the bourgeois class? With an intention to answer the above questions, this chapter will examine the relationships among the political parties, businesses, and the military in the political process during the first six months of Chatichai's coalition government.

### Party Politics after the 1988 Elections

The 1988 elections, like the previous elections in 1986, did not demonstrate an increase in the strength of the party system. The Democratic party, which was the largest party before the elections, suffered a heavy loss of 43 seats, obtaining only 57 seats. The Social Action party gained slightly, going from 51 to 53 seats. The party that gained the most was the Chat Thai party, whose seats increased from 63 in the 1986 elections to 87 in 1988. Among smaller parties, the Ruam Thai and the Puang Chon Chao Thai parties gained most. The former's seats increased from 19 to 35 and the latter's from 1 to 17, a gain of 16 seats for each. The elections also revealed a proliferation of political parties, as there were 17 parties elected to the House of Representatives. Two were newly formed parties, the Prachachon and Palangdham parties, which gained access to the House by winning 19 and 14 seats, respectively.<sup>1</sup>

Splits within the Democrats since the 1986 elections explained their poor performance. The Chalermphan-Veera faction quit the party and campaigned in the 1988 elections under the banner of the Prachachon party. The defection weakened the party not only because it lost a number of its leading figures, but also because its popularity was decreased. During the period from 1986 to 1988 when the split within the party took place, the politicized public and the mass media became annoyed and lost faith in the party. The Democrats' gains in the 1986 elections were attributed to its ability to attract a large number of potential candidates and MPs from other parties. This attraction did not stem from the strength of the party but rather from the belief that the party was close to General Prem, who was expected to be prime minister again after the election.

In the case of the Social Action party, the small increase in its parliamentary seats indicated a lack of party development. The party suffered internal splits and defections, although to a lesser degree than the Democrats. Absence of strong and capable political leadership was another factor that hindered the institutionalization of the party. Air Chief Marshal Siddhi Savetsila, the party's leader, may be a good and dedicated politician, but he was not astute enough to be able to manipulate the political scene to the benefit of his party.

The achievement of the Chat Thai party in this election did not manifest the strength of the party in terms of cohesiveness and expansion of support. The impressive increase in the number of the parliamentary seats obtained occurred because the party was speculated to be the core of

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<sup>1</sup>For the results of the 1988 elections, see National Assembly Secretariat, *The National Assembly Newsletter* 1988, no. 318, p. 7 (in Thai).

the coalition government in the case of General Prem's turning down the premiership offer. The close contacts between General Chaovalit and General Chatichai confirmed this belief. An effort of leading figures in the party like Banharn Silapa-acha to mobilize financial resources was another factor that made the party more attractive and capable of launching an effective campaign.

Parties' policies and performances were not a determinant of voting behavior, particularly in the provinces. The people voted on the basis of individual candidates rather than party policy or party loyalty. The Thai voters in general, except in the Bangkok area, had no party attachment; an understanding of the necessity of political parties was confined to a limited number of educated Thais. Thus, in their election campaigns, a number of prominent politicians concentrated on their individual policies, achievements, and patrons and rarely emphasized the party's performance. They had to set up their own election campaigns and campaign organizations, financing and recruiting their own campaign staff.<sup>2</sup> Because their election success depended on their own efforts rather than the party, these politicians felt no indebtedness to the party, and defections occurred when they felt that the party could not satisfy their demands.

The rise in campaign spending allowed wealthy persons a greater advantage in the election and a larger say in the party. No one knows exactly how much prominent politicians spent on the election campaign, but it was certain that the expense much exceeded the limit set by the law. The lack of political consciousness and party identification forced the candidates to campaign earnestly to mobilize voters. Thus, wealthy candidates with solid financial backing and a large patronage network stood a good chance of winning the election. Moreover, they were able to negotiate with strength for high positions in the party and cabinet posts.

Within each major party, patron-client relationships manifested themselves clearly. Wealthy and influential parliamentarians had a number of followers or clients whose relations with them were built on mutual interests. The patrons gave various kinds of assistance to the clients, including campaign funds. The clients usually had to reciprocate by giving the patron services and support, particularly in competing with other factions for top-ranking political posts.

In the light of this situation, politics are becoming more attractive for businessmen. The background of the MPs elected in 1988 seems to confirm this trend. Almost one-third of the total number of the MPs elected

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<sup>2</sup>For details on campaign strategy and tactics, see Suchit Bunbongkarn, *The Election Campaign: Case Study of the 1988 Elections in Bangkok, Khonkaen, and Nakorn Sawan* (Bangkok: Chulalongkorn University Press, in press) (in Thai).

admitted that they were in business professions.<sup>3</sup> It is believed that a number of MPs who considered themselves in legal and political professions were involved in various kinds of businesses as well.

The involvement of businessmen in party politics did not facilitate the institutionalization of the party system. One explanation is that participation is conducted on a personal basis. There exists no institutional connection between political parties and business groups or associations. Financial support comes through individual not institutional connections. The expansion of support for any party in business and commercial circles depends on individual members of the business elite whose linkage to the party is fragile and based on personal interest.

Nor has the establishment of a linkage with the masses—the farmers and the labor force—contributed to the institutionalization of the party system. Since the majority of the voters reside in the countryside, rural support is crucial for winning a majority in the House. However, instead of creating ties with the rural community on a long-term basis, every party relies on wealthy members to use their financial power to draw as many votes as possible during elections. In short, when a party can buy canvassers and voters, it has seen no need to build a permanent link with the masses, which requires a long-term and continuing effort.

### **The Coalition Government and the Decision-Making Process**

After the 1988 elections, a coalition government of five parties was set up under the leadership of General Chatichai Choonhavan, the leader of the Chat Thai party. The other four parties in the coalition are the Social Action party, the Democrats, Rasadon, and the Muanchon. Except for the Muanchon (Mass) party, these parties were in the coalition during the Prem administration. The major difference, however, is that the present cabinet is composed entirely of elected parliamentarians except for Meechai Ruchuphan, a minister attached to the Office of the Prime Minister who is needed for his legal expertise.<sup>4</sup> Under this setup, the influence of government technocrats in the decision-making process has decreased as political parties backed by wealthy politicians have gained more control over the process. The majority of the cabinet members are leading figures in the parties and their major financiers. A number of them were in Prem's cabinet, but their role was limited because Prem relied

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<sup>3</sup>See *National Assembly Newsletter* 1988, no. 318, p. 9.

<sup>4</sup>The Chat Thai party has a major share in the cabinet, controlling major ministries such as Defense, Interior, and Industries. The Social Action party controls the Foreign Affairs, Commerce, and Communication ministries. The rest belong to the Democratic, Rasadon, and Mass parties. See *National Assembly Newsletter* 1988, no. 319, pp. 8– (in Thai).

more on technocrats for decision making. One of the government agencies whose role has been affected is the National Economic and Social Development Board (NESDB). This agency, which played a key role in directing economic policy during the Prem administration, now has to listen more to the demands of the politicians. Several programs that were opposed by NESDB have been adopted or are being reexamined by the government. Examples are the rapid mass transit system and the national fertilizer plant project.

In the area of foreign policy, the role of the Ministry of Foreign Affairs has been affected. In Prem's government, Air Chief Marshal Siddhi Savetsila, the foreign minister, and his staff in the ministry enjoyed a great deal of freedom in formulating and conducting foreign policy. Despite opposition to his policy on Cambodia and the Indochinese states, he and the Foreign Ministry were very much in control of foreign affairs. However, in the Chatichai government, the prime minister has been exercising his leadership in foreign relations. He has made it clear that his government has adopted a new policy toward the Indochinese states, to turn the area from a battlefield to a marketplace.<sup>5</sup> This policy is in line with the thinking of the military leaders and politicians who want to see a quick solution to the problem in Indochina. Although Siddhi and Chatichai in separate interviews denied that there was a conflict between them over foreign policy matters, most analysts agree that there were differences in emphasis, approach, and style that might impair the relationship between the two leaders.<sup>6</sup> The prime minister has paid less attention to the Foreign Ministry than in the past, as can be seen in several of his moves. Hun Sen's visit to Bangkok in January 1989 and the meeting with President Bush in Tokyo in February 1989 were made without consultations with the Foreign Ministry.

Chatichai's initiative has gained support from a number of parliamentarians and business leaders who had lobbied for the expansion of trade relations with the Indochinese states before with little success. The change of leadership gave them some hope, and when the new direction toward these states was announced, they welcomed it. This policy demonstrated the increasing influence of the politicians and business elites in the decision-making process. They had wanted to see a quick solution to the problems in Indochina so that trade relations with the Indochinese countries could be expanded. They were unhappy with the way the

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<sup>5</sup>For details of the government policy announced in the House of Representatives, see *National Assembly Newsletter* 1988, no. 320, pp. 16–22.

<sup>6</sup>*The Nation* (Bangkok), March 13, 1989; *Thai Rath*, March 4, 1989; *Khao Phisat*, March 8–14, 1989, pp. 14–16.

Foreign Ministry had handled the Cambodian issue, adhering to the policy of the Prem government despite changes in the international environment. The politicians wanted to put trade before security, whereas the Foreign Ministry preferred a security-before-trade policy.

The policy advisers of the prime minister have played an important role in formulating the new foreign policy direction. This group of academicians has been at odds with the foreign service officers over the Cambodian problem and economic relations with the United States. Their policy is in line with some political parties, the business community, and the prime minister. Thus, what they have initiated has always won support from the prime minister and these groups.

Chatichai's initiative can be seen as an effort to consolidate his power base and increase his party's popularity. Although his approach in foreign policy has created a rift with his foreign minister and the Social Action party, one of his coalition partners, it has increased his popularity. In dealing with the Cambodian question, he was not assured of large-scale support, but his tough stand against the United States on the copyright issue and the Generalized System of Preferences (GSP) won him praise from various sectors. Yet, a widening rift within the coalition would do him a lot of damage. His leadership would come under question and the destabilization of his government would be more likely.

Neither the Social Action party nor the Chat Thai can afford to have the rift widened. The Social Action party's stake in the government is so high that it cannot afford to lose its share in the cabinet. Thus, the leaders of the two parties had to patch up their differences in early March 1989, when the rift had widened and the opposition and former prime minister M.R. Kukrit Pramoj suggested that Siddhi should leave the Foreign Ministry to resolve the conflict in the coalition government.<sup>7</sup>

The new government has reacted promptly to problems in other areas in an effort to demonstrate to the public its responsibility, dedication, and public-mindedness. After only a few months in power, the government decided to raise the salaries of civil servants and the minimum wage of laborers. This raise had been opposed earlier by the government technocrats during General Prem's administration. The move was interpreted as an attempt to gain support and defuse tension created by the demands of labor groups.<sup>8</sup> In response to the disastrous flood in the south in December 1988, the government set aside a large sum of money for relief and revoked all forest concessions. This tough measure was a heavy blow to the logging enterprises, some of which were supporters of the Chat Thai party.

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<sup>7</sup>*Siam Rath*, March 4, 1989.

<sup>8</sup>For the demands of the labor groups, see *Bangkok Post*, October 21, 1988.

The civil bureaucracy, despite its decline in political influence, continues to play an important part in formulating policy in areas where it serves the politicians' interests. Several infrastructure construction projects involving the mass transit system, expansion of highways, airports, and seaports serve the interests of the civil bureaucrats in the ministries as well as the ministers and businesses closely connected with them. Each minister has usually established a link with a business group that operates businesses related to the work of his ministry. The initiative of the ministry bureaucracy will be accepted if it serves the needs of the minister and his group. Sometimes, the businessmen campaigned for a policy that would give their businesses more profit. To retain power in the ministry, the bureaucratic elite have to know how to incorporate the interests of these businesses and the minister with those of the ministry.

The stability of the coalition government depends on how the coalition partners respect each other's sphere of interest. A rift may occur if the spheres of interest are not observed, as in the case of trade relations with the United States and the Cambodian problem. Since these parties, except for the Mass party, have worked together before, they know how to observe each other's interests, share advantages, and work to their mutual benefit. Nonetheless, the political process is becoming more complex as people's interests are becoming increasingly sophisticated and the number of social groups participating in the process is increasing. The military, whose direct access to the political process is now becoming more difficult if not impossible, has yet been able to maintain its political influence. The coalition government, if it is to survive, has to deal effectively with the demands of a variety of social groups as well as the military.

### **The Military's Role in the Political Process**

The military's role in the political system has changed its emphasis since the July 1988 elections. Military leaders have become less critical of the party system and elected parliamentarians in an apparent move to support not only the government but the system. This situation can be interpreted to mean that General Chaovalit Yongchaiyut, the army chief, is looking into the possibility of joining party politics. He has repeated his intention to retire early in order to pave the way for younger officers. It is believed that the army chief is preparing himself for the top political post, and the only way to achieve this, under the present circumstances, is through party politics. In other words, he has to join a party and run in an election to get the premiership.

The question is to what extent the army supports open politics and the system of representative government. From a look at General Arthit Kamlang-ek and General Tienchai Sirisamphan, who were previously

critical of elected politicians but now are MPs and the leaders of political parties, it appears that the military has changed its political attitude. However, it is difficult to believe that the two represent the army in this respect. They joined party politics because they were politically ambitious. But are the professional soldiers inclined to accept the present representative system? This question cannot be answered easily. The military establishment is a complex organization with long-established traditions and values. Drastic change is impossible. Yet, the two abortive coups in 1981 and 1985 and the continuity of the representative government may have affected the political thinking of the military officers. They have been forced by political circumstances to accept parliamentary rule although their basic thinking continues to be the same, emphasizing the concept of national security and their perceived role in maintaining it. All officers were taught to uphold the monarchy, the religion, and the national integrity and independence. If these "three institutions" are destabilized, military intervention in politics to restore stability and national security is possible. Thus, the military's acceptance of democratic rule is conditional in the sense that it must be able to preserve the national security as defined by the military itself.<sup>9</sup>

The continuity of the representative government has forced the military to pay more attention to its traditional mandate. The development of defense capability has been put on the top of the agenda. The perceived threat of Vietnam has been one of the major reasons for the modernization of the armed forces, but the desire to increase defense capability and modernize the forces existed long before the Vietnamese occupation of Cambodia. The occupation merely precipitated the modernization process of the armed forces. During the last ten years of parliamentary rule, the development of the three armed forces has focused on conventional warfare capability, with a large amount of arms purchased from China, the United States, and Western European countries. The political influence of the military has been manifested clearly in the fight for their budget. Despite the criticism of a number of politicians, the proposed defense budgets were always passed by the National Assembly with only minor change. During General Prem's administration, the military role in formulating defense policy was preeminent because the prime minister, who considered himself an army man, allowed the military to play an active role. In Chatichai's administration, the military continues to consider defense policy and the armed forces development programs their top priority, and

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<sup>9</sup>For discussion on this issue, see Suchit Bunbongkarn, *The Military in Thai Politics, 1981–1986* (Singapore: Institute of Southeast Asia Studies, 1987), pp. 73–75.

they have been able to get most of what they wanted. The House's military affairs and appropriation committees have recently made some effort to affect the army's policy, but they have so far achieved very little.

Apart from defense development, military leaders also play a key role in the area of foreign affairs. General Chaovalit has been instrumental in initiating and promoting close ties between Thailand and neighboring countries, particularly Laos and Burma. His move on Thai-Lao relations came after heavy losses on the Thai side in an operation to win back from Lao occupation small disputed villages in the border area in the north in early 1988. He was the first to seek a cease-fire and friendly ties with Laos. Immediately after the truce, the exchange of visits by Thai and Lao military leaders became a common practice. Chaovalit's initiative was followed by a closer relationship between Thailand and Laos.

The army was again the first to establish dialogue with Saw Maung, the new Burmese leader. In an unprecedented move, General Chaovalit flew to Rangoon in early 1989 to settle the problem of the repatriation of Burmese students who had sought refuge along the Thai-Burmese border areas. His visit triggered a protest from an anti-Saw Maung group in Thailand, who believed that the agreement on repatriation was only a death trap set up by the Burmese government. But the visit was in line with Chatichai's policy to develop close trade relations with Burma.

The army's initiative in foreign affairs was reflected in one of the speeches given by General Pat Akanibutr, the deputy supreme commander of the armed forces.<sup>10</sup> In his speech, he emphasized that Thailand as a fast growing economy should play a key role in developing mainland Southeast Asia. From the army's viewpoint, Thailand should serve as a center of the region and extend assistance in trade and investment to the Indochinese states and Burma. Ideology and a different political and social system should not be barriers. As General Pat puts it: "We want this region to be a prosperous land, Suwannaphume, as it used to be called, with Thailand as its center extending a helping hand to the neighboring countries. We would like very much to see this area become Suwannaphume, or a golden land of wealth and happiness. . . . We do not want to dominate them, but Thailand will serve as Suwannaphume's center for the development of the region. . . . We can befriend them despite the different ideologies."<sup>11</sup>

The military was proposing that Thailand establish closer relations with the non-ASEAN Southeast Asian states. While maintaining existing

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<sup>10</sup>General Pat Akanibutr, "The Role of the Military in the New Policy Approach" (speech given to the general meeting of the Psychology for National Security Association of Thailand, National Defense College, February 9, 1989) (in Thai).

<sup>11</sup>Ibid.

links with ASEAN, the military policy implies that Thailand should not overlook the political importance of the non-ASEAN states in the region.

Apart from its foreign policy initiative, the army has become more engaged in the area of the rural development. The most outstanding example is the "Greening of the Esan," or the Development of the Northeast, project that was started two years ago. Another project that was just recently launched is the development project of the five provinces in the south facing Malaysia. This project coincides with the Chatchai government's plan to develop that area into an industrial and communication complex similar to the eastern seaboard project.

The ability of the army to initiate these projects indicates its continuing key role in the political process. It has been able to maintain influence and affect government policies, particularly in areas related to national security. The army has been able to push through several rural development projects, armed forces development programs, and annual defense budgets. In the formal political setting, the army is only a part of the bureaucracy, but its role and influence extend beyond the bureaucracy's perimeters. With several political resources at his disposal, the military leader's policies and viewpoints are well recognized. However, with the increasing influence of business in the political process, conflicts between business-oriented politicians and security-minded military officers can destabilize the political system unless its absorptive capacity is increased to cope with conflicting demands of the military and business community.

## **Conclusion**

The development of the representative government system in the past decade has demonstrated that participatory institutions have been playing a more important role in the political process. Business has gained more access to the government decision-making bodies, and business leaders have been consulted on a number of economic issues. The continuing economic boom, the expansion of the middle class, and the prevalence of NICs (newly industrializing countries) fever has led to an increase in the political significance of business groups. The probusiness values of the younger generation and the increase in the number of the university-educated who join the private sector reflect the rise in the social status and prestige of the business sector.

So far, the Thai political system has been able to absorb the increasing demands of the business community. Chatchai's government had demonstrated clearly that the cooperation between the private and public sectors that started under the previous government is considered essential for the development of the country. The system has been able to maintain a balance between business interests and military demands. In fact, the

military had been very cooperative in adjusting to probusiness government policies like the policy to change Indochina from a battlefield to a marketplace.

A divergence in values and attitudes between the business community and the military establishment does exist despite efforts on both sides to adjust to one another. One of the basic differences is that military is trained to sacrifice itself for the public good, whereas business people are taught to work for personal profit. Although the army's leading figures have often expressed views supporting the present system, the young and middle-level officers are more skeptical about the dedication and conscience of the public officers. Nonetheless, the divergence has not yet come to the surface, and the government has been able to respond effectively to the military's demands. The military corporate interest has not been violated, thus keeping the discontent among the military officers from being politicized.

Compared to the other newly industrializing countries, Thailand is a unique case in the sense that it can develop its economy without the strength of the political system. The Thai party system's fragility continues to be a major political problem, and its solution has yet to be found. The political stability achieved so far has been maintained through a delicate balance between political parties, the military, the civil bureaucracy, and business groups. The Thai experience implies that a long period of political stabilization through the continuity of an authoritarian or one-dominant-party regime is not an essential prerequisite for economic achievement.

With the increasing influence of the bourgeois class, it is unlikely that the political system will turn either toward an authoritarian regime or toward bureaucratic rule. Business and economic groups will gain more access to the political decision-making process, but they will not be able to monopolize political power. The balance between the major political forces will be maintained. The Thai polity will become more complex and pluralistic, making it more difficult for any single political force to dominate. This kind of system will be less effective than an authoritarian system in solving the nation's problems, but it will be a system with vitality and dynamism.

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## 15. Trends in Thai Politics

THAWATT MOKARAPONG

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Following the general election on July 24, 1988, the leaders of five parties, namely, the Chat Thai, Social Action, Rasadon, United Democratic, and Democratic parties, agreed to form a coalition government. They also agreed that the new prime minister need not be an elected member of Parliament. This agreement paved the way for General Prem Tinsulanond to become prime minister again. The leaders of the parties invited General Prem to form a new government, but the invitation was turned down on the grounds that he had been prime minister long enough and wanted to retire from politics. Following General Prem's refusal, a new coalition government headed by General Chatichai Choonhavan, a retired general who is an elected MP, was formed. The formation of a new representative government without General Prem was followed by wide speculation that the new regime would be short-lived.

Obviously, the leaders of the coalition parties were well aware that the stability of the Prem government, which had lasted for more than eight years, depended on General Prem, the former commander-in-chief of the army, who enjoyed the support of the armed forces. To those who have long been accustomed to the predominant role of the military in Thai politics, the future of the new regime without General Prem still looks doubtful.

The doubts about the viability of the new democratic system are not surprising. The record of parliamentary rule in Thailand has not been promising. All civilian governments without the participation or support of the military have invariably been overthrown. The popular constitutional rule that was established after the student uprising in October 1973 was toppled with force on October 6, 1976, and hundreds of people were brutally massacred. Three decades earlier, in November 1947, the representative government headed by Prime Minister Luang Thamrong Nawasawat was overthrown by a group of army officers. The coup was followed by the arrest of a number of prominent politicians, including four civilian cabinet members who were cruelly murdered while under the custody of the police. Thus, the initial misgivings of some people about the survival

of the present regime are not groundless, considering the weakness of democratic governments in the past.

### **The Legacy of the Revolution of 1932**

The present political system in Thailand has its origin in the bloodless coup d'état of 1932, which was staged by a small group of military and civil bureaucrats. The coup has also been referred to as a "revolution," because it effected a drastic political change in the country by replacing the absolute monarchy with constitutionalism. The revolution of 1932 was facilitated by the impact of the modernization process that began in the reign of King Chulalongkorn in the 1890s and had undermined the sacral basis of royal power. Although the leaders of the revolution professed to be introducing democracy to the country, they had little popular support. At the time of the revolution, the people at large were still politically apathetic and did not demand a share in political power. As a result, the leadership of the revolution of 1932 did not immediately establish a truly representative government. Instead, it placed in power a new bureaucratic elite who ruled in the name of the people.

Following the 1932 revolution, the Thai political process was dominated by the bureaucracy. Among the ruling elite, ultimate power belonged to the military. The civil bureaucrats who were members of the ruling circle were usually top-level officials with either important reputations or close connections with the military. Since the revolution of 1932, except for a short interval of civilian rule, the government has, for the most part, been dominated by the military. Politics have become continuous struggles for power between military cliques, and coups d'état have more often than not been the means by which governments changed. Between 1932 and 1985, military leaders staged fourteen coups d'état; eight succeeded and six failed. From 1932 to 1988, Thailand had elected prime ministers for fewer than six years and nonelected prime ministers for more than fifty years. But this political pattern began to change in the 1980s.

### **The Crucial Transition**

On March 12, 1980, General Prem replaced General Kriangsak Chamanan as prime minister not by a coup d'état, but by parliamentary votes. Although Prime Minister Prem was supported by the military, the number of military officers and civil servants whom he brought into his cabinets was kept to a minimum. This practice contrasted sharply with that of previous military-backed cabinets, which normally included a large number of military and civil officials. In the Prem government, most ministries were occupied by elected MPs and nonelected members of coalition parties. A few prominent bureaucrats and technocrats were chosen by

Prime Minister Prem for some key ministries, notably the Ministry of Defense, the Ministry of the Interior, and the Ministry of Finance.

Following the general election of April 1983, a significant change took place in the formation of Prem's fourth cabinet. The fourth cabinet was composed entirely of elected MPs and nonofficials. There was not a single official in Prem's fourth and fifth cabinets, because the provisional clauses of the Constitution of 1987 that allowed career officials to hold cabinet posts concurrently had expired in 1983. The expiration of the provisional clauses of the Constitution of 1978 marked a crucial step in the transition toward democratic rule.

The transition toward parliamentary democracy during the Prem administration was not smooth sailing, however. Between 1980 and 1985, Prem had to suppress two coups against his government. In addition, early in 1983, the government had to resist the pressure of some members of the Senate who wanted to amend the Constitution of 1978 to allow military officers and civil servants to hold concurrent cabinet posts. The government's success in resisting such pressures has, in effect, ushered in a new era of representative government. Prem's last cabinet between 1986 and 1988 was composed of thirty-seven elected MPs and seven nonofficials.

With the Prem government in power for more than eight years, the general public began to have more confidence in the parliamentary system. Many people, including prominent businessmen, former officials, and generals decided to join the body politic. Many of them have succeeded in becoming cabinet members and elected MPs. The political arena is no longer monopolized by the bureaucracy.

### **The Era of Parliamentary Rule**

The formation of the new government led by Prime Minister General Chatichai, an elected MP, on August 9, 1988, signifies that Thai politics is now entering a new phase of political transition. The new cabinet consists of forty-three elected MPs and one nonelected member who is needed as a legal expert (see Table 1). Despite lingering doubts about its future, the new regime seems more and more secure in its rule as the days go by.

Several factors have contributed to the stability of the present government. First, the performance of the government shows the leadership to be more responsive than past governments to the needs of the general public. During the first six months after it came to power, the government gained more and more popularity. According to a survey of public opinion in Chiang Mai Province, more than 52 percent of the people are satisfied with the performance of the government; only 11 percent expressed dissatisfaction.<sup>1</sup>

<sup>1</sup>*Maticbon*, January 30, 1989.

**Table 1**  
Composition of the Cabinets, 1980–1988

Prime Minister	All Cabinet Members						
	Total	Total Non-officials	Elected MPs	Other Non-officials	Total Officials	Military Officials	Civil Officials
Prem I 12 Mar. 1980– 11 Mar. 1981	37	25	18	7	12	6	6
Prem II 11 Mar. 1981– 19 Dec. 1981	40	28	18	10	12	5	7
Prem III 19 Dec. 1981– 30 Apr. 1983	42	35	24	11	7	4	3
Prem IV 30 Apr. 1983– 5 Aug. 1986	44	44	30	14	0	0	0
Prem V 5 Aug. 1986– 4 Aug. 1988	44	44	37	7	0	0	0
Chatichai 4 Aug. 1988–	44	44	43	1	0	0	0

Apparently, the government during this period has conducted itself to the satisfaction of the Thai people. Many major decisions were promptly made with decisiveness. During the flood disaster in the south, the government showed great concern and responded quickly to help the flood victims. It also displayed great courage in issuing the royal decree to close down the depleted national forests without hesitation. Among other sensitive issues, the regime has resolved labor problems with political finesse. In addition, the minimum wage of workers and the salaries of government officials were also increased. In general, the Thai people at large are quite satisfied with the overall performance of the government.

Second, the increase in popularity of the government is largely a result of the personality and performance of Premier Chatichai Choonhavan, whose guidance and firm leadership have had great bearing on all major decisions of the government. His able leadership can be attributed to his wide political experience as well as his close connections with many key personalities in civil and military circles.

Third, the government is getting along well with the military. The regime has, for the most part, seen eye to eye with the military on many

major problems. The military budget has been increased, and the military is satisfied with its close cooperation with the government. Some generals even resigned from the army in order to serve in this government as close aides to the prime minister. As things stand now, there is no likelihood of a major conflict between the government and the military.

Finally, the most significant factor that has contributed to the stability of the parliamentary system is the growing political consciousness on the part of the general public. True, some people do not understand the full meaning of "democracy," and financial manipulation of the balloting still holds sway in many constituencies. But these shortcomings can be corrected in the long run as people begin to comprehend the meaning of true democracy and reject monetary offers for their votes. The most hopeful sign of democratic development in Thailand is that the people are now more politicized and want more participation in running the country.

### **The New Look in Thai Foreign Policy**

In the wake of the current trend toward international rapprochement initiated by the superpowers, Thailand, as a small frontline state, has had to change its stance in foreign relations. The change in Thai foreign policy was reflected in Prime Minister Chatichai's lecture on government and development at the National Institute of Development Administration. He said that the era of confrontation is over and those who are slow or fail to adapt to changing circumstances will become extinct.<sup>2</sup> Explaining his new foreign policy, he said steps have to be taken to reduce conflicts with hostile countries and improve ties with allies in a manner beneficial to all parties concerned strategically, politically, diplomatically, and economically.<sup>3</sup> Adhering to this new policy, the government has taken steps to improve relations with socialist countries, especially the rapprochement with the Indochinese states.

The government's peace efforts to turn Indochina from a battlefield into a trade zone have been warmly welcome by the people. Although considerable difficulties remain in the way of the Cambodian peace process, Prime Minister Chatichai's decision to have talks with Phnom Penh Premier Hun Sen in Bangkok has been hailed as a bold move in the right direction. Defending Premier Chatichai's direct talks with the Phnom Penh premier, General Chaovalit Yongchaiyut, the acting supreme commander and army commander-in-chief, said Thailand is the only country directly affected by the Cambodian problem, and he saw no problem with Thailand's friends since the prime minister had already informed them

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<sup>2</sup>*Bangkok Post*, February 10, 1989.

<sup>3</sup>*Ibid.*

about Hun Sen's visit.<sup>4</sup> He said: "We stand on our friendly relations with all countries. We have always maintained our position, and everything we have done has been for the sake of peace in the region."<sup>5</sup> Despite some criticism of his direct contact with the Phnom Penh regime, Prime Minister Chatichai's peace initiative in search of a Cambodian solution has been hailed by China, the Soviet Union, and the four Khmer factions, all of which shared the view that it was time for peace.<sup>6</sup>

As for Thai-U.S. relations, the Thai government has always regarded the United States as a true friend of Thailand. Thai troops fought alongside American soldiers in Korea and, in support of the American war effort, battled the communists in Vietnam and Laos. Apart from being one of the staunchest allies of the United States in the Korean and Vietnam wars, Thailand has long been closely tied to the United States politically, economically, and socially. Thus, Thailand's rapprochement with the socialist countries will not affect Thai-U.S. relations.

Despite the good relations between the two countries, there has recently been a controversy over the protection of U.S. intellectual property, which includes copyrights, pharmaceutical patents, and business trademarks. With growing U.S. pressure on Thailand over the intellectual property issue, the previous government tried everything in its power to have the copyright amendment bill passed by the House of Representatives on April 28, 1988, with a vote of 183 for and 134 against in the final reading. But 30 dissident Democrats violated their party's line in voting against the bill, because they wanted computer software excluded from the protection. Since Prime Minister Prem was unhappy over the disunity in the Democratic party, on April 29, 1988, sixteen Democratic cabinet members took responsibility for the dissension in their party by resigning en masse. This act led Premier Prem to dissolve the House. The dissolution of the House killed all bills pending in Parliament, including the controversial copyright amendment, which had yet to be submitted to the Senate.<sup>7</sup> As we have seen, the copyright controversy has led to the retirement of Prime Minister Prem from politics.

It is, therefore, perfectly understandable that the new government headed by General Chatichai does not want to revive the bill. However, on January 19, 1989, just one day before he left office, President Ronald Reagan, on the recommendation of the U.S. Trade Representative's office, decided to revoke Thailand's Generalized System of Preferences (GSP)

<sup>4</sup>Ibid., January 26, 1989.

<sup>5</sup>Ibid.

<sup>6</sup>Ibid., February 10, 1989.

<sup>7</sup>*The Nation's Mid-Year Review* (Bangkok), June 1988, pp. 79–82.

status. Nevertheless, such a minor economic problem, I believe, can eventually be resolved, considering the long history of friendship that has existed between the two nations.

The close friendship between the two countries was borne out by the outcome of the meeting in Tokyo on February 23, 1989, between Premier Chatichai Choonhavan and President George Bush. It was reported that the two leaders, instead of arguing over the copyright issue, reached broad agreement on four issues, namely, the Cambodian problem, narcotics, the cooperation between the private sectors of the two countries, and the direct telephone link between the White House and Government House.<sup>8</sup> Despite some criticism from U.S. officials of Premier Chatichai's proposals in his aide-mémoire to President George Bush during the two leaders' meeting in Tokyo,<sup>9</sup> it was generally agreed that the meeting was successful and cordial and ended on a "very positive note."<sup>10</sup>

There was a report, however, that the "hotline" proposal was later rejected by President George Bush on the grounds that such a direct channel is unnecessary. The present communication system between the two countries is already good, whereas the purpose of the hotline with the Soviet Union is to lessen the possibility of war that could inadvertently break out.<sup>11</sup> Denying the report, Prime Minister Chatichai explained that the government did not make a request for a hotline because he knew that hotlines were for superpowers. He merely mentioned in his aide-mémoire that there should be contact between the two governments at all levels. Despite any such minor difference, the overall tone of President Bush's reply to the prime minister's aide-mémoire was clearly positive. The U.S. government reaffirmed its support of Thai policy on security, narcotics, and Indochinese refugees. In his message to Premier Chatichai, the president stated clearly that he wanted closer ties between Thailand and the United States and that the current cooperation between the two countries was moving in the right direction. What is more, the president also supported the call by Thailand and ASEAN for withdrawal of Vietnamese troops and a negotiated political settlement in Cambodia.<sup>12</sup>

With the present democratic regime in power in Thailand, the ties of friendship between the two countries should remain cordial because both share the same democratic ideology. We have seen the change in attitude of the U.S. government during the electoral crisis in the Philippines in 1986,

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<sup>8</sup>*Bangkok Post*, February 25, 1989.

<sup>9</sup>*Ibid.*, February 26, 1989.

<sup>10</sup>*Ibid.*, February 25, 1989.

<sup>11</sup>*Ibid.*, March 23, 1989.

<sup>12</sup>*Ibid.*, March 24, 1989.

when it sided with the duly elected president, Corazon Aquino, against former president Ferdinand Marcos, who was forced to accept defeat in the presidential election and flee the country to live in exile in Honolulu. We have also seen how the U.S. government gave the Aquino government the moral support that led to the defeat of the coup plotters who wanted a return to authoritarian rule. Given the U.S. position on the Philippines, I see no reason why Thai-U.S. relations, which are now based on the principle of equality and mutual benefit, will not continue to be as close as before.

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## 16. Trends in the Thai Economy

MEDHI KRONGKAEW

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Befitting the year of the golden dragon, 1988 was a golden year for the Thai economy. Halfway through the year, it became obvious to everyone concerned that the economic performance and expansion of the Thai economy would be much higher than the projected rates of growth, widely forecast to be around 5.8 to 6.3 percent at the beginning of the year. The National Economic and Social Development Board (NESDB), the country's planning board, felt the necessity to change its predicted rate of growth of the economy upward to around 9.2 percent during the third quarter and finally, as the year came to a close, announced that the 1988 growth rate for gross domestic product (GDP) would reach 11.0 percent, one of the highest rates in the recent economic history of Thailand. Similarly, other economic authorities in Thailand such as the Bank of Thailand and the Thailand Development Research Institute (TDRI) also adjusted their predicted rates of growth upward. The Bank of Thailand, for example, made its first adjustment of the rate of growth to 9.0 percent in late September and finally concluded that the 1988 GDP growth would be around 10.3 percent.

What made Thailand's economy grow so fast in 1988? To be sure, the growth of 1988 did not occur in a complete vacuum or come as a complete surprise. The Thai economy had been growing steadily, albeit slowly, over the previous three to four years. This slow growth was itself quite an accomplishment, considering the slowdown in the world economy and the adverse commodity price situation that had hurt such high-growth ASEAN neighbors as Malaysia and Singapore, causing them to experience negative growth rates for the first time in 1985 and 1986. So, the growth of 1988 could be seen as the continuation of a trend. The only surprise was that what had been a gradual trend suddenly took a jump, catching most people unprepared. Now some of the pertinent questions seem to be what lies ahead in the economic future of Thailand, whether future economic problems will be much different from the ones at present and whether we have solved all our major present economic problems satisfactorily.

These and other related questions will be the subjects of discussion in this chapter. First, the chapter will discuss the economic conditions prevailing in 1988 in an attempt to find reasons or explanations for the upsurge in economic expansion. Based on the existing economic conditions, a short-term economic projection for the next year or so will be made. Second, some medium-term economic trends regarding what will happen in the next three to five years will be looked at. The discussion in this section will concentrate on the revision of the economic targets of the Sixth Economic and Social Development Plan, which will end in 1991. Finally, some long-term problems over the next five to ten years will be mentioned and discussed.

### **Base Conditions and Short-Term Trends**

By all measures, 1988 was indeed a special year for Thailand. The 1988 economy began with a continued recovery in most sectors, especially in the manufacturing, trade, construction, and banking sectors. Despite a poor performance in agricultural production (due to a second successive drought), the 1988 economy had inherited a GDP growth rate of 6.6 percent from 1987. The 1987 Visit Thailand Year had been a success: Thailand saw an increase of almost 24 percent in the number of tourists coming into the country over the previous year, adding an additional 50,000 million baht to the country's foreign exchange earnings. Exports were growing at a rate of about 28.5 percent despite widespread protectionism in most Organization for Economic Cooperation and Development (OECD) countries. With initial conditions such as these, most economists predicted that the 1988 growth would be in the vicinity of 6 percent, which was quite high by recent historical standards.

These predictors were not to be disappointed. As will be seen in the following analyses and discussions, almost everything turned out to be right for Thailand in 1988. The following sections will detail the growth in the areas of production, foreign trade, and external balances; investment and tourism; fiscal conditions; monetary conditions; and price levels.

#### *Production*

After two years of drought in 1985 and 1986, which saw a decline in the growth rates of the production of most crops (see Table 1), agricultural crop production rebounded in 1988 under conditions of good weather and prices. From Table 1, it can be seen that rice (paddy) production was 20.5 million tons in 1988, an increase of about 20.1 percent over the 1987 output. The production of other major crops also increased, with 125.1 percent growth for maize, 14.1 percent for cassava, and 10.3 percent for sugarcane. And except for cassava, all farmgate prices of major crops

**Table 1**  
Production and Price of Major Crops

	1985	1986	1987	1988
<i>I. Production (million tons)</i>				
Rice	20.599	19.026	17.072	20.502
First crop	17.930	16.826	15.272	18.042
Second crop	2.669	2.200	1.800	2.460
Rubber	0.722	0.790	0.910	0.970
Maize	5.350	4.300	2.310	5.200
Cassava	19.263	15.255	19.554	22.307
Sugarcane	24.000	24.450	27.191	30.000
<i>Growth rate (%)</i>				
Rice	3.1	-7.6	-10.3	20.1
First crop	3.8	-6.2	-9.2	18.1
Second crop	-1.6	-17.6	-18.2	36.7
Rubber	14.8	9.4	15.2	6.6
Maize	18.9	-19.6	-46.3	125.1
Cassava	-3.7	-20.8	28.2	14.1
Sugarcane	-4.2	1.9	11.2	10.3
<i>II. Farmgate prices (baht/ton)</i>				
Rice			2,723	3,900
Sorghum			1,610	2,280
Cassava			830	580
Rubber			18,000	24,910
Sugarcane			408	405
Mung bean			8,160	10,790
Maize			2,270	2,600

SOURCE: Office of Agricultural Economics, Ministry of Agriculture and Agricultural Cooperatives.

increased substantially in 1988 compared to 1987. These attractive crop prices were a major incentive for farmers to increase their production. The overall growth for the crop subsector was estimated at 12.3 percent. The lower growth rates in noncrop subsectors brought the overall growth figure for agricultural production down to 8.6 percent, which was still much higher than the growth rate of -2.0 percent in 1987.

Production in the manufacturing, construction, trade, and services sectors continued to perform well in 1988. In the manufacturing sector, for example, production grew by 12.4 percent in 1988. This increase in production was both for export and domestic consumption. Export markets and demand remained buoyant, and domestic demand was helped

by increased income and purchasing power. Production costs also benefited from lower oil prices and low interest rates, especially in the first half of 1988. Export industries having high growth rates included textiles and garments, canned food, plastic products, rubber products, footwear, ceramic products, and computer components. Among industries catering to domestic consumption, those experiencing high growth rates included vehicles and transportation equipment, construction materials, beverages, and household electrical appliances. The construction sector also enjoyed a growth rate as high as 13.7 percent as a result of increased economic activities and prosperity. The banking, insurance, and real estate sector enjoyed a growth rate of 18.4 percent, which was the highest among all subsectors. In other sectors, the picture was much the same: a continued upward or forward movement. In all, nonagricultural production attained a rate of growth of 11.5 percent, which was higher than the already high rate of 10.8 percent in 1987.

#### *Employment and Wage Rates*

At the end of 1987, the population of Thailand was estimated at 54.8 million, representing an increase of 1.7 percent over the previous year. Of this population, 29.9 million were in the labor force and 28.2 million were employed. Among those employed persons, 17.9 million, or about 63.5 percent, were employed in the agricultural sector; 2.8 million, or 9.9 percent, in the industrial sector; and the remaining 7.5 million in all other sectors. Employment conditions were good in the period of heightened economic expansion in 1988, resulting in the estimated reduction of unemployed labor to about 1.7 million persons, or about 5.7 percent (including both the long-term unemployed and those looking for work). As for wage rates, there was no minimum wage increase in 1988, but the government agreed to raise the minimum wage for industrial workers in Bangkok and the vicinity from 73 baht to 78 baht in 1989.

#### *External Trade and Balances*

Perhaps the single most important factor contributing to the high economic growth of the Thai economy in 1988 was the substantial increase in total exports. Thailand's 1988 exports brought in 402,838 million baht, representing an increase of 34.3 percent over the export value of 1987. This growth was very satisfactory indeed, as world trade only grew at about 7 percent in 1988.

Table 2 shows that manufactured exports constituted the highest share of Thailand's total exports in 1988 (about 68.5 percent). This share is quite remarkable, because as recently as five years ago, the share of agricultural exports was still higher than that of manufactured exports (44.7 percent

**Table 2**  
Exports of Thailand Classified by Sector

Sector	1983	1984	1985	1986	1987	1988
<i>I. Value (million baht)</i>						
Agricultural	66,484	78,292	73,398	79,397	83,259	106,432
Fishing	8,225	8,684	10,590	14,853	18,163	20,826
Mining	6,806	7,588	10,126	6,283	5,851	7,631
Manufacturing	61,358	76,095	95,615	129,170	188,031	263,737
Other	1,449	1,416	1,883	2,392	3,786	3,694
Re-exports	2,150	3,162	1,754	1,288	763	1,250
Total exports	146,472	175,237	193,366	233,383	299,853	403,570
<i>II. Share (%)</i>						
Agricultural	45.4	44.7	38.0	34.0	27.8	26.4
Fishing	5.6	5.0	5.5	6.4	6.1	5.2
Mining	4.6	4.3	5.2	2.7	2.0	1.2
Manufacturing	41.9	43.4	49.4	55.3	62.7	65.4
Other	1.0	0.8	1.0	1.0	1.3	0.9
Re-exports	1.5	1.8	0.9	0.6	0.3	0.3
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
<i>III. Rate of growth (%)</i>						
Agricultural		17.8	-6.3	8.2	4.9	27.8
Fishing		5.6	21.9	40.3	22.3	14.7
Mining		11.5	33.4	-38.0	-6.9	30.4
Manufacturing		24.0	25.7	35.1	45.6	40.3
Other		-2.3	33.0	27.0	58.3	-2.4
Re-exports		47.1	-44.5	-26.6	-40.8	63.8
Total exports		19.6	10.3	20.7	28.5	34.6

SOURCE: Bank of Thailand, *Monthly Bulletin*, March 1989.

compared to 43.4 percent). The switchover represented an important structural change in the Thai economy. The major manufactured export items that enjoyed high growth rates included, as mentioned earlier, plastic products, computer components, electronic circuits, footwear, and canned food. The United States was still the largest export market of Thailand, followed by Japan, Singapore, the Netherlands, and West Germany.

However, the rapidly expanding economy had given rise to a greater demand for import of capital goods, intermediate products, and raw materials. The total imports in 1988 amounted to 487,871 million baht, an increase of 46.0 percent over the value of imports in 1987. Table 3 further

**Table 3**  
Imports of Thailand Classified by Type of Product

	1983	1984	1985	1986	1987	1988
<i>I. Value (million baht)</i>						
Consumer goods	22,308	22,692	23,966	24,466	33,844	38,874
Intermediate products and raw materials	66,474	69,613	75,772	84,333	119,792	179,847
Capital goods	69,814	73,607	75,404	78,316	105,916	203,874
Other imports	78,013	79,243	76,027	54,243	74,657	90,519
Fuel and lube	(57,065)	(57,353)	(56,719)	(32,354)	(44,177)	(38,828)
Total Imports	236,609	245,155	251,169	241,358	334,209	513,114
<i>II. Share (%)</i>						
Consumer goods	9.4	9.3	9.5	10.1	10.1	7.6
Intermediate products and raw materials	28.1	28.4	30.2	34.9	35.8	35.1
Capital goods	29.5	30.0	30.0	32.4	31.7	39.7
Other imports	33.0	32.3	30.3	22.5	22.3	17.6
Fuel and lube	(24.1)	(23.4)	(22.6)	(13.4)	(13.2)	(7.6)
Total Imports	100.0	100.0	100.0	100.0	100.0	100.0
<i>III. Rate of Growth (%)</i>						
Consumer goods		1.7	5.6	2.1	38.3	14.9
Intermediate products and raw materials		4.7	8.8	11.3	42.0	50.1
Capital goods		5.4	2.4	3.9	35.2	92.5
Other imports		1.6	-4.1	-28.7	37.6	21.2
Fuel and lube		(0.5)	(-1.1)	(-43.0)	(36.5)	(-12.1)
Total Imports		3.6	2.5	-3.9	38.5	53.5

SOURCE: Bank of Thailand, *Monthly Bulletin*, March 1989.

indicates that the increase in non-oil imports was greater than 50 percent, whereas the value of oil imports slowed down by about 18.1 percent because of a reduction in the price of oil. With this amount of imports, it was not surprising that the balance of trade deficit in 1988 reached 85,033 million baht, which was one of the highest trade deficits ever experienced in Thai history. But with a much higher GDP, the trade deficit as a percentage of GDP was not large.

Despite the balance of trade deficit, the overall terms of trade have worked in Thailand's favor recently. From Table 4 one can see that the indices of the unit value of exports in 1987 and 1988 were higher than those of imports, resulting in the terms of trade of 108.8 in 1987 and 114.5

**Table 4**  
Trade Indices and Terms of Trade

	1983	1984	1985	1986	1987	1988
<i>Exports</i>						
Volume	84.5	99.8	100.0	119.1	137.3	196.1
Value	75.8	90.6	100.0	120.7	155.9	128.4
Unit Value	98.3	97.4	100.0	102.8	109.3	236.5
<i>Imports</i>						
Volume	107.2	106.6	100.0	107.2	138.5	155.0
Value	94.2	97.6	100.0	96.1	133.1	113.9
Unit Value	90.6	91.9	100.0	92.8	100.4	197.8
Terms of trade	100.9	108.5	100.0	110.7	108.8	112.7

SOURCE: Bank of Thailand, *Monthly Bulletin*, October 1989.

NOTE: Fourth quarter

in 1988. The declining terms of trade that characterized the external trade sector in Thailand in the early 1980s have been stopped, for now anyway.

### *Investment and Tourism*

Another factor contributing to the fast growth of 1988 was the increase in investment from both local and foreign sources. The Bank of Thailand reported that the investment expenditure of the domestic private sector increased by 28.1 percent in 1988 compared with 25.5 percent in 1987. This increase reflected local confidence in the sustained growth of the economy. Another interesting phenomenon concerning confidence in the Thai economy is seen in the increase in investment from abroad. Foreign investment can be divided into two types, equity investment and direct investment loans. As Table 5 shows, equity investment from abroad, especially from Japan and the Asian NICs, is fast becoming an important source of capital for Thailand's development.<sup>1</sup>

Small foreign direct investment loans, sometimes coming in years (such as 1987) that showed a negative net flow because profit remittances were greater than new investments, are still important to the economy, as they are concentrated in active industrial and business activities. Foreign interest in investing in Thailand can be gleaned from the number of

<sup>1</sup>Whereas the foreign direct investment figure for 1987 was a modest 4,712 million baht, it was estimated that the corresponding figure for 1988 was almost three times as much.

**Table 5**  
 Net Inflow of Foreign Direct Investment, 1980–1987  
 (million baht)

Year	Equity Investment (1)	Loans (2)	Foreign Direct Investment (1) + (2)	Net Equity Flow as Percentage of Net FDI Flow
1980	3,509	307	3,816	92.0
1981	3,997	2,366	6,363	62.8
1982	3,386	953	4,339	78.0
1983	6,829	1,363	8,192	83.4
1984	7,126	2,499	9,625	74.0
1985	5,387	(1,007)	4,380	123.0
1986	5,808	1,072	6,880	84.4
1987	5,916	(1,204)	4,712	125.6

SOURCE: Bank of Thailand.

applications submitted to the Board of Investment each year for investment promotion. In 1988, for example, the number of applications reached 2,125, or more than twice the total number of applications in 1987 (see Table 6). The total amount of money expected to be invested was much higher in 1988 than in 1987. Of course, not all applications are approved. But in 1988, the Board of Investment approved a record of 1,454 applicants with proposed investments of 200,894 million baht, or an increase of almost 200 percent (in total amount of investment) compared to the amount proposed in 1987. Of all these newly approved applications, about half of the investment money will come from Japan, followed by Taiwan and the United States. There was little doubt that if there was no great change in these approved applications, the foreign investments they represented would help generate further economic expansion in the future.<sup>2</sup>

Whereas foreign investment provides necessary foreign exchange to help fill the exchange gap, another source of foreign exchange earnings

<sup>2</sup>It is not the case that all foreign investments are beneficial and should be supported at all costs. As Somsak aptly put it, the host country should also ask whether the said investment will create dependence on the investing country for raw materials, whether necessary employment will be generated, whether proper technology will be transferred, and whether the host country will lose resources through tax concessions and net outflow of profit. A blanket foreign investment promotion should be avoided. Somsak Tambunlertchai, "Can Thailand Become a NIC with Foreign Direct Investment?" (paper presented at the 1989 annual symposium of the Faculty of Economics, Thammasat University, February 13–14, 1989).

**Table 6**  
Board of Investment—Promoted Investment Statistics

	1986		1987		1988	
	Number	Million Baht	Number	Million Baht	Number	Million Baht
<i>I. Applications</i>						
1. Total investment (percent change)	431	59,688	1,058 (145.5)	209,029 (250.2)	2,125 (100.9)	530,292 (153.7)
2. Total foreign investment (percent change)	207	35,487	630 (204.3)	163,322 (360.2)	1,271 (101.7)	394,212 (141.4)
of which:						
Japan	53	8,111	199	46,747	389	148,221
Taiwan	31	2,957	178	14,642	400	54,287
United States	24	13,998	61	19,214	136	92,767
Australia	6	528	22	7,331	30	29,851
Hong Kong	17	1,934	46	7,035	126	20,108
Singapore	9	330	37	5,129	63	10,069
United Kingdom	11	2,020	26	4,231	45	12,598
West Germany	9	1,139	14	720	25	5,612
France	3	11,710	7	59	18	29,927
<i>II. Applications approved</i>						
1. Total investment (percent change)	295	34,610	625 (111.9)	67,290 (94.4)	1,454 (132.6)	200,894 (198.5)
2. Total foreign investment (percent change)	154	25,047	385 (150.0)	50,064 (99.9)	888 (130.6)	156,419 (212.4)
of which:						
Japan	35	6,593	136	24,363	265	77,019
Taiwan	18	940	102	7,700	308	21,498
United States	20	1,067	34	4,431	106	17,028
Australia	4	297	12	984	19	1,325
Hong Kong	18	1,178	32	3,144	86	11,416
Singapore	6	250	17	1,630	51	5,654
United Kingdom	13	1,866	16	2,643	44	8,387
West Germany	5	739	7	337	17	3,513
France	4	400	3	32	14	1,289
<i>III. Promotion certificates issued</i>						
(percent change)	186	34,676	372 (100.0)	49,729 (43.4)	912 (145.2)	87,018 (75.0)
<i>IV. Start operations</i>						
(percent change)	145	20,810	171 (17.9)	18,563 (10.8)	224 (30.0)	7,930 (3.4)

SOURCE: Board of Investment.

that has been crucial for the economic growth of Thailand is the revenues from foreign tourists. Until 1987, the revenues from tourism were growing steadily at a rate of about 10 to 15 percent per year. In 1987, the government launched the Visit Thailand Year to commemorate the sixtieth birthday of the king. The concerted efforts to advertise the event and to accommodate tourists have paid off handsomely. As shown in Table 7, the number of visitors jumped from about 2.8 million in 1986 to almost 3.5 million in 1987, resulting in an increase of revenues from tourism from 37,321 million baht in 1986 to 50,024 million baht in 1987, or about 34.0 percent. The year 1988 was even better. Although the rate of increase of tourists was lower, at 21.5 percent in 1988 compared to 23.6 percent in 1987, these new tourists stayed longer and spent more. The over 4.2 million tourists in 1988 spent 73,500 million baht, or 46.9 percent more than the level spent in 1987. It has been very impressive indeed to see the revenues from tourism double in just two years (see Table 7).

### *Fiscal Conditions*

Traditionally, the Thai government has always experienced a budget deficit in its annual government finance. For the last twenty-five years until 1988, there was only one year in which the government had a budget surplus. That was 1974, when the commodity price boom in the world market enabled the government to rake in revenues through commodity export taxes. The year 1988 was another exception, with the government in the black.

From Table 8 it may be seen that from 1980 to 1986, the annual government budget deficit was never lower than 21,000 million baht. The worst year was 1982, when the government experienced a severe fiscal crisis with a budget deficit of over 41,000 million baht. However, the government's fiscal condition improved dramatically in 1987, when the budget deficit was the lowest in a decade. In 1988, the deficit turned into surplus for the first time in fourteen years. The surplus for fiscal year 1988, estimated at 24,992 million baht, was made possible by at least two factors. One is the marked increase in taxation, particularly import taxes (which had a direct link with domestic economic expansion), business tax, corporate profit tax, individual income tax, and specific property tax. The rate of increase in these taxes and other public revenues in 1988 was about 27.6 percent, which was very high. The other factor is the much slower growth in public expenditures. This conservative spending has been the hallmark of the Thai government in recent years. The surplus in 1988 enabled the government to make an early payment of its public debts and redeem some of the government bonds that will mature in the next five years.

**Table 7**  
**Tourism-Related Statistics**

	1985	1986	1987	1988
Revenues from tourism (million baht)	31,768	37,321	50,024	73,500
Percent change	16.3	17.5	34.0	46.9
Number of visitors				
Persons	2,438,270	2,818,092	3,482,958	4,230,737
Percent change	3.9	15.6	23.6	21.5
Average length of stay (days/person)	5.58	5.93	6.06	7.10
Average expenditure (baht/person/day)	2,335	2,233	2,370	2,460

SOURCE: Bank of Thailand.

### *Monetary Conditions*

In 1988, the liquidity in the financial system diminished steadily. Private demand for commercial bank credits continued to expand by 27 percent as commercial bank deposits slowed down to 18 percent. To augment their liquidity, banks borrowed from overseas and also from the Bank of Thailand. The tight money situation toward the end of 1988 caused interest rates to move upward. The interbank and repurchase rates increased from 6.5 and 5.4 percent per year at the end of 1987 to 11.3 and 9.2 percent, respectively, during the last month of 1988. Many banks also raised the savings and time deposit rates to 7.25 and 9.5 percent, respectively, which are the ceilings allowed by the Bank of Thailand. Concurrently, the minimum lending rate was increased from 11.5 to 12.0 percent.

The broadly defined money supply (M2) slowed down to an annual growth rate of 18.2 percent in 1988 compared to 20.2 percent in 1987. This decrease was largely due to a drastic reduction in private lending to the government. Although private credit continued to grow rapidly, overall domestic credit expanded at a slower rate of 16 percent compared to 17.6 percent in 1987.

### *Price Levels*

Compared with 1987, the consumer price index in 1988 increased by 3.8 percent, the highest rate of increase in the last five years. This increase was more or less to be expected in the face of rapidly rising commodity

**Table 8**  
**Government Finance (Calendar Year)**  
 (million baht)

Year	Total Revenue	Growth Rate	Total Expenditures	Growth Rate	Surplus or Deficit
1980	95,557	21.5	120,973	35.2	(25,416)
1981	111,843	17.0	133,444	10.3	(21,601)
1982	115,980	3.7	157,017	17.7	(41,037)
1983	143,436	23.7	167,088	6.4	(23,652)
1984	148,242	3.4	182,228	9.1	(33,986)
1985	160,652	8.4	200,028	9.8	(39,376)
1986	169,925	5.8	204,279	2.1	(34,354)
1987	202,021	18.9	211,988	3.8	(9,967)
1988 Q3	196,962	28.4	167,446	5.5	29,516
1988 FY	245,647	27.6	220,655	6.2	24,992

SOURCE: Bank of Thailand, *Monthly Bulletin*, Jan. 1989, tables 23 and 24.

prices and domestic spending. The product price index rose even faster in 1988, reaching 8.2 percent compared with 5.9 percent in the previous year. Although it appears that these increases in price level were reasonable and within bounds, the momentum of growth that has affected the upper-income real estate and housing sectors may soon trickle down to other activities that affect people at lower incomes.

### Short-Term Trends

The substantial increases in exports, foreign direct investments, and income from tourism together help explain the fast growth of the Thai economy in 1988. Will this favorable scenario prevail in 1989 and beyond? Before answering this question, most economic forecasters in Thailand would consult the predictions for world trade and the prospective economic expansion of the major industrialized countries. This makes sense, as Thailand depends a great deal on these countries for its export markets. High growth in these countries will eventually bring in higher export demand, and the opposite is true when they suffer recession or economic slowdown. On this basis, the first impression one has upon examining the gross domestic product (GDP) forecast of the OECD countries in 1989 and 1990 would be that growth in 1989 will not be as high as in 1988.<sup>3</sup>

<sup>3</sup>Most of these short-term forecasts are based on the Bank of Thailand, Department of Economic Research, *Thailand: Economic Conditions and Outlook for 1989* (1989). This

**Table 9**  
Selected World Economic Indicators

	1986	1987	1988	1989
I. Growth in world trade (%)	4.7	5.7	7.0	5.4
II. Growth in world GNP (%)	3.2	3.2	3.7	3.0
OECD countries	2.7	3.3	3.8	2.8
United States	2.8	3.4	3.9	2.7
European Economic Community	2.6	2.7	2.5	2.0
Japan	2.5	4.2	5.8	4.2

SOURCE: OECD, *Economic Outlook*, June 1988.

From Table 9, it is clear that world trade is projected to grow more slowly in 1989 than in 1988. The rate of growth of world trade is estimated at 7.0 percent in 1988 but only 5.4 percent in 1989. The world GNP is expected to grow by 3.0 percent in 1989, compared to 3.7 percent in 1988. The rate of GNP growth in 1989 will be even lower in OECD countries. The estimated GNP growth rates for the United States, the European Economic Community, and Japan in 1989 are, respectively, 2.8, 2.0, and 4.2 percent, all of them lower than the figures for 1988 which are, respectively, 3.9, 2.5, and 5.8 percent. It seems that world economic activities are expected to cool down a little in 1989.

Most economic forecasts for Thailand in 1989 believe that the expansion of the Thai economy will continue at a relatively high rate but not as high as that experienced in 1988. The Bank of Thailand predicted an 8.0 percent growth, the TDRI, also 8.0 percent; the NESDB, 8.5 percent; the Bangkok Bank, 7.9 percent; the Siam Commercial Bank, 9.6 percent; and so on.

On more detailed sectoral growth trends, the Bank of Thailand expects that the agricultural sector will grow at a 2.7 percent rate in 1989, because the production of major crops such as rice, maize, sugarcane, and cassava is projected to slow down. The rate offered by the NESDB is even lower at 1.0 percent, with the prediction of the TDRI more or less in the middle at 1.9 percent. The manufacturing sector is expected to grow at a rate of about 9 to 10 percent, continuing its steadily expanding growth. The construction sector is expected to have another good year in 1989.

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section may overlap with the next section, which discusses medium-term adjustments in the Thai economy.

In the area of foreign trade, Thai exports may slow down in 1989 along with dampened world trade. The rate of export growth is projected at 23 percent, with the import growth rate slightly higher at 25 percent. The trade deficit will continue at the level of 127,000 million baht in 1989. As revenues from tourism are expected to slow down, the current account deficit will rise to about 74.5 million baht. However, price levels are expected to increase somewhat rapidly. The consumer price index is likely to increase by 6 percent. The reduction in oil prices at the end of 1988 helped relieve some of the pressure on general price levels but not enough to restrain the pressure from other fronts.

Admittedly, what has been predicted so far may or may not occur as stated, even on a very near-term horizon. The world situation could change, and the private responses in the Thai economy could change with it. At any rate, some things in the economy can be put under control whereby the future results or outcomes can be ascertained. One of these is planned government spending as reflected in its annual budget. In the short run, we know where the government is going or what it is doing and its possible impact on the economy at large by looking at the size and composition of its planned budget. This is what we will turn to next.

We have seen that the government enjoyed a windfall gain of increased revenues that was quite unexpected in 1988. In fiscal 1989, the government increased its expenditure budget by 17.2 percent over the previous fiscal year (see Table 10). Most experts agreed that the increase was justified because the government had been pursuing a tight budget policy for several years that had affected many of the public investment programs. The available funds made it possible to increase capital expenditure by 32.0 percent, not to mention the increase in current expenditure resulting from the upward adjustment in civil servants' salary scales to bring them closer to the much higher private sector salary structures. Total government revenues are expected to reach 262,500 million baht in fiscal 1989, an increase of 31.6 percent over fiscal 1988. The deficit for 1989, therefore, is set at 23,000 million baht, only about 1.4 percent of GDP for the year.

Many economists are concerned about the government budget for fiscal year 1990. Should the government revert back to the conservative spending programs of the last several years, or should it stimulate or keep up the momentum in the economy by spending aggressively? Economists are divided on this issue, but it seems that the figure proposed by the Budget Bureau for 1990 is quite reasonable. The budget ceiling is 320,000 million baht, representing an increase of 12.1 percent over fiscal year 1989. The 1990 budget will maintain the same share of GDP as in 1989. Capital expenditure will still increase faster than the current expenditure. The share of debt payments in the budget will be reduced; and the final budget

**Table 10**  
Some Salient Public Finance Statistics, Fiscal Years 1988-1990  
(million baht)

	FY 1988	FY 1989	Difference FY 1989 - 1988	Percent Change from FY 1988 to FY 1989	FY 1990	Difference FY 1990 - 1989	Percent Change from FY 1989 to FY 1990
<b>I. Budgetary expenditures (A + B)</b>	243,500	285,500	42,000	17.2	320,000	34,500	12.1
As percent of GDP	16.6	16.9			16.9		
<b>A. Capital Expenditure</b>	40,311	53,230	12,918	32.0	64,000	10,770	20.2
As percent of budget	17	19			20		
As percent of GDP	2.8	3.1			3.4		
<b>B. Current Expenditure</b>	203,189	232,270	29,082	14.3	256,000	23,730	10.2
As percent of budget	83	81			80		
As percent of GDP	13.9	13.7			13.6		
of which:							
Debt payments	59,747	66,564	6,817	11.4	69,300	2,763	4.1
Percent of budget	24.5	23.3			21.7		
<b>II. Government revenues</b>							
Budgeted	199,500	262,500	63,000	31.6	310,000	47,500	18.1
As percent of GDP	13.6	15.5			16.4		
Actual	250,180	—			—		
As percent of GDP	17.1	—			—		
<b>III. Budget deficit</b>	44,000	23,000	(21,000)	(47.7)	110,000	(13,000)	(56.6)
As percent of GDP	3.0	1.4			0.5		

SOURCE: The Budget Bureau, Thailand.

deficit is set at 10,000 million baht, which has become quite small in absolute terms as well as relative to GDP (that is, 0.5 percent of GDP). Apparently, this small deficit is a compromise that has been worked out to satisfy both the people who would like to see aggressive government spending and those who would like to see a balanced budget when the government can manage it.

To conclude, the short-term trend for the Thai economy in the next year or so will be continued satisfactory economic expansion at a rate of around 7 to 8 percent, which is lower than that of 1988 but still very respectable. Price levels will be slightly higher, and there exist pressures that might cause it to go higher than expected. Exports will still perform well despite growing adverse conditions (protectionism, lost Generalized System of Preferences [GSP] privileges, increasing costs of production, and so on). The trade deficit will grow more, because imports will not be reduced. But that deficit should pose no problem for the balance of payments as foreign capital continues to flow into the country. The government is happy with the fiscal situation and will participate more in public investment projects in the future.

### **Medium-Term Trends and Adjustments**

For a fast-growing economy such as Thailand's, the economic situation in the next three to five years could be quite different from the present. However, it is still possible to foresee likely developments and for organizations responsible for macroeconomic management, such as the government and its many bureaus and departments, to change their course or do things to cope with changing situations.

In Thailand, the major public body vested with the duty and responsibility of planning and monitoring the course of economic development in the medium term is the NESDB. Its five-year economic and social development plan not only paints a picture of the economy five years ahead of time for the government and the general public to see, it also sets the course of action for the government to reach the desired goals or to seek new goals if the expected goals are not desirable. Although the plan is only indicative as far as the private sector is concerned, its influence on decision making in the private sector can be great.

At present, the medium-term trends perceived by the NESDB are prescribed in its current Sixth Plan, covering the period from 1987 through 1991. The events of the past two years, however, seriously affected economic predictions of the plan. No one would have dared to predict two years ago that the Thai economy would have flourished so in 1987 and 1988. The plan has had to be adjusted, and in revising its plan, the NESDB

has presented a new economic scenario for the next three years. The figures forecast are presented in Table 11.

In this table, several pertinent and important economic variables are selected and their future behaviors projected. Starting with overall economic expansion, the average annual rate of growth of GDP is expected to taper off to around 7.0 percent in the last two years of the plan. The revised annual GDP growth rate during the planned period is now estimated at 8.4 percent, compared with only 5.0 percent in the original plan. Strangely enough, the revised agricultural growth rate is reduced to 2.1 percent, down from 2.9 percent in the original plan. Perhaps the NESDB has come to realize that not much can be done to the agricultural sector, so that even in the last year of the plan (1991) the rate of agricultural growth is set at only 1.6 percent, much unlike the expected performance of the manufacturing sector, whose annual rate of growth in the revised plan is 11.1 percent, almost double the original plan's estimate of 6.6 percent.

In the foreign trade sector, exports are projected to reach 668,268 million baht in 1991, representing an average annual increase of about 23.9 percent from 1987 onward. Again, this rate is more than double the original rate of 10.7 percent. The short-term trend of growing trade deficits will continue in the medium term, as imports are expected to keep up with the rising economic prosperity. However, these trade deficits are expected to grow at a more or less constant rate of around 6.0 percent per annum. The current account balance may stabilize at a level between 70,000 million and 80,000 million baht if the assumptions hold up that the income from tourism grows at a rate of 14 to 15 percent and the savings-investment gap is about 4 percent of GDP in the last three years of the plan. Finally, the inflation rate is increased in the revised plan to 5.4 percent from only 2.3 percent in the original plan.

At this juncture, it may be appropriate to discuss whether the export-oriented or export-led growth policy that is so obvious in the development policy of Thailand should, in fact, be the single most important policy to be followed or adopted by the authorities concerned. Opinions vary, and a full debate is not possible here. It suffices to echo the cogent argument made by Professor John P. Lewis of Princeton University about the folly of the single-track preoccupation with promoting continued export expansion as the means for accelerating the country's graduation to NIC status.<sup>4</sup> Lewis accepts the view that export promotion is a promising principal strategy for the Thai economy in the medium term but believes that Thailand must be careful not to try an interventionist, high-tech, pick-the-winners strat-

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<sup>4</sup>John P. Lewis, "The Thai Economy's Medium Term: Prospects and Challenges" (unpublished paper, June 1988).

**Table II**  
NESDB Forecast of Selected Economic Variables, 1988–1991

	1988	1989	1990	1991	Original Sixth Plan	Revised Sixth Plan
<i>Economic expansion</i>						
GDP (%)	11.0	8.5	7.0	7.0	5.0	8.4
Agriculture (%)	8.6	1.0	1.5	1.6	2.9	2.1
Manufacturing (%)	12.5	10.0	9.8	9.7	6.6	11.1
<i>Exports</i>						
Value (million baht)	405,000	508,491	582,904	668,268	290,700	492,552
Growth rate (%)	35.9	25.6	14.6	14.6	10.7	23.9
<i>Imports</i>						
Value (million baht)	501,000	631,354	702,062	798,272	326,700	594,973
Growth rate (%)	46.4	26.0	11.2	13.4	9.5	27.3
<i>Trade deficits</i>						
Value (million baht)	96,000	122,904	119,119	130,045	35,900	102,445
Growth rate (%)	6.5	7.3	6.3	6.2	2.7	6.0
<i>Current account balance</i>						
Value (million baht)	44,500	75,938	71,371	79,178	11,800	56,921
Growth rate (%)	3.0	4.5	3.8	3.7	0.9	3.2
<i>Savings-Investment</i>						
Savings (% of GDP)	24.5	24.2	24.4	24.4		24.4
Investment (% of GDP)	27.5	28.7	28.2	28.1		27.7
<i>Income from tourists</i>						
Growth rate (%)	33.3	15.4	14.4	14.5	7.4	22.6
<i>Inflation</i>						
Rate (%)	7.0	6.0	5.0	5.0	2.3	5.4

SOURCE: NESDB.

egy as was done in Korea, because Thailand lacks the present and near-term technical capacity to take on such policy. By pursuing the dynamic comparative advantage of high-tech manufacturing, Thailand could run into all sorts of competition and resistance from technologically advanced countries. Instead, Thailand should pursue a policy of improving its agricultural productivity and letting the agricultural output form the bases upon which industrial manufactures and exports are built. Labor-intensive

manufacturing techniques are proposed because they fit the conventional comparative advantage of low labor cost.

Another well-known research organization that deals with medium-term economic forecast of the Thai economy is the Thailand Development Research Institute. In one of its publications presented at the TDRI Annual Year-End Conference in December 1988, several forecasts on GDP, trade, and finances in the medium term (that is, to the end of the Sixth Plan) were made and discussed.<sup>5</sup> These forecasts are modified and reproduced in Tables 12, 13, and 14.

Before discussing these tables, it should be pointed out that these predictions were based on several assumptions about factors that will affect Thailand's economic performance within the next few years. First of all, it was assumed that the world economic expansion, although slowed down somewhat, would continue at a rate that does not harm Thai exports too much. Second, domestic investment will maintain its high level until the end of the Sixth Plan. Third, oil prices will be stabilized at \$16 to \$18 per barrel. Fourth, the foreign direct investment increase will alternate between 10 and 20 percent per year. And finally, there will be no major exchange rate movement.

Under the general and specific assumptions above, the TDRI forecast that GDP growth over the next three years, that is, in 1989, 1990, and 1991, will be, respectively, 8.0, 7.6, and 7.7 percent (see Table 12). It is interesting to note that the agricultural sector, particularly the crop subsector, is projected to grow very slowly during 1989 (only 0.6 percent). Although the growth rate at the end of the Sixth Plan is expected to improve to 1.4 percent, it is still the lowest rate of all sectors or subsectors. The major reasons given for this gloomy picture were the scarcity of land and the reduction in prices. This pessimistic view toward agriculture is similar to that of NESDB, which was mentioned earlier. The TDRI view on industrial growth is also similar to NESDB's, but this time both are optimistic. Furthermore, according to the TDRI, the inflation rate is expected to slow down continuously from 1988 onward, reaching 3.4 percent in 1991. The reason given is that the domestic and external interest rates are likely to go up in the next few years, thus keeping inflation in check.

Tables 13 and 14 can be examined together; they deal with the projected external trade and its finances. In Table 13, for example, the values of exports and imports are forecast for every year through 1991. By

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<sup>5</sup>Suganya Hutaserani and Somchai Jitsuchon, "Thailand's Income Distribution and Poverty Profile and Their Current Situations" (paper prepared for the 1988 TDRI Year-End Conference on Income Distribution and Long-Term Development, December 1988).

**Table 12**  
**TDRI Forecast of GDP Growth and Share by Sector, 1988–1991**

	1988	1989	1990	1991
<i>I. GDP growth (%)</i>				
Agriculture	8.8	1.9	2.6	1.9
Crops	10.0	0.6	2.2	1.4
Other agriculture	6.9	3.9	3.3	2.6
Industry	11.5	9.7	9.4	9.5
Major exporting	12.7	12.4	11.1	11.6
Other industries	10.9	8.3	8.4	8.3
Services	9.9	8.7	7.8	8.0
Total	10.3	8.0	7.6	7.7
<i>II. GDP share (%)</i>				
Agriculture	15.6	14.7	14.0	13.2
Crops	9.4	8.7	8.3	7.8
Other agriculture	6.2	5.9	5.7	5.4
Industry	35.7	36.3	36.9	37.5
Major exporting	12.3	12.8	13.2	13.7
Other industries	23.4	23.5	23.6	23.8
Services	48.7	49.1	49.2	49.3
Total	100.0	100.0	100.0	100.0
<i>III. Memo item</i>				
Inflation rate	4.9	4.5	4.3	3.4

SOURCE: TDRI, The Macroeconomic Policy Program, "An Economic Forecast for Thailand in 1988 and During the Sixth Plan Period" (paper prepared for the 1988 TDRI Year-End Conference on Income Distribution and Long-Term Development, Dec. 1988).

1991 the trade balance will experience a deficit to the tune of almost 200,000 million baht, or about 8.9 percent of GDP. This figure is much higher than the trade deficit envisioned by the NESDB. However, the TDRI believes that part of the deficit will be offset by a surplus in the service account, which is expected to rise continuously as a result of success in tourism promotion. Yet the current account deficit at the end of the period of about 137,024 million baht, or 6.2 percent of GDP, is on the high side (compared to about 4.0 percent of GDP predicted by the NESDB). The NESDB forecast appears much more tenable.

It is unavoidable with very large trade and current account deficits that larger external debts are created. The TDRI was of the opinion that although those deficits are getting worse, the overall debt profile of Thailand would not be very troublesome. It was reported that the ratio of

**Table 13**  
**TDRI Forecast on the Values of Trade and Finances, 1988–1991**  
 (million baht)

	1988	1989	1990	1991
<i>Merchandise</i>				
Exports	400,258	503,246	604,483	708,302
Agriculture	94,920	103,393	116,880	121,711
Major industry	214,320	291,429	364,918	447,713
Others	91,018	108,424	122,685	138,878
Imports	493,194	638,543	786,707	905,257
Trade Balance	(92,936)	(135,297)	(182,224)	(196,956)
(As percent of GDP)	(6.3)	(7.9)	(9.3)	(8.9)
<i>Services</i>				
Receipts	124,565	138,586	150,213	164,704
Travel	62,163	71,946	80,678	91,979
Remittances	34,588	34,588	34,588	34,588
Investment income	7,304	7,669	8,053	8,456
Other services	20,510	24,383	26,894	29,681
Payments	84,804	95,025	101,737	110,585
Investment income	50,340	55,060	57,813	62,212
Other services	34,464	39,965	43,924	48,373
Net services	39,761	43,561	48,477	54,119
<i>Balance of goods and services</i>	(53,174)	(91,736)	(133,748)	(142,838)
Transfers	5,815	5,815	5,814	5,814
<i>Current account balance</i>	(47,358)	(85,921)	(127,943)	(137,024)
(As percent of GDP)	(3.2)	(5.0)	(6.5)	(6.2)
<i>Financing</i>				
Direct investments	24,975	27,472	32,967	36,263
Public net borrowing	(22,801)	(21,576)	(22,397)	(22,433)
Private net borrowing	45,184	36,873	72,571	78,329

SOURCE: TDRI "An Economic Forecast."

debts to GDP had declined substantially from 35.9 percent in 198 to 31.7 percent in 1988 and that it would be maintained at about this level until the end of the Sixth Plan, namely, at 30.7 percent in 1989, 31.7 percent in 1990, and 32.6 percent in 1991. It was also predicted that the share of public external debt in the total external debt would decrease over time, from 26.6 percent of GDP in 1987 to 16.8 percent of GDP in 1991, while that of the private sector would increase from 9.3 percent to 15.9 percent of GDP in the same period.

**Table 14**  
**TDRI Forecast on the Growth Rates of Trade and Finances, 1988–1991**  
**(percent)**

	1988	1989	1990	1991	Average 1986–1991
<i>Merchandise</i>					
Exports	34.1	25.7	20.1	17.2	25.3
Agriculture	27.6	8.9	13.0	4.1	10.6
Major industry	39.8	36.0	25.2	22.7	34.2
Others	28.9	19.1	13.2	13.2	21.3
Imports	43.9	29.5	23.2	15.1	29.8
Trade balance	109.8	45.6	34.7	8.1	64.9
<i>Services</i>					
Receipts	20.7	11.3	8.4	9.7	13.3
Travel	23.2	15.7	12.1	14.0	19.8
Remittances	20.0	0.0	0.0	0.0	3.6
Investment income	10.0	5.0	5.0	5.0	3.3
Other services	18.8	18.9	10.3	10.4	15.1
Payments	8.0	12.1	7.1	8.7	9.0
Investment income	4.9	9.4	5.0	7.6	5.7
Other services	12.8	16.0	9.9	10.1	14.5
Net services	61.4	9.6	11.3	11.6	26.8
<i>Balance of goods and services</i>					
Transfers	170.3	72.5	45.8	6.8	
	-0.3	0.0	0.0	0.0	-0.06
<i>Current Account Balance</i>					
	242.2	81.4	48.9	7.1	—
<i>Financing</i>					
Direct investments	430.0	10.0	20.0	10.0	40.2
Public net borrowings	—	-194.6	3.8	0.2	—
Private net borrowings	—	-18.4	96.8	7.9	—

SOURCE: TDRI, "An Economic Forecast."

In all, the Thai economy is expected to be propelled forward fueled mainly by export earnings, tourist income, and foreign direct investments. As imports also increase *pari passu* with exports, the trade balance can become quite critical in the medium and near terms. It is strongly argued that to cope with this medium-term problem of widening resource gaps, efforts must be made in private as well as public sectors to mobilize and increase domestic saving. In the private sector, a more efficient capital

market should be promoted, and fiscal incentives may be given to savings in long-term financial assets insofar as they do not create too obvious an equity trade-off. Foreign investors may be encouraged to participate more in our domestic equity markets, again insofar as they do not create confusion and disruption in the markets. In the public sector, the tax system and its administration must be reformed so that more compliance is attained along with more tax collections. State enterprises must become more efficient so as to save on costs and contribute more profits to the government.

### **Some Long-Term Problems and Trends**

The discussion so far has concentrated on the issues of economic growth through links with external economic activities such as exports, tourism, and foreign investments. Obviously, this is one of the most direct routes to economic progress and prosperity. But growth alone does not mean development. To develop an economy in the long run requires more than just trying to produce more for export. Usually economic development is a long-term process that may take many years, often many decades. In Thailand, long-term development problems are many and distinctive. In this chapter, where the main objective is to survey pertinent trends in the economy of various durations, it is not possible to discuss all long-term problems and trends in detail. Therefore, only a few relevant economic problems of long-term nature will be introduced and briefly discussed in the sections that follow.

### *Structural Transformation of the Economy*

In the final analysis, the success of Thailand's economic development comes down to a fundamental question: How well has Thailand been transformed from an agriculturally based economy to an industrialized economy? As it has been taken for granted that development is inextricably linked with industrialization, the type, speed, and quality of the structural transformation determine, to a certain extent, the success of economic development.

A series of tables, Tables 15 to 17, show the proportion or share of GDP and the rates of growth in value-added generated by different subsectors in the economy. Table 15, for example, gives details for subsectors in the main categories of agriculture and nonagriculture, including services, at current prices. Table 16 combines several subsectors together and isolates the category of services. Moreover, the share of GDP in this table uses constant price rather than current price. And Table 17 shows the average rates of growth of GDP from 1970 onward, also using constant price.

It is clear from these tables that the role of the agricultural sector as a

**Table 15**  
Share of Gross Domestic Product by Industrial Origin at Current Price,  
1983–1988

	1983	1984	1985	1986	1987	1988
<i>Agriculture</i>	20.4	18.0	16.8	16.5	16.1	16.9
Crops	13.3	11.6	10.4	9.9	9.8	11.2
Livestock	2.1	1.7	1.5	1.8	1.8	1.7
Fisheries	1.3	1.2	1.3	1.4	1.2	1.0
Forestry	1.0	1.0	0.9	0.8	0.7	0.6
Agricultural services	0.7	0.7	0.7	0.6	0.6	0.5
Simple agricultural processing	2.0	1.8	2.0	2.0	2.0	1.9
<i>Nonagriculture</i>	79.6	82.0	83.2	83.5	83.9	83.1
Mining and quarrying	2.9	3.4	4.0	3.2	3.1	3.0
Manufacturing	21.3	22.4	22.1	23.3	23.9	24.4
Construction	5.3	5.8	5.6	5.2	5.1	5.1
Electricity and water supply	1.9	1.9	2.3	2.6	2.6	2.6
Transportation and communication	6.7	7.1	7.7	7.8	7.5	7.3
Wholesale and retail trade	16.2	15.9	15.1	15.5	15.6	15.8
Banking, insurance, and real estate	3.4	3.6	3.5	3.4	3.9	4.1
Ownership of dwellings	3.7	3.8	4.0	4.1	4.0	3.6
Public administration and defense	4.9	4.6	4.8	4.6	4.3	3.8
Services	13.3	13.5	14.1	13.8	13.9	13.4
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Memo: GNP per capita (baht)	18,164	18,968	19,287	20,364	22,599	26,412

SOURCE: NESDB.

generator of national product declines continuously from 1960 onward. In 1960, the share of the agricultural sector in the overall GDP was almost 40.0 percent, whereas the share of the manufacturing sector was only 12.5 percent. Ten years later in 1970, the agricultural share of value-added fell to 27.0 percent, whereas the manufacturing share increased to 16.0 percent. The trend continued until the share of manufacturing exceeded that of agricultural in 1980 at a level of over 20 percent. Thailand had then achieved some semblance of being an industrialized country. In 1987, the agricultural share had declined to 17.6 percent, whereas that of manufacturing sector stood at 22.2 percent. The rates of growth of these two sectors tell the full story (see Table 17). The manufacturing sector

**Table 16**  
Share of GDP by Sector at Constant Price

	1960	1970	1975	1980	1985	1987
Agriculture	39.8	27.0	24.8	20.6	19.9	17.6
Nonagriculture	52.8	61.5	63.3	67.1	66.2	68.2
Manufacturing	12.5	16.0	19.9	21.7	20.7	22.2
Other industries	40.3	45.5	43.4	45.4	45.5	46.0
Services	10.5	11.5	11.9	12.3	13.9	14.2
Total	103.1	101.0	101.0	100.0	100.0	100.0

SOURCE: NESDB, *National Income of Thailand*, new series, 1970–1987.

**Table 17**  
Average Growth Rate of GDP by Sector at Constant Price

	1970–1975	1975–1980	1980–1985	1985–1987	1987
Agriculture	3.8	4.0	4.9	-0.2	-2.5
Nonagriculture	6.2	9.2	5.3	2.9	9.4
Manufacturing	10.3	9.8	4.6	3.8	10.2
Other industries	4.6	8.9	5.7	2.6	9.0
Services	6.4	8.6	8.4	2.8	9.4
Total	5.6	7.9	5.7	2.3	7.1

SOURCE: NESDB, *National Income of Thailand*, new series, 1970–1987.

always grew faster than the agricultural sector, except between 1980 and 1985, when the second oil shock adversely affected manufacturing performances.

This situation is all very well, except that while agriculture was reducing its share quickly, agricultural employment was not reduced as fast as its GDP share. Table 18 shows that in 1960, 82.4 percent of the labor force was found working in the agricultural sector, and as much as 68.3 percent of the labor force was still found in this sector in 1985. Meanwhile, the manufacturing labor force, which enjoyed a 3.4 percent share of the total labor force in 1960, increased its share to only 8.0 percent in 1985.

**Table 18**  
Distribution of the Economically Active Population Eleven Years of Age  
and Over, by Sector

	1960	1970	1980	1987
Agriculture	82.4	79.3	72.5	68.3
Nonagriculture	5.9	6.7	10.4	11.0
Manufacturing	3.4	4.1	5.6	8.0
Other industries	2.5	2.6	4.8	3.0
Services	11.7	14.0	17.1	20.7
Total	100.0	100.0	100.0	100.0

SOURCE: 1960, 1970, and 1980 population censuses; 1987 Labor Force Survey.

The implication of this situation is straightforward: The industrial expansion had not absorbed the agricultural labor force fast enough to create a balanced and harmonious structural transformation. Too many people still remain in the agricultural sector generating too little output or value-added.

To further elaborate on this point, output per employed person was calculated for both the agricultural and nonagricultural sector. The results show that the output of nonagricultural workers was between 5.9 and 10.0 times higher than that of agricultural workers in the four periods under study from 1971 to 1986 (see Table 19). This extremely low agricultural productivity relative to nonagricultural productivity was also noted by Lewis, who compared the Thai situation with that of neighboring countries such as the Philippines, Malaysia, and Indonesia and found that in those countries the output per worker in the nonagricultural sector was only 2.9 to 4.2 times higher than that in the agricultural sector.<sup>6</sup> There is no doubt that the development process in Thailand is biased in favor of nonagricultural workers and against the agricultural workers. This is a long-term structural problem that still needs drastic correction.

#### *Incidence of Poverty among Thais*

The generally high rates of growth that the Thai economy has experienced in the twenty-five years after the launching of the first plan ought to have helped raise the incomes and, consequently, the wellbeing of the Thai

<sup>6</sup>Lewis, "Thai Economy's Medium Term."

**Table 19**  
Output per Employed Person in Thailand

	1971	1975	1980	1986
<i>I. Output</i>				
GDP (million baht)	144,607	298,816	684,930	1,098,362
Agriculture	40,786	94,063	173,806	183,037
Nonagriculture	103,821	204,753	511,124	915,325
Share (%)				
Agriculture	28.2	31.5	25.4	16.7
Nonagriculture	71.8	68.5	74.6	83.3
<i>II. Employment</i>				
Number (million)	16.619	18.182	22.681	26.673
Agriculture	13.112	13.270	16.092	17.803
Nonagriculture	3.507	4.912	6.589	8.870
Share (%)				
Agriculture	78.9	73.0	71.0	66.8
Nonagriculture	21.1	27.0	29.0	33.2
<i>III. Output per employed person (baht/month)</i>				
	725.1	1369.6	2516.6	3431.7
Agriculture	259.2	590.7	900.1	856.8
Nonagriculture	2467.3	3474.0	6464.7	8599.9
<i>IV. Ratio</i>	9.5	5.9	7.2	10.0

SOURCE: Suganya and Somchai, "Thailand's Income Distribution."

people. Table 20 summarizes the data in studies about the incidence of poverty in Thailand, that is, the proportion of the people whose incomes fall below a calculated poverty line. It is evident from Table 20 that the overall poverty in Thailand in the early 1960s was extensive. In 1962–63, 57 percent of the whole population could be classified as poor. These poor people were concentrated in the north and northeast regions. By 1968–69, the poverty incidence had declined across the board to an overall incidence of 42 percent for the whole kingdom. The decline in the incidence of poverty continued, to reach a level of 24 percent in 1981, but it had moved back up to 29 percent by 1986.

At least two points can be made based on the above findings. First, the continuous decline of the incidence of poverty in Thailand, at least from 1962–63 to 1981, can be said to be a measure of the success of economic development during those periods. But the rate of decline slowed down in the later years of development. At 24 percent of the total population, about

**Table 20**  
**Poverty Incidence by Region, 1962-63 to 1986**  
 (percent of people whose income is below poverty line)

	1962-63	1968-69	1975-76	1981	1986
North	65	38	35	23	26
Northeast	74	68	46	36	48
Center	40	18	16	16	16
South	44	40	33	21	27
Bangkok	28	11	12	4	4
Whole kingdom	57	42	33	24	29

SOURCE: Data for 1962-63, 1968-69, 1975-76, and 1981 are from Medhi Krongkaew, "The Current State of Poverty and Income Distribution in Thailand" (paper presented at the international conference on Thai studies, Australian National University, Canberra, July 1987). The 1986 data are from Suganya and Somchai, "Thailand's Income Distribution."

NOTE: The poverty line used in the above studies is based on the 1975-76 figure of 1981 baht per person per year in rural areas and 2,961 baht per person per year in urban areas. Appropriate price indices were used to adjust the poverty lines for 1981 and 1986. For 1981, the poverty lines are 3,454 baht and 5,151 baht, respectively, for rural and urban areas; and for 1986, the corresponding figures are 3,823 and 5,834 respectively.

12 million Thais still lived in poverty in 1981. This number is still high and would have been higher if 1981 had not been such a good year for the farm sector. Moreover, the concentration of poverty in the northeast, and to a lesser extent the north, is still bothersome. Second, it may be argued that the worsening situation in 1986 was unique and unusual because the agricultural sector as a whole suffered drastic commodity price reductions during that year, resulting in drastic reductions in individual and household income. If one tries to adjust for those unusual price movements, the overall figure for the incidence of poverty comes down to about 25 percent. For practical purposes, it may be concluded that, at best, the incidence of poverty remained unchanged between 1981 and 1986.

Some believe this level of poverty is unacceptable, and every effort must be made to bring it down further. It is fair to say that throughout the twenty-five-year period covered by Table 20, the government had no direct or explicit antipoverty policy or program. The improvement in the poverty situation was a natural response to the overall economic progress rather than a result of conscious policy packages. Perhaps we have reached a stage wherein poverty incidence will not go down any further without direct and concrete public policies. A long-term adjustment of the poverty level may require a greater role and intervention by the state.

*Current Distribution of Income*

Although the incidence of poverty has improved over the long run, at least until recently, the same thing cannot be said for the income distribution of the Thai people. Several studies have been completed in Thailand about the income distribution of the Thai people and Thai households, and most, if not all, have concluded that income distribution in Thailand has worsened as the country has become more developed from the early 1960s to the present.<sup>7</sup> The total picture can be seen in Table 21, which summarizes the important findings of previous studies as well.

Two sets of data are presented, one for the earlier period (1962–63 to 1972) and one for the later period (1975–76 to 1986). Although these two sets of data are not compatible because different income concepts and units of analysis were used, it is still quite obvious from the statistical findings that income distribution had gotten worse as the country has developed. The Set 1 data, for example, show that the income share of the poorest quintile declined from 2.9 percent to 2.4 percent between 1962–63 and 1972. Of course, the income share of this group improved in 1968–69, but the improvement was so slight that it could be attributable to data error. More important, there is no ambiguity in the improvement of the income position of the richest 20 percent between 1962–63 and 1968–69 and then 1972, where the share increased from 59.5 percent to 60.9 percent to 64.4 percent.

Set 2 data start a new series of findings. Here the picture is much clearer: The poorest quintile continuously lost its income share, from 6.1 percent in 1975–76 to 5.4 percent in 1981 and 4.6 percent in 1986, whereas the richest quintile improved its income position from 49.3 percent in 1975–76 to 51.5 percent in 1981 and 55.6 percent in 1986.

The two data sets also have their own indices of income inequality: Gini coefficients for Set 1 and Set 2, and an additional variance of log of income for Set 2 only. The Gini coefficients for Set 1 may appear rather large, but this is mainly because cash income alone was used in the computation. In this case, one should look at the trend in these Ginis rather than their sizes. It is obvious that the Gini for 1972 (0.605) is much worse than that for 1962–63 (0.563), although it seems that the distribution may have improved a little in 1968–69. For Set 2, there is no ambiguity: the worsening trend in income distribution from 1975–76 to 1986 can be clearly seen. The Gini coefficients in this case increased from 0.426 in 1975–76 to 0.453 in 1981 and to 0.500 in 1986. The use of another index of income inequality, the variance of log of income, merely confirms the trend

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<sup>7</sup>See, for example, Medhi, "Current State of Poverty and Income Distribution"; Suganya and Somchai, "Thailand's Income Distribution."

**Table 21**  
Income Distribution in Thailand

	Set 1			Set 2		
	1962-63	1968-69	1972	1975-76	1981	1986
<i>I. Quintile share of total income</i>						
Poorest 20%	2.9	3.4	2.4	6.1	5.4	4.6
Second 20%	6.2	6.1	5.1	9.7	9.1	7.9
Third 20%	10.5	10.4	9.7	14.0	13.4	12.1
Fourth 20%	20.9	19.2	18.4	21.0	20.6	19.9
Richest 20%	59.5	60.9	64.4	49.3	51.5	55.6
(Richest 10%)	(42.2)	(43.9)	(47.5)	(33.4)	(35.4)	(39.2)
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>II. Gini coefficient</i>						
	0.563	0.555	0.605	0.426	0.453	0.500
<i>III. Variance of log of income</i>						
	—	—	—	0.530	0.602	0.737

SOURCE: Set 1 data were obtained from Medhi Krongkaew, "An Assessment of the Distributive Impact of Government Policies in Thailand," *Economic Bulletin for Asia and the Pacific* 30:2 (Dec. 1979), 62-92.

Set 2 data were obtained from Suganya and Somchai, "Thailand's Income Distribution."

NOTE: The two sets of data presented here are not compatible. Set 1 data were based on a money income concept and used the household as the unit of analysis. Set 2 data were based on a total income concept (money plus in-kind and other income) and used the individual as the unit of analysis.

shown by the Gini coefficients as the variances moved closer to 1.000, meaning greater income inequality.

As the two sets of data are not compatible, could there be a kink or discontinuity in the income inequality curve where Set 1 ended and Set 2 began? In order to answer this question, I made some adjustments in the income concept of Set 1, discarded the data for 1972, as they contained irregularities that could not be matched with later series, and then linked Set 1 with Set 2 and recomputed the Gini coefficients.<sup>8</sup> The resulting new Gini coefficients for 1962-63, 1968-69, 1975-76, and 1981 were 0.414, 0.429, 0.451, and 0.473, respectively. And if one adds the latest Gini for

<sup>8</sup>Medhi Krongkaew, "The Imbalance Between Agricultural and Industrial Development and Its Impact on Social Welfare: A Case of Thailand" (paper presented at the Eighth World Congress of the International Economic Association, New Delhi, Dec. 1-5, 1986); Medhi, "Current State of Poverty and Income Distribution."

1986, which is 0.500, it becomes quite clear that the income distribution in Thailand had been worsening continuously since 1962–63. This worsening distribution is another long-term economic problem that needs to be solved eventually.

### *Natural Resource and Environmental Degradation*

Students of the economic development of Thailand know that the industrialization of Thailand was helped in large measure by contributions from the agricultural sector in the form of cheap food for industrial and other nonagricultural workers, surplus agricultural products for export, and cheap labor to work in the factories. What may be less well known is that agricultural expansion and diversification were carried out at a great expense in terms of natural resource depletion and environmental degradation. Examples are many, but two cases for instructive purposes are the use of land to expand crop production and the use of marine resources for domestic consumption and export.

Extensive expansion of the production of old and new crops in the late 1950s and early 1960s was made possible partly through the use of forest areas. The use of land through cutting down forest is different from the use of land through land-use intensification and the increase of land productivity. The horizontal increase in cultivation through deforestation can be very costly, as the barren land may adversely affect the climate, the amount of rainfall, and erosion of the soil, especially if deforestation occurs in watershed areas.

Table 22 shows that within twenty-five years, from 1961 onward, the forest areas in Thailand were reduced by 77.88 million *rai*. The proportion of forest areas fell from 53.3 percent in 1961 to 29.0 percent in 1985. The latter figure is lower than the ecological minimum of forest land, which is estimated at one-third of total land area. The Forest Closure Decree of 1989, which was conceived in the aftermath of the massive destruction of several villages in the south due to fastfloods and landslides from tree-bared mountains nearby, may slow down further destruction of the remaining forests.

Not shown in Table 22 is a new phenomenon in forest destruction: the cutting down of mangrove areas in the coastal zones along the Gulf of Thailand to pave the way for shrimp farming for export. The export of shrimp from Thailand has been very impressive in the last few years, but the diminution of coastal forests would mean a reduction in fish and marine life that use these forest areas for breeding purposes. Away from the coast and into the sea, the growth of the fishing industry, which was very high between 1960 and 1970, has already caused tremendous depletion of the fish supply in the gulf. It has been estimated that within a depth of 50

**Table 22**  
**Forest Areas in Thailand, 1961–1985**  
 (million rai)

Region	1961	1972	1975	1978	1982	1985
North	72.6	71.0	64.0	59.5	54.9	52.6
Northeast	44.3	31.7	25.9	19.5	16.2	15.1
Center	22.3	15.0	13.6	12.8	11.6	10.8
East	13.2	9.4	7.9	6.9	5.0	5.0
South	18.5	11.5	12.6	11.0	10.3	9.7
Total	171.9	138.6	124.0	109.6	97.9	93.2
As percent of total land area	53.3	43.2	38.7	34.2	30.5	29.1

SOURCE: Department of Forestry.

NOTE: 1 rai = 0.16 hectare.

meters, the amount of fish that can be properly caught in the Gulf of Thailand is about 750,000 tons per year if a special net is used for 8.6 million hours. But between 1981 and 1983, Thai fishermen caught about 974,000 tons, which was about 30 percent higher than it should be, and spent about 15.5 million hours doing it, about 80 percent longer than they should have. Not only is time wasted, but a greater amount of valuable marine resources is also prematurely lost.<sup>9</sup>

There are other cases of natural resource depletion and destruction and environmental damage as a result of rapid economic development, but the above cases should be sufficient to draw attention to these long-term problems that, again, need urgent correction.

### *Human Resources and Science and Technology*

Finally, there is the problem of an inadequate supply of human resources of the type and quality that are necessary for rapid economic development. Do we have a great enough labor supply with basic education higher than primary level? Are training facilities for technical and vocational students readily available to those who want them? Does the higher education system concentrate too much on social sciences and too little on basic sciences and applied sciences? Are there enough funds and

<sup>9</sup>Vorawoot Hirunrak, "Marine Resources and the Economic Development of Thailand" (paper presented at the first Annual Conference of the Economic Society of Thailand, Bangkok, Nov. 3–5, 1986).

incentives for research and development in the country? These and other questions will be more and more critical for the long-term development of the economy.

On the subject of science and technology, it is well known that in its past development Thailand has mainly used ready-made technical know-how from foreign countries or multinational companies rather than trying to develop technical know-how or technological capability by itself. Recent research by the TDRI has shown that three important industries in Thailand, namely, biotechnology-based industries, have low technical capability, especially in ability to adapt and innovate. Thai entrepreneurs are only good at using ready-made technology. Although the country has spent a great deal of money for technology in the last three decades or so, technology transfer has been negligible. The development of science and technology in Thailand in the future is one of the things most needed for its long-term economic development.

### **Summary and Conclusions**

This chapter has attempted to look at some important economic trends that are likely to take place in Thailand over various time periods. First, current economic conditions were surveyed to find out the main reasons for the rapid economic growth of 1988. Having found that export earnings, income from tourists, and foreign direct investments were the three major factors contributing to the high growth of the Thai economy at present, the chapter then looked at the short-term forecast and the likely scenarios that the economy would face in the medium term if export-led growth strategies were to be pursued. These strategies required adjustments in the Sixth Economic and Social Development Plan, with new effects and ramifications for the performances of the agricultural, industrial, and trades sectors. Finally, the chapter discussed some of the long-term problems that the economy is facing at the moment, problems that had their origins in the past and might take some time to solve in the future. Among the pertinent problems were a structural transformation from agriculture to industry, poverty and income distribution, natural resource degradation, and the need to improve human resources and science and technology.

The conclusion of this chapter is very simple. As an open economy, by relying on the free enterprise system and leaving the major initiatives to the private sector, Thailand should have little difficulty adjusting to changing world situations and reaping benefits from new economic opportunities. However, several cautions must be heeded in the process. The economy must improve its ability to mobilize and increase domestic savings; it must be careful in its foreign borrowing and debt management; it

must be efficient and impartial in its handling of regulations, controls, and incentives. In the long run, the agricultural sector still needs special attention and assistance in its quest for increased productivity. The poverty and income distribution problems must be seriously attended to by more active public sector intervention through fiscal as well as other macroeconomic instruments. Natural resource management will have to be improved also. And, when necessary, growth may have to be sacrificed if the environment will be irreparably damaged by that growth. Finally, high-quality human resources are the assets that will not only enable the country to achieve its economic goals but will sustain or push them even higher.

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## Discussion Excerpts

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AMERICAN DISCUSSANT: The role of the military is still an important issue. It is not exactly clear what the goal of the military is these days. Certainly, defense is still a major priority, and the military has acquired increased funds from the national budget to upgrade its capabilities. We in the United States applaud the professionalization of the military. It seems, however, that the military is looking to emulate the dual-function role seen in the Indonesian system. The military's role in the foreign policy process has been clear throughout the region. There is a debate within the military on its overall mission.

It is striking at this time that there is so little debate on the existence of a "threat" and where that threat is coming from. My view is that the internal communist threat is not all that great, and I would be hard pressed right now to say what the Thai military's view of the external threat is.

On the role of the new government, it is a bit early to say that we are at the dawn of a new era. But I do think that the current government is on the path of parliamentary democracy. Had our conference been held six months ago, the views of many in this room would have been a bit more pessimistic. But now we see that this government is popular and stable, and one element in its popularity is the decision-making style of this administration. This government is flexible and responsive; its management style is much to behold. There seems to be virtually no restraint on ministerial behavior, and that contributes to the popularity of the government.

Two matters not really commented on here are, first, the rise of nongovernment pressure groups and, second, the Eastern Seaboard Project as an example of successful management. Owing to the role that many extrabureaucratic business associations have played in the negotiations over that project, we do not yet have a fertilizer complex on the Eastern Seaboard. Here it is three years later and we still do not have it. Unlike Indonesia and Malaysia, which have built many white elephants, Thailand has not produced such massive investments that can lead to waste and inefficiency.

Another important point is the unique character of the prime minister. Chatichai has turned into a master politician. He gets along with everybody. He has not focused on trying to resolve internal inconsistencies. He recognizes that there are differences and that there are internal conflicts, but he has not gotten caught up with trying to resolve all of these.

Having a good economy is also a blessing for the new government. First, on short-term trends, I would add that when speaking of the importance of manufactured exports to Thai economic growth in recent years, we must remember that the United States accounts for nearly 20 percent of Thailand's overseas market. Seventy-five percent of the goods that enter this country from Thailand are manufactures. Another important factor is privatization. The state enterprise sector accounts for a major portion of Thailand's foreign debt, which is a primary drag on the Thai economy. However, given the debt-service ratio in Thailand, estimated at 13 percent in 1989, Thailand has room to expand its borrowing and finance imports.

On long-term trends, events are already beginning to move in agricultural productivity. Productivity has been low because export premiums traditionally robbed farmers of a return on their production. Since the premium was lifted, investments have been enhanced and yields have increased. Thailand is the world's fifth largest agricultural exporter. I couldn't agree more with the concern for the environment in Thailand. Thailand is to be commended on the way it is addressing this problem. On human resource development, this could be the Achilles heel of Thai development in the 1990s. A recent study estimated that enrollment in secondary schools will remain below 40 percent until the year 2000. Thailand must increase investments in education, or else the human resource problem will be a severe restraint on Thai development.

AMERICAN DISCUSSANT: It is important to consider a variety of reasons for the increased role of businessmen and business groups in the political process. Suchit suggests that businessmen went into politics because that is where the money is. But there are also several additional reasons. Look at what has happened on the business side. Growth has generated greater plurality, greater competence, and the desire for more certainty. The result is a decrease in the prevalence of patron-client relations and the emergence of greater numbers of interest groups that play a part in the political process. The government, in turn, is more dependent on business for growth and basic governmental stability. This stability is important for the government.

The chapters in this section tend to be very much Bangkok-oriented. There are also important changes taking place in the provinces. Furthermore, they tend to focus too much on Parliament. There are many other venues through which businessmen become involved in politics, for

example the chambers of commerce and the Joint Public-Private Cooperative Committees (JPPCC). There is too much emphasis on Western parliamentary democracy. Thailand is perhaps better compared with itself, as a "moving equilibrium" in which groups adapting to one another are working out a stability among them. This situation is overlooked by concentrating on a Western parliamentary model.

On the question of whether the current trends are becoming institutionalized, I think it is useful to distinguish between particular governments and the stability of the regime. There are still risks of instability for a particular government. Economic performance is very important in this respect, and a high rate of growth cannot necessarily be guaranteed in the long-term.

Medhi does a very good job of discussing the important trends in the economy. However, in the long term, I would like to focus on the structural transformations occurring in Thailand. This volume has focused almost exclusively on manufacturing. The majority of Thais still live in the rural areas. There are still problems there. Is it possible for the current government to address those questions? Finally, to refer to one of Suchit's points, it seems that in the medium term, decision making will become more difficult. As the arena of decision making becomes more complex, what are the implications? If it took a crisis in the past to make a major decision such as the devaluation of the baht in 1984, what sort of crisis will it take in the future to motivate a major policy decision?

AMERICAN PARTICIPANT: On the issue of income distribution, Kuznets has argued that most developing countries will go through a period of poor distribution and that a turn around will come about through a combination of natural market forces and government action in dealing with very dire economic problems. There is now research coming out of the Thai Development Research Institute showing that Thailand may be approaching that turnaround point. In addition, Thailand may be luckier in the future now that its population growth is slowing down. A slowing of growth in the labor force will put pressure on wages and redress the imbalance in income distribution. I do not think we may criticize growth as the failure of effective government intervention to attenuate poverty.

On inflation, because Thailand has an open economy, excess demand in Thailand tends to increase the level of imports rather than push up the domestic price index. One ought to look at nontraded goods, namely, land. Land prices are skyrocketing, but land does not appear in the cost of living indices. The indices do not reflect the inflation that is occurring in this major nontraded good.

Finally, the real test of how robust the political evolution in Thailand is

will come when the government is faced with some very difficult policy decisions. It would be interesting to project what would have happened to the present government if it had been in power from 1981 to 1985, when the Prem government was able to take some extremely difficult decisions regarding structural adjustment, including devaluation, which had very negative effects on powerful business interests. Would a cabinet of the current composition be able to force bitter medicine on the economy and business sector, as a Prem-cum-technocrat government was able to do in the early 1980s? If a future government is not capable of such policy decisions, will the military stay in the barracks?

THAI PARTICIPANT: First, I agree with Ramsay that when you look at the role of business, you must look beyond Bangkok. This has been especially true over the past two years. Meetings of the cabinet outside of Bangkok allow local chambers of commerce to play an increasing role in policy. Second, Parliament has made serious efforts to upgrade its capabilities over the past two months, evidenced by the growth of committees and their staffs.

Another key factor around which the survival of this regime will revolve is civilian-military relations. The first problem is political leadership at the top. For the moment, the unexpected success of the prime minister has upset the aspirations of many military leaders. This problem may become more severe as General Chaovalit reaches the age of sixty. Another problem is the competition between civilian politicians and military leaders. One area is competition for markets. The prime minister's initiative on Indochina has sparked a race for Indochina. Businessmen, bankers, the Foreign Ministry, and the military are all trying to reach out to Indochina. The specter of markets in Indochina beckons a lot of interest in Thai politics. Thailand's emergence as a sort of neocolonial power on the Southeast Asian mainland has stimulated the military's interest as well.

THAI PARTICIPANT: It would be wrong to believe that Thailand is now moving into a parliamentary system akin to Westminster. The present movement is more toward a Japanese system. In effect, we have a ruling party that has yet to be named, only it is composed of many factions right now. The middle way that the Thais are following is evidenced by events in the past decade, such as Thanin's overthrow and Kriangsak's stepping down when Parliament lost confidence in him.

There is a fundamental change in the U.S. government's view of democratic regimes emerging in the developing world. In the past, the United States worked often to destabilize democratic regimes in Thailand. This shift is reflected in the attitudes of both Congress and the executive branch. To us, the idea of democratic rule involves a psychological

adjustment. There is a move in the country toward greater political activism as people become more involved in the political process. The challenge now is to strengthen the institutions for mass participation.

THAI PARTICIPANT: On the political economy of present Thailand, it is important to note that, regarding the new pressure groups within the system, many of these new businessmen come from the provinces. Also, many of these are farmers. They are indeed a new political group in addition to the two groups we have already, namely, the military and the technocrats. The consequence of this change is that recently there has been a more project-oriented approach to development. One might see a faster implementation of projects. At the same time, the technocrats and bureaucrats have not given up. One example is their activity on the recent elevated highway around Bangkok.

On the point that income inequality must increase at the early stage of development, I would take issue with the Kuznets argument in the Thai case. If it takes too long to even out the inequalities, there will be political implications whereby social conditions could actually disrupt growth in the economy. There is no necessary correlation between a weak state and a strong economy. In Thailand, the economy is open and comes very close to a free-market system with little government intervention in the economy. However, we have no proof that low levels of intervention and ad hoc decision making correlate positively with a strong economy, and we should not fear government intervention of the kind that can ease growing income disparities.

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