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Falling Behind, Forging Ahead and Falling Behind Again: Thailand from 1870 to 2014

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Abstract: The paper argues that Thailand's economic and social development from the late 19th century to the early 21st century presents a puzzle. For much of the period from 1870 to 1940, the country's economic growth was slow, and the economy remained agricultural, with little diversification into modern industry or services. It was the only Southeast Asian country to escape direct colonization, and yet it did not use its relative freedom from colonial control to embark on a programme of accelerated economic, social and political modernization. The contrast with Meiji Japan has been made by several Thai and foreign scholars, but Thailand's growth was also slow in comparison with several neighbouring countries under colonial control. Only in the late 1950s did economic growth start to accelerate and by 1996, per capita GDP was well ahead of other ASEAN countries except Malaysia and Singapore. The paper explores the reasons for the accelerated growth, looking particularly at the role of government. The paper also examines the reasons for the growth collapse of 1997/1998, and the slower economic growth since then.

Keywords: Thailand; economic growth; Japan; Philippines; catch-up; crisis

JEL Classifications: N35; O53

1. Introduction

Thailand's economic and social development from the late 19th century to the early 21st century presents a puzzle. For much of the period from 1870 to 1940, the country's economic growth was slow, and the economy remained agricultural, with little diversification into modern industry or services. Most of the population lived in rural areas, and were engaged in farming, fishing and traditional handicrafts. The small urban sector was dominated by traders and merchants descended from immigrant Chinese, while political and administrative decisions were made by the monarch, and by members of the aristocracy, who controlled the bureaucracy. It was the only Southeast Asian country to escape direct colonization, and yet it did not use its relative freedom from colonial control to embark on a programme of accelerated economic, social and political modernization. The contrast with Meiji Japan has been made by several Thai and foreign scholars. Perhaps less well appreciated is the fact that for much of the period from 1870 to 1940, Thailand's economic performance was also disappointing in comparison with its colonized neighbours, including Taiwan under the Japanese, the Philippines, which was under Spanish and then American control after 1900, Indonesia, under Dutch control, and the adjacent British colonies in the Malayan peninsula.

Indeed, in the seven decades from 1870, it could be argued that Thailand's policy-makers failed to take advantage of their de jure independence, while at the same time, they were unable, or unwilling, to implement the economic development policies which the Japanese, American, Dutch, British, and French colonial powers were all experimenting with after 1900. In 1938, Thailand's per capita GDP was

lower than in any Asian colony except Burma and India (Maddison 2003 [1], pp. 182–183). In the decade after 1946, when all the former colonies in South East Asia achieved independence, or a substantial measure of self-government, Thailand was still considered relatively backward, with poor economic prospects. But after 1957, the economy began to forge ahead, and by 2000 its per capita GDP was well above that of other Southeast Asian countries with the exception of Malaysia and Singapore.

This paper seeks to explain both the relatively weak growth performance in Thailand in the first part of the century and the much stronger performance from the 1950s, looking particularly at the role of government in both periods. Most analyses of economic policymaking, both in the pre-1940 era and in more recent decades have stressed the conservative approach to fiscal and monetary policy which has characterized successive Thai governments. The implication is often that this conservative approach implies a minimalist role for government. In fact, it will be argued in this paper that the Thai state was never simply a passive, nightwatchman state, solely concerned with the preservation of law and order and the collection of modest amounts of revenue to pay for a small bureaucracy and police force. From the late 19th century onwards, the governing elite had ambitions to modernize the economy. But at the same time, the ever present fear of domination by outside powers constrained these ambitions and at times channeled the resources available to government into low-yielding investments. This in turn affected rates of economic growth.

2. Comparisons with Japan

In 1870, when Japan was just embarking on its accelerated modernization, there was probably little difference in per capita GDP in Japan compared with Thailand or indeed with other colonies in Southeast Asia including the Philippines and Indonesia (Maddison 2003 [1]: p. 180). But Japan during the long period of Tokugawa government, when it was effectively shut off from outside influences, did undergo important changes, which subsequent historians have argued created the pre-conditions for accelerated growth after 1870. Literacy rates were high by Asian standards, and the educational system gave greater emphasis to practical subjects, as well as to science and mathematics. Although the majority of the labour force was still employed in agriculture, an urban middle class was emerging, who were more open to new ideas and technologies from the industrializing west.

By the 1860s, population densities were high in Japan, and wage rates low, so that it was easy for the expanding urban-industrial sector to acquire cheap labour from the rural sector. Yasuba and Dhiravegin (1985 [2]: p. 20) claim that daily wages of male labourers in the last decades of the 19th century in Japan were less than one-third those in Bangkok, where most of the wage workers were migrants from China[1]. The lower-ranking samurai who moved into senior positions in government and the bureaucracy after the Meiji restoration had little interest in preserving the status quo, and were able to bring about reforms which gave much greater power to the central government and to push ahead with modernizing infrastructure and importing foreign technology, especially in the industrial sector.

The forces of modernization, while not completely absent in Thailand, were far weaker in the last decades of the 19th century. Thailand sent fewer students abroad, and those who did travel to Europe, the USA and other parts of Asia were mainly drawn from the royal family and the aristocracy. Often they studied in military academies rather than in universities or technical colleges. Literacy rates remained much lower in Thailand than in Japan until well into the 20th century, and most young people received what education they did get in monastic schools which had little interest in, or knowledge of, western science and technology. Secondary and tertiary education was far beyond the reach of most of the population. In the small number of secondary schools and tertiary institutions, courses in the humanities and public administration dominated. There were few opportunities to study science,

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[1] Indeed Skinner (1957 [3]: p. 32) argues that wages were higher in Thailand in the 19th century than anywhere else in Asia. This must have reflected the fact that most indigenous Thais were tied to masters under some form of corvee arrangement and were not able to participate in a free labour market. Terwiel (1983 [4]) discusses the gradual decline of corvee through the nineteenth century.

engineering or technology. This in turn slowed down the adoption of new technologies. Yasuba and Dhiravegin (1985 [2]: p. 31) argue that while the abundant supply of agricultural land may have retarded industrialization, the key problem in Thailand was not the slow pace of industrialization as such, but rather the "lack of technical progress in both industry and agriculture".

3. Comparisons with Southeast Asian Colonies

If there is a consensus in the literature on the reasons for Japan's faster growth after 1870, how can we explain Thailand's rather poor performance relative to its colonial neighbours, especially after 1900? In the Indonesian context, the acceleration in growth after 1900 has usually been attributed to the growth in government expenditure on infrastructure associated with the ethical policy, and to improved terms of trade, which stimulated the growth and diversification of agricultural exports (Booth 1998 [5]: pp. 144–154). One influential school of thought is that the Thai government, although well aware of the progress being made in Indonesia, especially in the development of irrigated agriculture, decided to concentrate on railway development in order to defend the country's borders. I examine this in more detail below. More broadly, it could be argued that Thailand's independent status meant that it was unable to benefit from being a colony of a major power, while at the same time the government had to shoulder the burden of governing and defending the state.

What were the benefits of being colonized? In the Southeast Asian context, it has been claimed that colonial governments took the lead not just in building modern infrastructure, including irrigation systems, roads and railways, but also in introducing new crops such as rubber and palm oil. Initially these were grown on large estates owned by foreign interests, but by the 1920s, smallholders were also growing rubber, as well as crops such as coffee, tobacco, pepper and spices. Some Asian colonies such as the Philippines and Taiwan were able to sell their agricultural exports, including sugar and rice, into protected metropolitan markets which insulated them from fluctuations in world market conditions, especially in the 1930s[2]. Colonial governments also introduced new institutions, such as modern budgetary procedures, banks and other financial companies, as well as clearly defined property rights in land and other forms of property. By the early 20th century, they also had begun to make western-style education available to growing numbers of indigenous Southeast Asians.

It has often been argued that the various colonial regimes across Asia, in framing their investment programmes, favoured the types of infrastructure which benefited estates and mining companies, often with headquarters in the metropolitan capitals, and neglected investments in those types of infrastructure which benefited the indigenous majority. There is certainly evidence to support such arguments. In addition, large enterprises from the metropolitan powers in sectors such as estates and mining often made large profits which were remitted to shareholders abroad. It was probably a fear of such "drains" through the balance of payments which made the Thai government reluctant to allow foreign estate and mining companies to operate in the country, although this reluctance certainly held back the adoption of new crops and technologies.

There is also evidence to support the argument that in most Asian colonies, educational expansion was constrained by fears of educated unemployment, and in most colonies very few young people were able to gain access to secondary and tertiary education in the language of the colonial power. By the 1930s, the figures assembled by Furnivall (1943) [7] indicated that educational enrollments per head of population were higher in Thailand than in the British, French and Dutch colonies. The main exceptions were the Philippines and Taiwan, where enrollments were higher than elsewhere in the region (Table 1). And although it is true that colonial governments introduced new taxation systems to finance growing government expenditures, there was not, by the late 1930s, a marked difference in

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[2] Over the 1920s, sugar exports from Java were over twice as high as those from Taiwan and the Philippines combined. By the late 1930s, these two colonies were exporting more than Java (Booth 2007 [6]). The industry in Java was badly hit by protectionism in the 1930s, especially in the British Empire which closed off many markets to imports originating from non-British colonies.

revenues per capita between Thailand and colonies such as Burma and Indonesia (Table 2). Per capita revenues were considerably higher than in Vietnam.

Table 1. Development Indicators: East and South East Asia, late 1930s.

Country	Per Capita GDP, 1938 (1990 Inter-National Dollars) [a]	Infant Mortality Rates	Crude Death Rates	Educational Enrolments as % of Total Population
Philippines	1542	139	23	11.54
Malaya [b]	1426	147	21	7.76
Taiwan	1318	142	21	11.36
Indonesia	1171	225–250	28	4.01
Thailand	826	n.a.	22	10.65
Burma	740	232	30	5.45
Indochina	n.a.	190	24	2.47

[a] For the Philippines, Malaya, Taiwan and Indonesia, GDP data are three year averages centered on 1938. For Thailand and Burma the data refer to 1938 only; [b] GDP and crude death rate data refer to the territory covered by modern Malaysia (British Malaya plus Sabah and Sarawak less Singapore). Infant mortality rates refer to the Federated Malay States only. Educational enrolments refer to British Malaya including Singapore. Sources: GDP data; Maddison (2003 [1]: pp. 182–183). Educational enrolments: Furnivall (1943 [7]: p. 111). Data on infant mortality rates and crude death rates for Indonesia: Nitisastro (1970 [8]: p. 113) and refer to Java only; Philippines: Zablan (1978 [9]: pp. 100–105); Taiwan: Barclay (1954 [10]: pp. 146,161); Thailand: Manarungsan (1989 [11]: p. 35); Vietnam: Banens (2000 [12]: pp. 36–37); crude death rates refer to Cochinchina; infant mortality rates refer to Hanoi only. Burma: Sundrum (1957 [13]: pp. 20,52); British Malaya: Evans (1939 [14]); crude death rates: Palmore, Chander and Fernandez (1975 [15]); n.a., no answer.

Table 2. Revenues per Capita: (US $) 1938 and 1952.

Country	1938	1952
Straits Settlements	29.7	58.8
Federated Malay States	17.2	42.9
Taiwan	11.9	26.5
Unfederated States	9.8	- [a]
Philippines	4.2 (5.2) [b]	11.7
Burma	3.8	8.8
Indonesia	3.7	10.3
Thailand	3.5	8.4
Vietnam	1.5	2.7 [c]
USA GNP Deflator	100.0	199.3

[a] After 1945, the federated and unfederated states were amalgamated into the Federation of Malaya; [b] Figure in brackets includes local government revenues; [c] Data refer to 1950. Sources: Taiwan: Mizoguchi and Umemura (1988 [16]: p. 288); Vietnam: 1938: Bassino (2000 [17]: pp. 286–288); Netherlands Indies: Creutzberg (1976) [18], population data from van der Eng (2002) [19]; Philippines: Commonwealth of the Philippines (1941) [20], and Birnberg and Resnick (1975) [21]; Thailand: Ingram (1971 [22]: pp. 329–337); Burma: Andrus (1948) [23]; Federated Malay States and Straits Settlements: Department of Statistics (1939) [24], with additional data from Fraser (1939) [25], Appendix A. 1952: International Monetary Fund, *International Financial Statistics* various issues between 1952 and 1958, with additional data for Federation of Malaya from Markandan (1960 [26]); Central Bank of the Philippines (1956) [27]; Bank Indonesia (1956) [28]. Exchange rates for Taiwan in 1952 from Sato *et al*. (2008 [29]: p. 369). Other exchange rates from Bidwell (1970) [30].

In his comparative study of government budgetary and financial policies in the Philippines, Siam, the Federated Malay States, French Indo-china and the Netherlands East Indies, Schwulst (1932 [31]: pp. 55–58) found that per capita revenues in 1931 from both tax and non-tax sources were higher in Siam than in the Philippines and in French Indo-China, slightly lower than in the Netherlands Indies and much lower than in the Federated Malay States (FMS). He pointed out that Siam, like the FMS and the Netherlands Indies, was obtaining around 40 per cent of total government revenues from non-tax sources including the opium monopoly which had been abolished in the Philippines. On the expenditure side, per capita expenditures were around 40 per cent higher in Siam than in the Philippines, but the Philippines was devoting a larger share to health and education, and a much lower share to administrative and military expenditures.

Schwulst (1932 [31]: p. 58) argued that a comparison of the Philippines and Thailand was especially appropriate because in terms of size and economic importance the two economies were similar. In terms of governance, Siam was independent, but the Philippines had been promised substantial self-government in 1935, and independence a decade later, promises which the American government honoured. But as Schwulst pointed out, Siam was maintaining both an army and a navy which consumed 22 per cent of budgetary expenditures. The Philippines in the early 1930s spent virtually nothing on defence, and a smaller amount on civil government in per capita terms than Siam. These modest expenditures on the civil service permitted greater expenditures on both education and health, compared with Siam, and also compared with the other colonies which Schwulst investigated.

Schwulst found in his interviews with Thai officials in early 1931 that they were determined to liquidate the outstanding government debt. Since 1927, substantial sums were taken from current revenues to set up a fund for the purpose of retiring outstanding debt (Schwulst 1932 [31]: p. 46). The policy of reducing the debt, both in absolute terms and relative to total budgetary revenues continued through the 1930s[3]. The total government capital liability at the end of the fiscal year 1938/1939 was 5.7 million pounds, which was about half what it had been a decade earlier. Debt charges fell from a peak of 12.3 per cent of total budgetary revenues in 1931/1932 to 5.8 per cent in 1938/1939[4]. By 1935, total public debt per capita was the same as in the Philippines and much lower than in the Netherlands Indies, British Malaya and India (Table 3).

Table 3. Public Debt per Capita (US $).

Country	1935	1955
British Malaya	18	27
Indonesia	16	17
India	12	18
Philippines	5	28
Thailand	5	11

For 1955, official exchange rates are used to convert to US dollars in all cases. Source: Booth (2013) [33].

To what extent did this conservative approach to fiscal policy and foreign borrowing affect economic growth? Most discussions of pre-war economic policy-making in Thailand argue that while the ultra-cautious policies achieved their objective of reducing dependency on foreign loans, they also retarded growth (see e.g., Warr and Nidhiprabha 1996 [34]: p. 29). These authors, like several others, have stressed the influence of the British advisers in urging caution regarding the implementation of costly public works projects which would have necessitated foreign loans, although the evidence suggests that it was senior Thai officials who made the final decisions. The most famous example of "development deferred" was probably the decision not to implement the ambitious irrigation projects in the central plains which were first suggested by the Dutch expert, J. Homan van der Heide, in the early years of the 20th century[5].

Ingram (1971 [22]: pp. 196–197) points out that in 1903 when the first report from van der Heide was presented to the Thai government, the baht had just been linked to gold, and the government's priority was to build railways. The newly appointed British financial adviser opposed embarking on an expensive new irrigation system in addition to railways, which the Thai military viewed as essential for defence of the realm. Although van der Heide subsequently proposed a modified programme at lower cost, it was only in 1916 that a much less ambitious irrigation project was begun, funded from

[3] Because of falling export values in the early 1930s, the debt service to export ratios increased to around six per cent in 1935. It fell after that (Manarungsan 1998 [11]: p. 176).

[4] These figures are taken from Central Service of Statistics (1940) [32].

[5] For a complete list of Homan van der Heide's published and unpublished writings on Thailand see Feeny (1982 [28]: p. 230). Brummelhuis (2005) [36] gives a detailed discussion of his work in Thailand.

current revenues. Subsequent analyses have argued that deferring irrigation development slowed agricultural growth, and especially the growth of rice output. Feeny (1998 [37]: p. 428) has estimated that the van der Heide proposal would have generated an internal rate of return of around 22 per cent which was way above the cost of borrowing at the time.

Feeny may have exaggerated the benefits accruing from irrigation development. Objections raised at the time were that cost recovery from farmers would have been very difficult, and the low population densities prevalent at the time, even in the central plains, meant that ambitious plans to develop irrigated agriculture may have been thwarted by labour shortages (Ingram 1971 [22]: pp. 199–200; van der Meer 1989 [38]: p. 272). But it is difficult to refute the argument that a more activist approach to the development of infrastructure could have accelerated economic growth in Thailand in the early decades of the 20th century. Successive governments between 1900 and 1940 were extremely reluctant either to increase taxes or to borrow in order to fund infrastucture, or to expand access to modern educational and health facilities. Thompson (1941 [39]: p. 506), in a survey of Thailand based on research carried out in the late 1930s found that the country was virtually without roads, with most goods transported on rivers and canals. Larsson (2012 [40]: p. 33) has argued that the Thai state from the late 19th century onwards became "actively non-developmental in order to protect its sovereignty in the context of geopolitical vulnerability". The result, as Schwulst observed, was not a small government by the standards of the time, but one which placed most emphasis on building up a national system of administration and a defence force, rather than on economic development.

A further reason for the reluctance on the part of Thai governments prior to 1940 to take a more activist role, especially in increasing social expenditures, could have been their conviction that the majority of the population was in fact quite well off, at least in comparison with many other parts of Asia. Detailed information on the diets of over nine thousand people in rural Thailand in 1930–1931 was assembled by Zimmerman (1999 [41]: pp. 273–286). The investigators found very few cases of severe malnutrition, and diseases such as rickets, scurvey or beri-beri were quite rare. On average, 693 grams of glutinous rice was consumed per adult per day in those areas in the north and northeast of the country where this was the staple, and 553 grams of non-glutinous rice in central and southern regions. Glutinous rice was usually produced by hand pounding which left more pericarp on the grain, thereby improving the nutritive content. Zimmerman argued that this compensated for the lower amount of fish and meat consumed in the northern part of the country.

If these figures are representative, it would appear that rice availability per capita was considerably higher in Thailand than in most parts of French Indochina, the Philippines or Indonesia, which indeed is what the data on per capita availability for the late 1930s indicate (Booth 2007 [6]). Thus there was less need for most Thais to gain extra calories from rootcrops, which were widely consumed in Java and in parts of the Philippines and Vietnam. But Zimmerman pointed to some worrying trends in the Thai diet. Hand pounding was in decline, and preferences were shifting towards milled rice, and imported dried fish, rather than fresh, locally produced foods. He argued that "milled rice without more fish and animal food is probably not a complete diet" (Zimmerman 1999 [41]: p. 276). This study argued that, to the extent that malnutrition existed in Thailand, it was the result of lack of knowledge and understanding, rather than lack of food.

But even given these trends, the evidence indicated that living standards over the 1930s were in fact quite high in Thailand, at least by Asian standards. Educational enrollments as a proportion of the population were comparable with the Philippines and Taiwan, even if much of the education was given in the monastic schools. Crude death rates were roughly the same as in British Malaya, Taiwan and the Philippines and lower than in neighbouring Burma, or in Java (Table 1). Elsewhere I have argued that, compared with other parts of the region, the Thai population was less affected by the depression of the early part of the 1930s, and the impact of the global slump on government policy-making was less obvious (Booth 2003 [42]: pp. 455–456). But greater storms were to affect Southeast Asia over the 1940s and beyond.

4. Policy-Making in the 1940s and 1950s

In the early 1940s, the Japanese Imperial Army had swept through Southeast Asia and incorporated all the colonial territories from Burma to Indonesia into their Greater East Asia imperial system. Thailand as an independent country with a pro-Japanese government was treated as an ally, but as Swan (1996 [43]: p. 146) argued, the country was subordinated to the larger economic and strategic aims of the Japanese in Asia[6]. Had Japan not been defeated in 1945, it is probable that Thailand's role in the Japanese Empire would have been little different than that of the rest of Southeast Asia. It would have produced agricultural products in exchange for manufactured goods from Japan. But Thailand's status as an ally did mean that the country escaped the devastation that occurred in Burma and the Philippines. Thailand also escaped the anti-colonial violence which erupted in Indonesia and French Indo-china in the aftermath of the Japanese defeat in 1945, when nationalist forces took up arms against the returning Dutch and French administrations.

By 1950, per capita GDP in Thailand had almost caught up with its pre-war level, while elsewhere in the Asian region the economic recovery took much longer. In 1955 per capita GDP in most former colonies in Asia was still below pre-1942 levels, in contrast to Thailand (Table 4). Per capita government revenues in dollar terms in Thailand more than doubled between 1938 and 1952, although they were still low in comparison with most other parts of Southeast Asia, with the exception of Vietnam (Table 2). But in the post-1945 era, exchange rates in many parts of Asia were overvalued, and the data in dollar terms can be misleading. Thailand experienced high rates of inflation over the 1940s, but in real terms revenues per capita revenues in baht did experience some growth, as did per capita government expenditures in the years from 1938 to 1954, although expenditures declined between 1953 and 1960 (Tables 5 and 6).

Table 4. Index of Per capita GDP in Pre-war Peak, 1950, 1955 and 1960 (Pre-war = 100).

Country	c. 1941	1950	1955	1960
Indonesia (1941)	100	71	82	88
Malaysia (1942)	100	93	87	91
Singapore (1939)	100	93	82	83
Thailand (1938)	100	99	114	131
Burma (1938)	100	54	63	76
India (1943)	100	89	97	108
Philippines (1939)	100	74	93	101
Taiwan (1938)	100	70	91	103
South Korea (1937)	100	52	71	75

Sources: Malaysia, Thailand, Burma and South Korea: Maddison (2003 [1]: pp. 182–185); Indonesia: van der Eng (2013) [45]; Singapore: Sugimoto (2011 [46]: pp. 49,185); India: Sivasubramonian (2002 [47]: pp. 136–139); Philippines: Hooley (2005 [48]); Taiwan: Sato (2008 [29]: pp. 233–234, 395–396).

Table 5. Revenues per Capita and Inflation: 1954 (1938 = 100).

Country	Revenues/Capita	Prices
Indonesia	1449.3	2340
Thailand	2445.7	1391
Burma	460.8	380
Malayan Federation	443.7	371
Philippines	310.7	329

Price indexes for Burma: GDP deflator; for Indonesia: Average retail prices in Jakarta of 30 home produced and imported products; for Malayan Federation: Cost of living of Malays and Chinese; For Thailand: Cost of Living index in Bangkok and after 1951 GDP deflator; for the Philippines: Cost of Living of lower income groups in Manila. Source: Booth (2013) [33].

[6] For further discussion of Japanese policy, see Swan (2009 [44]: Chapter 14).

Table 6. Index of Real Per Capita Government Expenditures in Local Currencies (1938 = 100).

Country	1938	1953	1956	1960
Taiwan	100	558	623	708
Indonesia	100	95	91	198
Burma	100	n.a	145	184
Philippines	100	95	165	164
India	100	107	161	153
Thailand	100	152	138	143
Malayan Federation	100	97	90	112

Sources: International Monetary Fund, *International Financial Statistics* various issues between 1952 and 1964, with additional data from Sato *et al*. (2008 [29]: pp. 336–339); Bank Negara Malaysia (1961) [49]; Central Bank of the Philippines (1956) [27]; Bank Indonesia (1956) [28]; Reddy (1972) [50]. Price index for Indonesia after 1950 from ECAFE (1964 [51]: p. 240).

Politically the situation in Thailand after 1945 was difficult. In 1947, Field Marshall Pibulsongkram, who had presided over a pro-Japanese government for much of the Pacific war, regained power and ruled until 1957. His approach to economic development was to favour state enterprises, partly because of his distrust of the Sino-Thai business community, and partly because, like previous Thai rulers, he feared foreign domination (Akrasanee and Ajanant 1986 [52]: p. 80). The post-war regional and international environment with which the Thai government had to deal was very different from the 1930s. The influence of the European colonial powers, especially France and Great Britain, had been greatly reduced while that of the USA had increased to the point where it was the dominant power in the region. The Communist Party had taken over in China, and migration from China to Southeast Asia had almost ceased. Most Chinese business people in Southeast Asia had little sympathy with the mainland government and realized that their futures lay in the region, or in third countries. Within Southeast Asia, the influence of indigenous communist parties grew and in North Vietnam a communist regime took over after the Geneva Accords divided the country in 1954.

In 1957, Pibulsongkram was ousted in a coup which led to Field Marshall Sarit becoming prime minister. The new government was more outward-looking, and invited the World Bank to write a comprehensive report on the country's economic prospects. The report advocated a greater role for the private sector, and for foreign investment. It had considerable influence on subsequent policy. Perhaps surprisingly, the Sarit government also invited Dr Puey Ungpakorn to head the Bureau of the Budget; in 1959 he became governor of the Bank of Thailand (BOT). Puey was born into a Sino-Thai family of quite modest means, and had been educated at Thammasat University in Bangkok and at the London School of Economics. Earlier in the decade he had been deputy governor of the BOT, and had taken a strong line against what he saw as corrupt practices in parts of the military. He had spent several years in London, but then decided to return and work with the government to implement key institutional reforms (Suehiro 2005 [53]: pp. 23–25). He was instrumental in initiating important changes in macroeconomic management, and at the Bank of Thailand he exerted greater control over the commercial banks, "weaning them away from a close connection with politics and politicians" (Siamwalla 1997 [54]: p. 7).

5. The Years of Rapid Growth: 1956–1996

Over the four decades from 1956 to 1996, the Thai economy grew at an annual average rate, in per capita terms, of more than five per cent per annum. Per capita GDP, in terms of 2005 international dollars, increased from around 750 dollars in 1956 to 6256 dollars in 1996 (Heston, Summers and Aten 2012 [55]). These figures implied an annual average growth rate over these four decades of 5.4 per cent. In the decade from 1986 to 1996, per capita GDP more than doubled, implying an annual growth rate of over seven per cent. This was a very strong growth performance in comparison with most other

parts of Asia and most other parts of the developing world[7]. Much has been written about the "Thai Miracle"; here I will try to summarise some key points from the literature, with particular emphasis on the role of government agencies.

Under Dr Puey's overall supervision, four key economic management agencies were either established or strengthened in the 1960s; these were the National Economic Development Board (now called the NESDB), the Fiscal Policy Office in the Ministry of Finance, the Bureau of the Budget under the control of the Prime Minister and the Bank of Thailand. The directors of these four agencies usually sat in the Council of Economic Ministers. Although ministers themselves often changed as Thailand alternated between military and civilian regimes, the civil servants in these agencies usually remained in post and were able to formulate policies which they then proposed to the politicians (Warr and Nidhiprabha 1996 [34]: pp. 69–70; Suehiro 2005 [53]: pp. 22–28). The four agency system together with the relatively weak role of parliament in the policy-making process certainly gave civil servants considerable power through much of the high-growth era. But the power was circumscribed in various ways, not least by the low salaries paid to bureaucrats at all levels. The high inflation over the 1940s eroded their salaries, and although monetary remuneration did increase after 1950, in real terms salaries never returned to the levels obtaining in the late 1930s (Warr and Nidhiprabha 1996 [34]: p. 23). As private sector salaries increased, especially for those with foreign qualifications in economics, accounting and management, many officials either left government employment, or became more vulnerable to financial inducements from both the military and business groups. Bureaucrats became involved in various rent-seeking activities (Christensen, Siamwalla and Vichyanond 1993 [56]: pp. 5–6).

The most obvious achievement of the four agency system, and especially of the Bank of Thailand and the Ministry of Finance, was to keep inflation low and thus keep the baht stable against the dollar. There were two devaluations in the early 1980s, necessitated by balance of payments problems. Both were resisted by the military but the technocrats advising the Prem government were able to get them through. There was also some restructuring of the taxation system, with income taxes accounting for an increasing share of the total, and trade taxes a diminishing share. Both government revenues and expenditures grew relative to GDP between 1970 and 1990, although most of the revenue growth took place after 1980 (Warr and Nidhiprabha 1996 [34]).

These changes probably made the fiscal system less regressive than it had been in the 1960s, when export taxes, especially the rice premium, still accounted for a considerable share of tax revenues. These taxes reduced farm incomes, and aggravated urban-rural differentials. But government expenditures, although increasing as a share of GDP, were still skewed towards current rather than capital outlays; the percentage of total expenditures on economic services fell between 1970 and 1990, although spending on social service increased (Warr and Nidhiprabha 1996 [34]). One consequence of this was that expenditures on both infrastructure and post-primary education remained quite low until the late 1980s. As growth accelerated after 1985, and manufacturing output grew rapidly, the severe bottlenecks in infrastructure provision became glaringly obvious (Christensen, Siamwalla and Vichyanond 1993 [56]: pp. 33–35).

It was also clear by the latter part of the 1980s that the educational attainment of the labour force was not keeping up with the demands of employers in the non-agricultural sectors of the economy. Over the 1960s and the 1970s, the government had undertaken an ambitious program of primary school building, and almost universal primary enrolments had been achieved by 1980. But little was done to expand access to post-primary education, and the majority of children outside the larger towns and cities dropped out of the system after completing the six-year primary cycle. The result was that a very high percentage, almost 80 per cent, of both males and females in the labour force by 1987 had at most primary education, and fewer than 20 per cent either secondary or tertiary education. A contrast can be made with South Korea in 1974, when per capita GDP was slightly lower in Thailand in 1987

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[7] In 1957, per capita GDP in Thailand was below several African economies including Ghana, Senegal, Ivory Coast, Algeria, and Angola. By 1996 it was well above these all these countries; often by a multiple of five or more. See Maddison (2003) [1] and the Maddison Project website.

(Maddison 2003 [1]: p. 184). Although there was a higher percentage of workers with no schooling in South Korea than in Thailand, which reflects the poor educational legacy from the colonial era, there was also a higher percentage with secondary qualifications (Table 7).

Table 7. Percentage Distribution of the Labour Force by Educational Attainment.

	Male	Female
South Korea 1974		
No schooling	12.9	28.5
Primary	41.0	49.9
Secondary	38.5	20.0
College/University	7.6	1.6
Total	100.0	100.0
Thailand 1987		
No schooling	4.0	7.8
Primary	77.2	79.5
Secondary	13.4	7.5
College/University	5.0	5.0
Other/Not stated	0.4	0.2
Total	100.0	100.0

Source: South Korea: *Special Labour Force Survey Report* (Seoul: Bureau of Statistics, Economic Planning Board, 1974 [57]); Thailand: *Statistical Yearbook of Thailand Number 36* (Bangkok: National Statistical Office 1989 [58], pp. 404–405).

The low proportion of the labour force with more than primary education led, not surprisingly to very large wage premiums for educated workers; one study estimated that in 1986–1991, workers with secondary education on average enjoyed a wage premium of 171 per cent (Lathapipat and Chucherd 2013 [59]: p. 48). Low educational attainment also prevented many workers from moving into professional, technical and administrative jobs in manufacturing or in the modern service sector. Most were employed either in agriculture or in unskilled, or at best semi-skilled jobs in the non-agricultural sectors, including transport and trade. On the other hand those who managed to get tertiary qualifications often earned high salaries in the private sector. Income inequality, which was already quite high in the 1970s, increased over the 1980s and in 1992 the Gini coefficient of household income was estimated to be 0.54. Rapid income growth did lead to a fast decline in poverty, and by 1992, 11.4 per cent of the population was estimated to be below the official poverty line, compared with over 60 per cent in 1969 (Warr 2004 [60]). Post-primary education enrollments also began to increase in the early 1990s, as many rural primary schools were expanded to include lower secondary classes.

6. Comparisons with the Philippines: 1930–1990

As we have seen, Schwulst (1932) [31] thought that the Philippines and Thailand were, among the countries he visited, especially useful for comparison. But in spite of the similarities, by 1940 per capita GDP in Thailand was below the Philippines (Maddison 2003 [1]). Thailand was faster to recover to pre-war levels of per capita GDP than most other countries in Asia after 1945, but was still behind the Philippines in 1960. According to the Maddison Project data, per capita GDP in Thailand in 1960 was still only 73 per cent of that in the Philippines. But thereafter Thailand forged ahead, while the Philippines fell behind. By 1986, the year in which the "People Power" revolution deposed President Marcos, per capita GDP in Thailand was almost 60 per cent higher than in the Philippines. In spite of the growth collapse in Thailand in 1997/1998 and the slow recovery, the gap between the two countries widened further and by 2010 per capita GDP in Thailand was estimated to be around three times that of the Philippines[8].

[8] These data are taken from the Maddison Project website (http://www.ggdc.net/maddison/maddison-project/home.htm), 2013 version.

What explains this reversal? In his comparison of the economic performance of Thailand and the Philippines from 1950 to 1990, Yoshihara (1994 [61]: pp. 234–238) stressed three crucial differences between the two countries. First, Thailand since 1960, with the establishment of the Board of Investment, pursued more open policies to foreign investment; indeed he argued that only after 1986 did the Philippine government actively encourage foreign investment from Japan, the USA and Europe, and by that time the Philippines had to compete not just with other Southeast Asian countries but also with China, which was actively seeking foreign investment in the special economic zones. Successive Thai governments, whether military or civilian, were also more supportive of the Chinese minority and tolerated their dominant role in industry and commerce. Second, the Thai government was less interventionist in crucial markets such as that for foreign exchange, and Thai industry was subject to greater import competition. Third, the Thai government, at least until the early 1990s, did a better job in terms of maintaining law and order, and preventing the rise of insurgencies inspired either by Communism or Islam.

A further important difference concerned population growth. The Philippines experienced rapid population growth for most of the twentieth century, and although fertility declined after 1960, the rate of decline was much slower than in Thailand or in most other parts of Southeast Asia. The census conducted in 1939 found that the population was a little above 16 million; in 2014 it reached 100 million. The growth in population in the Philippines was very fast by global standards, and exceeded the economy's capacity to create employment in either industry or modern services, while in the agricultural sector many did not have access to land and were employed either as agricultural labourers or in low-productivity service occupations. The Philippines had in 2012 a very high percentage of the labour force in services compared with other Asian countries when they had achieved broadly similar levels of GDP (Table 8). Recent estimates indicate that it had in 2010 a much higher incidence of poverty than Thailand and higher even than Vietnam, in spite of the fact that per capita GDP was higher (Asian Development Bank 2014 [62]; p. 11). In Thailand, landlessness was historically not such a serious problem, and since 1960 population growth has slowed sharply compared with the Philippines. The two countries had roughly similar populations in 1950; by 2014 the population of Thailand was 66.4 million or two thirds of that in the Philippines.

Table 8. Percentage Breakdown of the Labour Force: Various Years *.

Country	Agriculture	Manufacturing	Industry **	Services
Taiwan (1971)	35.2	21.6	30.2	34.6
Korea (1974)	48.8	16.2	21.5	29.6
Malaysia (1978)	43.9	13.1	20.1	36.0
Thailand (1989)	66.6	9.0	11.9	21.5
Indonesia (2010)	40.5	10.8	17.5	42.0
Philippines (2012)	32.3	8.3	15.1	52.6

* Per capita GDP in the years shown was between $3,700 and $3,900 except the Philippines which was slightly lower (from Penn World Tables, v. 7.1, 2005 constant prices; data are derived from the growth rates of domestic absorption); ** Includes mining, manufacturing, utilities and construction. Sources: GDP data: Heston, Summers and Aten (2012) [55]; Labour force data: Taiwan: Taiwan Statistical Data Book, 1974, (Taipei, Executive Yuan) [63], Korea: *1974 Special Labor Force Survey Report* (Bureau of Statistics) [57], Malaysia: *Mid-Term Review of the Third Malaysia Plan, 1976–1980* (Kuala Lumpur; Government Printer 1978) [64]. Thailand: *Statistical Yearbook of Thailand No. 39, 1992* (Bangkok: National Statistical Office) [65], Indonesia: *Population of Indonesia: Results of Indonesia Population Census 2010* (Jakarta: Statistics Indonesia 2012) [66], Philippines: *Philippine Statistical Yearbook 2013* (Makati: National Statistical Coordination Board) [67].

From the 1960s onwards, increasing numbers of workers from the Philippines sought employment abroad; in 2012 the Commission on Overseas Filipinos estimated that 10.5 million Filipinos were working outside the country. This was over eleven per cent of the total resident population. The largest number, around 3.5 million, were in the USA which as the former colonial power, and a high income economy, has always been a favoured destination for both skilled and unskilled migrants. In addition large numbers were in Saudi Arabia and the UAE, around 2.3 million. Their remittances were an important contribution

to the balance of payments. Unable to match Thailand, or indeed many other Asian countries in exporting goods and services, the Philippines has increasingly become an exporter of people.

7. The Crisis and after: 1996–2014

By the early 1990s, Thailand was being referred to as the "fifth tiger" and was held up as a model of rapid economic growth and diversification away from agriculture, which other developing nations should follow. It was one of the eight Asian economies included in the "Asian Miracle" report, published by the World Bank in 1993. But serious economic problems were beginning to emerge. Real wages had increased faster than the educational attainment of the labour force, and many export-oriented firms, both foreign and Thai, began to relocate to China, Vietnam and South Asia where labour was cheaper and often better educated. The decision to set up the Bangkok International Banking Facility was intended to make Bangkok a regional financial centre, but in fact most of the foreign funds which flooded in were used by domestic Thai firms to fund investment in non-traded goods, especially urban real estate (Siamwalla 2001 [68]: pp. 11–15). The influence of technocrats both in the Bank of Thailand and elsewhere was reduced as elected politicians beholden to power brokers outside Bangkok took control of key ministries. Many civil servants with degrees in economics and finance left for more lucrative employment in the private sector.

By late 1996 it was clear to many observers, both Thai and foreign, that the problems in both the real and the financial sectors were serious and that there would have to be major policy adjustments including a devaluation of the baht[9]. But the Bank of Thailand refused to face reality and instead engaged in a futile attempt to defend the peg against the dollar; it was only when official reserves were exhausted in early July 1997 that they were forced to float the baht, with results that are well-known. Not only did the currency collapse, but real GDP, which had already contracted in 1997, fell further in 1998[10]. As a proportion of GDP, investment expenditures more than halved between 1995 and 2000, from 43.5 per cent to 20.8 per cent (Booth 2009 [70]: p. 46). Why did a country which had earned such a strong reputation for prudent macroeconomic management and rapid growth experience such a dramatic reversal of fortune?

Part of the answer to this question lies in the gradual erosion of technocratic control over the economy, which in turn was the result of the rising power of elected politicians, and the compromises which official advisers had to make in order to maintain influence in a changing political climate. Suehiro (2005 [53]: p. 43) argued that the crisis of 1997 marked the disintegration of the "four core agency system", but its effectiveness had been badly damaged over the preceding decade. In addition public discontent about the provision of public services was growing. In 2000, per capita government expenditures were around $350 per capita, which was higher than Vietnam, Indonesia or the Philippines but lower than Malaysia, South Korea or Taiwan (Table 9). With the election of the Thaksin government in 2001, Suehiro (2005 [53]: p. 49) concluded that effective power in economic policy-making passed to a "political party-led system based on the prime minister's leadership". But such a system was unacceptable to influential parts of the civilian bureaucracy, as well as to the military, and Thaksin was deposed in a coup in 2006. Since then, elections produced further pro-Thaksin governments until another coup in 2014.

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[9] See Thailand Survey, *Financial Times*, 5 December 1996 [69].

[10] Not only was there a severe contraction in real GDP in 1997/1998 but recovery was slow. According to the Maddison Project data, per capita GDP only surpassed the level reached in 1996 in 2002. The recovery was even slower in Indonesia, where the 1997 per capita GDP was not surpassed until 2004. In Malaysia the GDP contraction in 1998 was less severe, and 1997 per capita GDP had been regained by 2002.

Table 9. Central government expenditures per capita, 1965–2000 (US$).

Country	1965	1975	1985	2000
India	11.97	18.54	46.37	74.16
Vietnam	n.a.	n.a.	n.a.	92.05
Indonesia	4.84 [a]	46.04	113.60	124.22
Philippines	22.82	56.66	63.00	189.63
Thailand	19.48	54.43	142.45	350.54
Malaysia	71.36	246.37	655.53	789.01 [c]
South Korea	11.61	93.76	375.60	1813.70 [d]
Taiwan	44.33	206.29	735.49	4285.33
Singapore	89.64	426.75	1942.09	4888.50
Brunei	440.01 [b]	1249.37	8844.93	8717.53 [e]
USA GDP deflator [f]	100	171	307	405

[a] 1968; [b] 1967; [c] 1999; [d] 1997; [e] 1995; [f] Producer price index, taken from Table No. 712, Statistical Abstract of the United States, 2003. Sources: *International Financial Statistics Yearbook*, 1973 [71], 2007 [72] (Washington: International Monetary Fund), with additional data from the *Statistical Yearbook of Brunei Darussalem* (Ministry of Finance, Brunei), various issues, and *Taiwan Statistical Data Book*, various issues (Tapei: Council for Economic Planning and Development, Executive Yuan).

Recent studies of the Thai economy have argued that ongoing political conflicts have affected economic growth, particularly by deterring both domestic and foreign investment. After 2010 it appears that many Thai firms are investing abroad rather than at home; in 2011 and 2012 outward flows of investment exceeded inward flows (UNCTAD 2013 [73]: p. 214). Between 2007 and 2013, GDP growth was slower than in Vietnam, Indonesia, the Philippines and Malaysia (Table 10). Although per capita GDP is still higher than in other ASEAN economies except Malaysia and Singapore, if growth remains slow over the next decade or more, the difference between Thailand and its neighbours could erode, or even vanish altogether. It can reasonably be argued that in the years from 2008 to 2014, Thailand had to grapple with a several unanticipated shocks, including the global financial crisis and severe floods in 2011, as well as the ongoing political unrest, all of which have affected the economy. What are the chances of faster growth in coming years?

Table 10. Growth in GDP: Indonesia, Vietnam, Philippines, Malaysia and Thailand (2007 = 100).

Year	Indonesia	Vietnam	Philippines	Malaysia	Thailand
2007	100	100	100	100	100
2008	106	106	104	105	102
2009	111	111	105	103	101
2010	118	119	113	111	108
2011	125	126	118	117	109
2012	133	133	126	123	117
2013	141	140	135	129	120

Sources: Indonesia: www.bps.go.id; Other countries from Asian Development Bank, *Key Indicators for Asia and the Pacific, 2014* (www.abd.org).

8. Thailand: Caught in the Middle Income Trap?

Over the past few years, there has been much discussion in the development literature of the "middle income trap", and Thailand is one of the countries often used as an illustration of the dangers of this trap. In fact as Felipe, Kumar and Galope (2014 [74]: p. 20) have argued the concept of the middle income trap is problematic, because in much of the literature it has not been carefully defined or studied rigorously in a historical context. They point out that the historical evidence shows that most countries have taken several decades to transition from lower middle income category (per capita GDP of at least $2,000 dollars in 1990 prices, corrected for purchasing power) to the upper middle income threshold of $7,250. Thailand along with a small number of Asian countries has made the

transition quite rapidly, in around 28 years. How long will it take Thailand to move to into the high income category, where the income threshold in $11,750? Obviously that will depend on growth rates in the Thai economy in coming years.

Most writers who have discussed the middle income trap in the Thai context in recent years do not in fact make predictions about future growth rates or about how long the transition is likely to take compared with countries which have already graduated to high income status, whether in North America, Europe, or Asia. Instead they tend to discuss the factors which have caused slower growth in the Thai economy after 1996. Different authors have tended to stress different policies which they think have been especially detrimental. Warr (2011) [75] blamed the populist policies of both the Thaksin government and the elected governments after 2006 led by Thaksin associates, including his sister. Jitsuchon (2012) [76] emphasized, among other problems, ongoing skills shortages, which reflect long years of under-investment in education, low levels of expenditure by either government or the private sector on research and development, and fiscal problems including low tax to GDP ratios which have constrained government spending, and hampered investment in both infrastructure and human resource development.

These problems have also been stressed by Phongpaichit and Benyaapikul (2012 [77], 2013 [78]) who argued in addition that oligarchic politics, a weak and venal judiciary and a less than free press have impeded the implementation of growth-promoting policies. These authors also claim that income inequality is high in Thailand compared with other parts of Asia, and ownership of assets is highly skewed. Other observers have pointed out that independent interest groups have been slow to emerge in Thailand; perhaps surprisingly this point has been made not just by those writing from a political economy perspective such as Doner (2014) [79] but also more mainstream economists (Lathapipat and Chucherd 2013 [59]). Doner also uses the evidence that a very low proportion of the Thai labour force has been employed in the manufacturing sector compared to other parts of Asia to argue that Thailand may be undergoing "premature de-industrialisation". At the very least, the industrialization which has occurred in Thailand does appear to have been capital-intensive, and to have played a limited role in creating new jobs. This in turn could have contributed to persistently high levels of income inequalities.

Underpinning all these analyses is a realization that Thailand can no longer depend on export-oriented industrialisation using relatively cheap labour but must continue to upgrade its technological capacity to produce more technology-intensive exports (Phongpaichit and Benyaapikul 2012 [77]: p. 44). There can be little doubt that the neglect of education and skills training in the boom years has made the transition to higher value-added activities in both manufacturing and the modern service sector more difficult than it would have been if Thailand had followed the Taiwan example and educated ahead of demand. In spite of the greatly increased enrollments in secondary and tertiary education since the 1990s, a significant share of the Thai labour force still has at most primary education. They are mainly older workers, and within the next two decades they will have largely retired from the labour force, and will be replaced by better educated cohorts. That in turn should enable output per worker to continue to grow, although at a more modest rate than before 1996.

Given that Thailand is now an upper middle income country, if it can sustain rates of per capita economic growth of around three to four per cent per annum, it will almost certainly become a high income economy within the next two decades. But achieving an arbitrary statistical target will not solve the country's problems, which have been created by decades of Bangkok-centric growth and a neglect of the development needs of regions in both the north and the south of the country. Thailand has made remarkable progress since the 1950s, progress which few observers, either Thai or foreign, predicted in the troubled aftermath of the Second World War. Whatever government emerges in the future, it will have to build on these achievements, while addressing the problems which have created the present political impasse.

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