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Thailand's Third Five Year Plan

by Dr Siegfried Schultz, Berlin *

Thailand's third Development Plan sketches the framework within which it is intended to press forward with the country's economic and social development during 1972-76. The present article surveys and critically discusses the main traits of the new Plan.

The Plan assumes an average growth of Gross Domestic Product (GDP) of 7 p.c. and a decline of population growth by 0.5 to 2.5 p.c. p.a. It aims to raise income per head of population by an annual 4.5 p.c. (in the Second Plan this was set at 4 p.c.).¹

It is intended to improve agricultural growth rates from currently 4.1 to 5.1 p.c. The tools for achieving this are programmes for sowing specialised crops, for diversification of overall supplies and quality improvement, and streamlining the system of marketing including the opening up of new markets.

In the long term, it will, however, be necessary to use industry for achieving growth and creating new jobs. The government clearly envisages growth of industry through private sector investment², but with support from public funds. Private

ration with foreign investors, especially through joint-venture type enterprises, will bring in experience and technical know-how, without leaving basic industries to direct foreign control.

Balanced Foreign Trade and Payments

The government foresees average export growth of just under 7 p.c. p.a. and it hopes to keep the rate of import growth down to an average 2.8 p.c. To achieve these aims, government intends, on the one hand, to reduce production costs of traditional export products by cutting taxes and to improve the infrastructure of export industries (new transport and storage facilities). Specific export production is to be attracted by setting up industrial estates and duty-free export zones.

On the other hand, future imports are to be reduced by starting up home production of some raw materials which are currently being imported. In addition, imported capital goods are to be utilised more efficiently, in so far as selective development of industry does not succeed in cutting down such imports by using more labour-intensive manufacturing processes. Lastly, it is hoped that imports of consumption goods can be reduced considerably.

Table 1
Estimated Annual Percentage Growth Rate
(at current prices)

	1972	1973	1974	1975	1976
GNP	8.0	7.4	7.4	7.4	7.4
GDP	8.2	7.8	7.5	7.8	7.5
GDP per capita	4.9	4.5	4.5	4.7	4.7
Exports	5.0	6.5	7.5	8.0	7.7
Imports	0.5	3.4	2.2	4.1	3.9

investments made by Thai subjects and foreigners are to be clearly favoured: government-owned enterprise is not to be pushed or existing public sector firms are to be wound up wherever private enterprise becomes active. It is hoped that coope-

Table 2
Average Growth Rates of Imports

	Second Plan	Third Plan
Consumer Goods	2.9	0.4
Intermediate Goods	12.3	5.9
Capital Goods	11.1	2.8
Others	4.4	0.9
Total	7.9	2.8

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¹ Since the complete English text of the Third Economic and Social Plan was not available, a précis of the Plan published by the National Economic Development Board, additional information supplied by Board members, and an article in *Business in Thailand*, Vol. 2, No. 10 was used as basis for this article. A more extended version of the present article was published in German by *Konjunkturpolitik*, No. 4, 1972.

² Of all investments under the Third Plan, 63 p.c. are supposed to come from private funds.

In order to raise the living standards of the entire population and to reduce the differential in income between the towns and the countryside, especially between the area of Bangkok/Thonburi and the rest of the country, the Third Plan lists the following measures:

□ to increase and improve farm production and its access to markets, thus increasing the incomes of country dwellers;

□ to carry out investment programmes for improving local infrastructures and push up the rate of employment;

□ to intensify family planning, which aims at reducing population growth to 2.5 p.c. p.a. by 1976;

□ to establish regional centres of growth and to give government support to rural industries, in order to absorb the rural surplus of labour locally in jobs in the processing of farm crops.

Social justice is to be improved by building new housing, investing in public health and local transport for the population of cities and towns, extending the electric distribution network into the countryside and rural health services. In education, it is intended both to improve the quality of instruction at all stages and especially to extend the network of elementary and vocational schools. In addition, government wants to develop an active employment policy with a view to reducing urban unemployment below 3.2 p.c.

Development Budget

Of the planned expenditure under the Third Plan, 27 p.c. are to be financed from general taxation, 34 p.c. through loan issues to Thai investors, including the Bank of Thailand, and 8 p.c. by increased money circulation. Another 14 p.c. are to be syphoned off from profits of government enterprise and from local and regional budgets. The gap of 17 p.c. is to be filled through foreign credits and grants, and credits are expected to be more than double as high as grants.

The emphasis in the structure of finance has clearly shifted from previous plans because the share of economic investments is to go down in favour of those for social purposes. The main beneficiary is to be regional and town planning, which is to absorb more foreign credits. However, the largest item of public development finance of one full third of the total is to be, as before, education, but its costs are again to be borne mainly from national funds.

Critical Appraisal

It cannot be said that overall growth of GDP is set too high at 7 p.c. But it may well be doubted whether income per head can, in fact, reach more than 4 p.c. p.a., which means that population increases can be reduced to below 3 p.c. It is also surprising what the planners assume about future rates of inflation: they believe that annual growth rates of GDP at current prices will be only 0.7 p.c. higher, in 1972-76, on average than its value at constant prices (1962 = 100).

And the predictions about future imports betray truly heroic assumptions. What, after all, is the reason to assume that present economic conditions in Thailand will permit that import growth goes down, as against the period of the previous Plan, by approximately two thirds? Unless the government wants to use massive import restrictions, the share of imports in production input would have to drop radically, and the big consumers of the upper classes would have to change their attitude towards preferred imports fundamentally. (The Plan also fails to explain why it foresees strong fluctuations in import growth.)

Table 3
GDP by Industrial Origin

Sector	Year	In absolute terms (bn Baht ^a ; prices of 1962)				sectoral growth rates (yearly average in p.c.)				
		1960	1969	1971 ^b	1976 ^b	1961-66		1967-71		1972-76
						target	actual	target	actual ^b	target
Agriculture		21.4	34.2	37.3	47.7	3.3	6.4	4.3	4.1	5.1
Crops		15.9	23.9	26.0	32.5	—	6.6	—	2.7	4.6
Livestock		2.9	3.8	3.9	4.7	—	3.0	—	2.4	3.4
Fisheries		0.7	3.6	4.3	6.9	—	17.9	—	17.3	10.0
Forestry		1.9	2.9	3.1	3.7	—	3.5	—	6.5	3.4
Mining and quarrying		0.6	1.9	2.1	2.8	5.3	15.3	6.6	8.1	6.0
Manufacturing		7.4	18.5	21.4	31.4	9.3	11.2	10.9	9.2	8.0
Construction		2.7	7.6	8.4	11.7	3.9	12.9	11.4	8.4	6.5
Electricity and water supply		0.2	1.4	1.9	3.9	16.4	22.9	18.0	19.0	15.0
Transport and communication		4.2	7.6	8.6	11.5	9.3	6.1	11.0	7.5	6.0
Wholesale and retail trade		8.9	18.8	20.5	29.3	5.5	8.2	8.4	7.7	7.0
Banking and insurance		1.1	4.1	5.1	11.0	5.5	15.5	17.0	14.4	15.0
Ownership of dwellings		1.6	2.2	2.4	2.7	5.5	3.0	5.0	4.1	2.5
Public administration and defence		2.6	4.8	5.7	7.6	5.5	5.4	12.0	10.0	6.0
Services		5.4	11.3	13.0	18.5	5.5	8.9	9.5	8.8	7.0
Gross Domestic Product		56.1	112.4	126.4	178.1	5.5	8.1	8.5	7.2	7.0
GDP per capita (Baht)		2 069	3 151	3 355	4 132	—	4.8	—	4.0	4.2

^a 21 Baht = 1 US-\$ ^b estimated

Though farm product sales have to take into account inelastic demand, the assumptions about future farm exports appear realistic, especially if it is accepted that there will be forced export promotion. Yet it is probably incautious to mount a huge export drive at a time when the government intends to cut down on imports, especially as the biggest buyer of Thai products, so far, has also been the biggest supplier of imports — Japan. This makes it unlikely that the deficit on foreign trade (which in 1971 still amounted to Baht 10.5 bn and was thus only just below the average of the last six years³) can be wiped out at a time when also the strength of US forces in the country is being run down, and to reduce the international payments deficit.

Agricultural development plans aim mainly at raising production. But a diversified output needs also active buyers' demand, and Thailand, so far, has done little to create a marketing organisation for farm produce. In other LDCs, farmers' co-operatives have proved their value for this purpose, but Thailand hardly knows such cooperative associations.

Planned support of private investments can only be successful within a measurable period if massive tax remissions and/or subsidies help them. Tariff preferences, tax reduction and cheaper credits, however, will fail of their purpose unless they are accompanied by definite growth in employment, of exports, by improvements in technical training, or by government control of pricing.

Direct foreign investments, notably those of the North Americans and the Japanese, which the Thai government welcomes in practically unlimited amounts, are not very likely to increase Thai

industrialisation without those foreign investors, at the same time, assuming control over the country's most important branches of industry.

The efforts made in the past, and their results, for achieving greater social justice by enlarging social spending, strike the observer as unconvincing. Distribution of incomes, both as to strata of the population and as to regional differentials, is absurdly inequitable, and budget estimates are much too small for making promised improvements credible. Thus, the ECAFE Secretariat has described the rate of public spending for hospitals and other medical facilities (which are mainly restricted to urban areas) as one of the lowest in the world, even when measured against other LDCs.⁴

Lastly, there remains the question how planning objectives which are to modify past trends considerably are to be achieved. If planning is to remain merely "indicative" (or advisory), the only instruments for directing the flow of investments are government appeals or indirect influence — and there is scant possibility to carry through measures needed by an active development policy.⁵ Supplementary tools for planning the entire economy over a number of years have been so far used only hesitantly and insufficiently — both in the effective application of annual plans and of discriminating regional plans though, in view of crass economic and social differences — say, between the central plains and the north-eastern parts of the country — more incisive regional planning would be thoroughly justified.

⁴ Conference of Asian Economic Planners, Fourth Session (Bangkok, Nov. 22 — Dec. 1, 1971); E/CN. 11/CAEP. 4/L. 9 (p. 27).

⁵ The military coup of November 1971 has not changed much in this respect, though, because of delay in adopting the national budget, led to the abrogation of Parliament and to a strengthening of central authority (the so-called "National Executive Council").

Table 4
Development Expenditures: 2nd and 3rd Plan
(mn Baht)

Sector	1967-1971						1972-1976					
	Govt. budget	Foreign loans	grants	Other revenue ^a	Total spending	p. c.	Govt. budget	Foreign loans	grants	Other revenue ^a	Total spending	p. c.
Agriculture & Irrigation	10 259	1 238	869	400	12 766	17.2	11 620	1 165	850	60	13 695	13.7
Industry, Commerce & Services	657	—	140	42	839	1.1	680	—	200	1 470	2 350	2.3
Communications & Transport	10 884	4 376	534	3 851	19 645	26.4	10 900	4 945	450	3 180	19 475	19.4
Power	2 057	2 515	108	1 978	6 658	9.0	1 970	2 655	150	3 100	7 875	7.9
Economic Sectors	23 857	8 129	1 651	6 271	39 908	53.7	25 170	8 765	1 650	7 810	43 395	43.3
Social Development	1 617	—	345	—	1 962	2.6	2 350	—	350	—	2 700	2.7
Regional and Town Development	3 926	111	862	2 233	7 132	9.6	5 280	2 505	1 110	6 035	14 930	14.9
Public Health	3 692	—	955	12	4 659	6.3	5 500	—	350	—	6 340	6.3
Education	19 568	535	545	—	20 648	27.8	31 200	660	1 050	—	32 910	32.8
Social Sectors	28 803	646	2 707	2 245	34 401	46.3	44 330	3 165	3 350	6 035	56 880	56.7
Total	52 660	8 775	4 358	8 516	74 309	100.0	69 500	11 930	5 000	13 845	100 275	100.0

^a Public Firms and local Corporations