Cmd. Desp

OFFICIAL USE ONLY

The Ambassador

DECLASSIFIED
Authority NND948832

May 12, 1960

Floyd L. Whittington

Thailand - Potential for Accelerated Economic Growth

The Economic Setting: Thailand's GNP is estimated at about the equivalent of $2.2 billion, roughly $100 per capita. The figure is understated, since it omits the income generated by the nonmonetary sector of the economy, but it can serve nevertheless as a basis for comparison of Thailand's past, present, and potential future progress. The growth rate is estimated (possibly overestimated) at 5 per cent per annum, or taking into account a more than 2 per cent per annum population increase, about 2½ to 3 per cent per year per head.

If we assume a capital-output ratio of 3:1, i.e., each $3 of investment will result in a $1 increase in GNP, the foregoing figures would indicate annual investment in Thailand of about $300 million (about 6 billion baht). The funds entering Thailand from the U.S. aid program (about $20 million a year) are relatively minor in terms of total GNP (less than 1 per cent of GNP), and in comparison with internal Thai investment (about 7 per cent). There is no reason to assume that this level of foreign aid represents Thailand's maximum capital absorptive capacity. The technical-managerial absorptive capacity for foreign aid is a far more critical factor, and this would have to be solved if self sustaining economic growth is to be achieved, e.g., by providing greater foreign technical assistance, greater facilities to be granted by Thailand for foreign technicians to enter, attraction of private foreign investment, which brings managers and technicians as part of the investment process.

Thailand's attributes conducive to achieving sustained economic growth include: a stable currency; a soundly managed fiscal system; an absence of excessive inflation despite a relatively high level of investment and government spending, which is a reflection of the sound monetary and fiscal management of the country; a climate desirous for and encouraging to private investment, domestic and foreign; a political system under which successive governments recognize obligations entered into by predecessor governments, despite governmental changes via coups; a good rail system of 3,549 kilometers of main and branch line trackage, an extensive inland waterway system, a fairly good port for ocean going ships at Bangkok, a network of modern airports, and several national roads (although the roads are the weakest link in the transportation system); a growing power system, resulting from the Yanhee Dam, which will give Thailand a capacity of more than 425,000 kw by 1963 and about 850,000 kw by 1967; expanding educational facilities, which now cover practically all elementary school children, and are increasingly stressing technical training for skilled and semi-skilled occupations; as a consequence of the foregoing, Thailand's labor supply, always plentiful in unskilled labor, is made up of an increasing number of skilled persons; an effective civil service system whose level of morality, while low by U.S. standards, is quite good by Asian standards, and will improve further as government salaries increase; a growing irrigation network, which will permit greater and diversified agricultural production.

OFFICIAL USE ONLY

500 Econ Matters - Thailand
+570 Econ Condit Thailand
5-12-60

Thailand's basic infrastructure provides a solid base from which economic take-off can result, given adequate foreign aid and private investment, and the provision of foreign technicians and managers to assist the Thais until they build their own pool of managerial talent as growth occurs.

The Thai Economic Effort: Sustained economic growth will come primarily from Thailand's internal effort; foreign aid and foreign investment can provide a catalyst to stimulate the internal effort, or the capital and managerial and technical skills to augment the internal effort.

The maintenance of a stable currency, despite the desire for economic growth, illustrates Thailand's high degree of fiscal and monetary sophistication and discipline; the lack of great inflation despite a relatively high level of investment similarly is indicative of expertise by Thai financial managers.

The present government under Field Marshal Sarit Thanarat has made economic growth the primary goal of its efforts. Some actions taken during the past year to translate the desire for into the achievement of economic growth include: the creation of the Board of Investment to promote private investment; the promulgation of additional incentives to attract private foreign and domestic venture capital; the creation of the National Economic Development Board with a function of planning public sector investments for three and six year plans, but with the emphasis in the private sector on private capital; the political courage to twice raise taxes in 1959 to meet needed additional public sector expenditures without adding to already existing inflationary pressures; similarly, the courage to increase import duties by 10 per cent in June 1959 for the same reason; the promulgation of a new tariff following the Brussels nomenclature; the creation of an expert commission to completely revise the revenue code, and in the process, to levy additional taxes in order to achieve growth with stability; the complete reorganization of the budget procedure; the establishment of a tourist organization.

The foregoing steps have not always been popular, particularly when they involve higher taxes in order to mobilize greater amounts of public capital. The recently formed tax control bureau in the Prime Minister's office, created to improve tax collection, now the weakest link in the tax system, similarly will be unpopular if it proves to be effective.

Thailand now is making a great internal effort to achieve economic growth which is consistent with: 1) economic stability; and 2) freedom. Greater apparent growth could be achieved if more inflation were allowed to occur, but such growth would not be sustainable, and eventually would involve far greater external assistance to Thailand than does Thailand's present policy of growth with stability. Similarly, capital could more effectively be mobilized in the early stages of economic growth under a system lacking in freedom for the individual, a choice which, if it were taken by Thailand, would be extremely costly to the free world.

DECLASSIFIED
Authority NND948832

Policy Recommendation: In view of Thailand's economic setting, its political alignment with the free world, and its own large internal effort to achieve economic growth in freedom--the free world should exert a major effort to assist Thailand to achieve self sustained growth. Because of Thailand's setting in Southeast Asia, a successful economic takeoff by Thailand would have profound favorable political implications for the United States, and for Thailand's neighbors, many of which are less firmly committed than Thailand to alignment with the free world, or to reliance on private enterprise as the major technique for achieving economic growth.

DECLASSIFIED
Authority NND948832

SWeintraub:lab