## 書　評

**Seiji NAYA and Narongchai AKRASANEE. *Thai-Japanese Economic Relations : Trade and Investment.* Bangkok : ECOCEN (The Economic Cooperation Centre for the Asian and Pacific Region), December 1974, 103pp.**

by

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This report is a good economic study[1] of Thai-Japanese economic relations in the sixties and the early seventies especially on the aspects of trade and investment. The authors gathered considerable amount of data which were presented in the text as well as in the appendix of this report. Since this kind of data were never collected and presented in the comprehensive way as was done in this report, they are valuable to economists and other people who are interested in the Thai-Japanese economic relations. The authors made a few interesting new findings from the data after their careful evaluation. The paper shows successfully how trade, private foreign investment, and government policies interacted to shape the economic relation between Thailand and Japan in the early seventies. The paper describes how the bilateral trade pattern between the two countries developed (Chapter 2 & 3), how the characteristics of private foreign investment and capital flows into Thailand differ especially between Japan and the United States (Chapter 4), how this trade and investment interacted, and how government trade and industrial policies affected the trade and investment pattern (Chapter 5). The conclusions of their work are

(1) "The Thai-Japanese economic relations in terms of trade and investment which show Thailand to be very much involved with Japan have been the outcome of trade and industrial policies of both countries, and of their stages of industrial

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1) Dr. Khien Theeravit and his assistants made another research on Thai and Japanese economies and their interactions which was finished in October 1973, and its results were published in a draft form in Thai as well as in English (*Report on Research into Japanese-Thai Economic Interaction*, translated by JETRO in Bangkok, 1973). It has a very wide scope covering many aspects from Thai and Japanese economic and related policy systems to interacton in terms of trade, aid, private investment between the two countries, and labor and employment problems in Japanese firms and joint ventures. It gave some interesting first hand data on these points. As long as the draft is concerned, however, the wideness of its scope does not compensate well enough shallowness of the analysis in the research.

development. To put it fairly, it is difficult to deny that Thailand was partly responsible for the kind of involvement she ended up having with Japan at the end of the 1960's."

(2) "Thailand still lacked many important conditions and infrastructure necessary for foreign investment and rapid industrialization. The system made it very attractive for foreign investment to concentrate in the domestic market, and very easy to dominate the business it was involved with. The situation thus appeared as weaker partner, Thailand, being exploited by Japan, the stronger one."

We basically agree with the first conclusion, but with some reservation. We, however, do not support the second part. In the first part we feel that the Thai government is not partly but at least 50% responsible for the trade and investment situation between Thailand and Japan in the early seventies. This point will further be discussed in the following part of this paper. The reason why we raised this seemingly unimportant point is that the word "partly" represents the evaluation of the Thailand's responsibility in the trade and investment interaction between Thailand and Japan all through this report.

We can accept a part of the second conclusion, but we feel the main part of it is an expression of the authors' idea and is not supported by the analyses in the text. Clearly the first half of the second sentence contradicts with the point made in Chapter 5. The import substitution policy of the Thai government made the Japanese investment to aim at the domestic market. The last half is the authors' value judgement and is not supported or proved in the text of this report. The word "to dominate" is also not defined and vague in its meaning, but used in this report several times. The third sentence of the second conclusion also appeares to be their value judgement, and is not supported by the analyses in the text of this report. Even though the authors do not make the statement definite, they should not resort to value loaded words such as exploitation.

Furthermore, we would like to raise a question as to whether the import substitution policy and the resulting protection-subsidy policy of the Thai government was a bad policy as assumed in this report. We think that generally speaking, there must be an import substitution stage of industrialization before a less developed country reaches an export-led industrialization stage because of the difficulty of producing goods with exportable quality in the beginning of her industrialization process. It is extremely important for the goods to be exported to have high quality in order to find their continuous market abroad. On the other hand, the import substitution industrialization in Thailand in the sixties in which Japanese private investment played an important role made a great contribution to the Thailand's fast economic growth then. In this sence, it cannot be said that the import substitution type of Japanese direct investment was an "important drawback." The Japanese investment was guided to the import substitution by the Thai government as concluded by the two authors.

The import substitution industrialization[2] can be blamed as long as it encourages monopoly, restrictive practices, excess capacity, and inefficient establishments. Now it is about time to accelerate export oriented industrialization in Thailand since the import substitution industrialization laid its foundation.

This paper consists of six chapters. Chapter 1, Introduction, is fairly long, but it summarizes well both the issues on Thai-Japan trade and Japanese investment in Thailand, and their relation to the Thai policy. Here, a Japanese reader will undoutedly feel that the authors make unnecessarily many accusations of Japanese bsuiness practices, investment, and even Japanese psychology some of which are not based on any solid evidence, and that these accusations "are highly motivated by nationalistic sentiment," and are not an integral part of their study.

Chapter 2, The Bilateral Trade Pattern and Growth is a well written descriptive analysis of the changes of bilateral trade patterns between Thailand and Japan in the last decade. The following four findings were made: (1) "Whereas Thailand has become more dependent on its imports from Japan, Japan's reliance on exports to Thailand has decreased in relation to its total exports." (2) "The change in the commodity structure of total import as well as imports from Japan ... represents a rapid shift away from consumer goods, especially non-durable consumer goods towards intermediate and capital goods." This change is greater for imports from Japan than the total imports. (3) "The pattern of Japanese (world) demand for imports has been unfavorable precisely in the commodities in which Thailand tends to specialize," i. e., food and live animals, and crude materials. (4) "Thai exports to Japan do considerably better than its total exports but less well than competing exportes from other countries to Japan whereas Japanese exports to Thailand perform less well than its total exports but better than competing exports from other countries to Thailand."

With regard to the concentration of trade pattern, the authors stated that the

2) The Committee for Development Planning states in its *Report on the Seventh Session* (1971) based on the experience of the European countries that there are three stages in the course of trade and economic development. The first atage is characterized by primary products export with little export of industrial goods. In the second stage light industry products are exported based on a fairly well established industrial structure in exchange of more sophisticated producer goods. The industrial structre has been built based on the import substitution policy. In the third stage considerable specialization of output and exchange of products within each branch will be done with very high level of international trade.

The two stages of industrialzation and trade development in the development process of the LDCs, which is similar to the above three stages of economic development and the difficulties of LDCs' starting their economic development with export oriented industrialization are also expressed in pp. 245–247 of G. A. Marzouk, *Economic Development and Policies*, Rotterdam University Press, 1972. This book deals with the Thai economy and its development.

The commenter personnally heard from executives of large textiles firms in Thailand in 1973 about the severe difficult of producing products with internationally competitive quality even with modern machines in their firm.

Thai export pattern to Japan is more concentrated than it to the world. We think what the authors wanted to say was that Japan should reduce the concentration level of the import pattern from Thailand to import more from her. But we believe that this point should be made based on the comparison of the concentration of the Thai export pattern between to Japan and to the other developed countries, and not between to Japan and to the world.

In Chapter 3, Export Performance of Bilateral Trade, the authors intend to statistically evaluate bilateral export growth of Thailand and Japan in comparison with other country's total import growth in terms of export's commodity structure and "competitiveness." The constant-market share model is used. All the major points in Chapter 3 are made in Chapter 2, but presented only in a different way. Thus it would be better if these two chapters were combined into one. The explanation of the method used in this chapter had better be made more clearly.

With regards to the evaluation of nonprice factors in the statistical analysis of the price-quantity relationship in the same chapter, the low value of $R^2$ does not necessarily suggest that these factors have a definite influence in determining the relative country share of imports in Thailand. We have to take into account the errors in the variables.

Chapter 4, Size and Type of Japanese Investments in Thailand, describes the size and characteristics of private foreign investment and capital flows into Thailand from Japan, the United States, and the United Kingdom by the Board of Investment (BOI) data and the balance of payment statistics of Thailand. The three major findings in this chapter are as follows: (1) From the BOI data, among the total foreign registered capital of the firms granted promotional certificates from October 1960 to December 1973 Japanese capital has the leading share of 37%, followed by the 16.3% of the U. S., 15.3% of Republic of China, and 2.12% of the United Kingdom. (2) From the balance of payment data, the cumulative net inflow of direct investment in the form of equity and loans from 1965 to 1973 is 3.8 billion bahts for the U. S. and 2.9 billion bahts for Japan. (9.3 billion bahts for the total.) This is "rather surprising and contrary to our expectation," and is one of important new findings in this work. The total cumulative net flows of foreign private medium and long term capital including equity investment and related loans, medium term loans, and supplier's credits are 5.9 billion bahts for the U. S., which is greater than the 5.4 billion bahts of Japan. (3) The above two findings "do suggest that as a whole, Japanese firms have been concentrating their investment effort relatively more on those business ventures receiving promotional certificates and encouraged by national investment policies than other foreign firms as a group."

The last two findings are new and very interesting. The authors state "It is important to recognize that all of the promoted investment projects with Japanese or other foreign participation were approved by government authorities." Thus as stated in their final conclusion, we can say that the Japanese investment, in comparison with other countries, followed most closely the import substitution policy of the Thai government in the sixties.

In Chapter 5, Trade and Investment Interaction, the authors discuss, among others, the effects of Thai and Japanese government policies on trade and investment. They present, first, the importance of suppliers' credits to the export expansion of Japan to Thailand. But when they assert suppliers' credits have a socially undesirable resource allocation effect, we cannot agree with them. It is very easy for the Thai government to counterbalance the undesirable effect by tariff or other import restriction policies. They added that the credits have recently been largely discontinued.

Second, quoting the survey results of the Export Import Bank of Japan for 1968 and 1969, the authors point out that the major objective of Japanese manufacturing investment in Southeast Asia is to maintain or increase their exports to the invested countries while that in East Asia is to export the products from the invested countries to Japan or to a third country. Further they suggest by using the BOI survey data that the import contents of raw materials, machinery, and spare parts used in the Japanese firms and joint ventures in Thailand are very high, and that they, most likely, came from Japan. The authors also state that among the promoted foreign affiliated firms, those of Japan origin have a far lower export ratio than those of American origin. But this final point cannot be generalized because the high ratio for the U. S. is caused by a specific behavior of American investment in mineral and ceramic products. Although the authors themselves are aware of it they concludes that the fact Japanese investments did not export much but induced import considerably is one important drawback. But we think that it is a consequence of the Thai government's import substitution policy. Just because Japan quickly adjusted herself to the policy in the sixties, we cannot call it a drawback.

Third, another new finding from the balance of payment statistics is that out of the cumulative total combined outflow of profits and dividents from Thailand from 1968 to 1972, i. e., 2,575.6 million bahts, only 17.1 % went to Japan whereas 34.6 % and 29.6 % to the U. S. and the U. K. respectively. Considering the fact that Japan is the slightly smaller net supplier of medium and long term capital to Thailand in comparison with the U. S. and is about four times greater supplier in comparison with the U. K., we have to conclude that the rate of repatriation is low in the case of Japanese investment. The authors stated that "... the criticism of Japanese investment making a large amount of money and sending most of it to Japan is exaggerated." But, based on the results of the commentator's interviews with the Japanese directors of the Japan affiliated firms in Thailand, it may be further said that the large part of Japanese profits are reinvested in Thailand contributing to the capital accumulation in the country.

Fourth, from the survey data of the Export-Import Bank of Japan for 1968 and 1969 quoted above, the authors point out that the main inducement of Japanese investment in Southeast Asia is the protection-subsidy policy while that in East Asia is the availability of labor. The authors further present the results of Narongchai Akrasanee's recent Ph. D. dissertation about growth and import substitution of Thai manufacturing sector and concluded as follows:

> "... in Thailand the overall effects of protection on the pattern of Thai-Japanese economic relations were seen in the form of encouraging investment in import substituting industries and discouraging export expansion of traditional as well as potential exports. These had further effects on the import demand for machinery, raw materials and parts-components from Japan, which was facilitated by the availability of suppliers' credit, resulting in Thailand becoming more dependent on Japan for imports."

In Chapter 6, Conclusion, Policy Implications and Suggestion for Further Study, the authors first summarize the results of their work briefly and later give the conclusion that was discussed in the beginning of this paper. Second, they present recent development in policies affecting trade and investment as follows: (1) Strong import substitutive tariff system in favor of final products was relaxed in 1967. (2) Export promotive tariff, tax, and subsidy policies were adopted (1972 Investment Promotion Act). (3) A more protective attitude towards local industries and business, and a more cautious attitude towards foreign investment and participation are taken.

We think that these recent changes in the Thai government policies are very rational and appropriate measures for the government to pursue considering the present stage of economic development of Thailand as mentioned in the beginning of this paper. And this may be why the authors do not present any substantive policy suggestions to Thailand and Japan in this chapter, except making a greater use of the marketing power of big Japanese trading firms for exporting Thai products and setting up antipollution rules and regulations for the foreign investment in a pollution-prone industry.

In this short note we pointed out where the contributions of the authors lie. But at the same time, we expressed disagreements and raised questions on the points made by Naya and Narongchai in their report. We think that this work is one of two recent good studies on the economic interaction between Thailand and Japan as mentioned in the beginning of this note. The authors described and analyzed the economic interaction between the two countries especially for trade and investment successfully. The conclusion that the economic relation which Thailand ended up with Japan in the end of the sixties was the result of trade and industrial policies of both countries is very appropriate. The several new findings about Japanese private investment and repatriation of its profit and dividend are very interesting and suggestive. Higher concentration of Japanese private investment in the promoted industry than the U. S.

and the U. K., the higher cumulative total net investment of the U. S. than Japan, and the far smaller repatriation of profit and dividend from the Japan affiliated companies than American and British ones are to be noted.

Among the disagreements and questions we raised in this note, the major one was that the authors tried to test a hypothesis all through their paper that Japanese private investment had a drawback since it contributed mostly, in comparison with other countries, to the import substitution industrialization of Thailand and thus did not promote export but induced a large amount of import. We, however, think that the hypothesis cannot be set up in the way the authors did. In a relatively small sized economy like Thailand, import substitution industrialization with an emphasis on final products inevitably leads to a large increase of import of raw materials and capital goods which more than offset substituted import of final products[3]. This is a rather widely accepted experience. But as stated in the beginning of this paper, it is inevitable for a LDC to start its industrialization by import substitution. Consequently the problems should be set up in such a way that how much Japanese investment contributed to the import substitution industrialization of Thailand in the sixties, and further will it contribute to the present export oriented industrialization of Thai economy. The answer to the first problem must be "Considerably," because of a much faster parallel growth of GNP and foreign investment in the sixties than the fifties, a very important role Japanese investment played in the foreign investment in the sixties, and its higher concentration in the promoted industries than that of the U. S. and the other large foreign investors in Thailand. The second question can probably be answered "Yes," because of the recent appropriate changes in Thai industrialization and trade policies as mentioned in Chapter 6 of the commented report and the probable fast adaptability of Japanese foreign investment attitude and pattern.

Finally, we would like to discuss the non-economic aspect and related economic problems of Thai-Japan economic relation which was mentioned in the latter half of the conclusion of Naya-Narongchai report. This aspect was not handled or analyzed in their report, and on this point their final conclusion was criticized in the beginning of this paper. But this problem is extremely important when DCs make investment in the soft or loosely structured social and economic systems of LDCs because the DCs can take advantage of softness or looseness for their higher profit which usually means loss of welfare of the public in the LDCs. When a firm in a DC invests in a LDC where import substitution industrialization policy is adopted, the former can usually obtain high effective rate of protection by ban or high protective tariff for the import of the competitive products and/or exemption or reduction of import duty on the raw

3) For the related arguments about import substitution and its effect on balance of payment, see pp. 289–290, James C. Ingram, *Economic Change in Thailand 1850–1970*, Stanford: Stanford University Press, 1971.

materials and capital goods necessary for the product produced by the investor, and even can keep these protections longer than necessary. This results in abnormally high profit for a long time for the investment and sometimes could lead to an inefficient firm which does not have any competitive power to export its product. On the other hand, foreign investment usually could easily compete with indigenous industry and/or domestic investment, and could drive them out of the market. This could lead to monopolistic behavior of and excessive profit to the foreign investment. Furthermore the firm under this foreign investment could again be inefficient on the international standard. These undesirable results can be considered to be caused by the softness of government, society, and economic system of the invested LDC, and the agressiveness of the investing foreign firm. In order to avoid these problems the governments and the private firms of the DCs and the governments of the LDCs have to cooperate and have to take appropriate measures at a proper time.

Whether any of these undesirable problems has occurred between Thailand and Japan is still a subject of further research. Japanese investments can be severely accused if it is responsible for any of these undesirable consequences.