Southeast Asia by Sophie Tanapura

Japan and Southeast Asia

A seminar in Thailand explores new approaches to the problems that are arising from the strong yen.

The extraordinary speed with which the yen-dollar exchange rate is soaring, is of great concern to Japanese businessmen. Private Japanese corporations are anxious about the repercussions on their Asian trading partners, especially in Southeast Asia. The yen had jumped from 230 yen to a dollar in June 1985 to 180 yen to a dollar in early March 1986, creating market restrictions for Japanese manufactured goods. The collapse of the world's commodities markets had added yet another crunch on the purchasing power of the Asian importers of Japanese goods. All this contributed to the tension.

A two-day seminar at the resort town of Pattaya (Thailand) early in March on "Japan, Asia and Thailand," organized by the faculty of economics of Chulalongkorn University, Sanwa Bank Foundation, Long-Term Credit Bank, Japan Foundation, and East-West Seminar of Japan, was an occasion to survey topics of concern such as trade imbalance in favor of Japan and Japanese investments in the Southeast Asian region, with emphasis on Thailand.

Surachai Pattanajitvilai, a lecturer at the Faculty of Economics of Chulalongkorn University, pointed out that the sudden increase of public concern over Thai-Japanese trade deficits results from the misperception that this is new. In fact, "Thailand has been continuously running a deficit of its trade balance since the middle of the 1950s, and for the past three decades the largest deficit was always trade with Japan." Surachai continued, "There may be times when trade deficits are 'perfectly good economics'—when they may, in fact, serve to advance important national economic objectives."

The initial imbalance between Thailand and Japan can be attributed to the economic aspirations of Thailand, traced back to the 1950s. The first five-year plan launched by the Thai government in 1961 especially emphasized infrastructure projects and import-substitution industrialization strategy. During those five years (1961-66), trade between the two countries doubled from 4.36 billion baht (the Thai currency) in 1961 to 9.68 billion baht in 1966. Trade with Japan in that period already averaged 24.7% of Thailand's total trade, making Japan the most important trading partner of Thailand ever since. However, by 1984, the trade deficit with Japan had reached the historical height of 43.27 billion baht, or 61.9% of Thailand's total trade deficit.

Bichai Rattakul, deputy prime minister and head of the Democratic Party, keynoting the Pattaya seminar, insightfully pointed to the difference in technological capabilities between the two countries as the underlying factor responsible for Thailand's chronic trade deficit vis-à-vis Japan. He called for the Japanese to "seriously pay more attention to the prospect for science and technology cooperation" between Thailand and Japan. For Bichai, "to bridge or at least to narrow down this technological gap" would be "a way of mitigating our trade imbalance" and he recommends that "an agreement on science and technology cooperation" like the one concluded between Thailand and the United States in 1984.

In a recent briefing concerning the Thai-Japan white paper, economics department deputy director-general Kasit Piromya said that Japan has been told that Thai consultants and contractors must be allowed to play a more active role in projects financed by Japan's Ex-Im Bank of OECF loans. The Thai government would like half of the grants by Japan to be used for social and rural development projects, and the other half to improve the quality of export goods.

To want to assert national sovereignty over allocation of foreign loans is a good move. However, one must be careful not to fall into the trap of a diffuse and ineffective, "small but beautiful" socio-rural development strategy which is sure to waste the foreign loans and technical assistance. Rather, key infrastructure projects that would accelerate the country's agro-industrialization process should be given priority.

Whatever the complaints may be about Japan unduly taking advantage of local cheap labor and investment opportunities, it is up to Thailand and other Southeast Asian nations to be clear about their own national design. We should not forget that the phenomenal economic growth rates in Southeast Asian nations in the past two decades can be in great part attributed to Japanese input.

Finally, is it not because of Japanese soft loans that Thailand has been able to "act tough" with the International Monetary Fund (IMF) and the World Bank? IMF loan offers were recently turned down because Japanese sources of financing offered better conditions (especially lower interest rates).

© 1986 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.