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จากอเมริกาและญี่ปุ่นต่อประเทศไทย ในช่วงปี 1970-1980



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**COMPATATIVE ANALYSIS OF THE FORMS AND OBJECTIVES OF
THE UNITED STATES AND JAPANESE FOREIGN AID TO THAILAND
DURING 1970-1980**



Mr. Charkrienorrathip Sevikul

สถาบันวิทยบริการ

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for the Degree of Master of Arts in International Economics and Finance**

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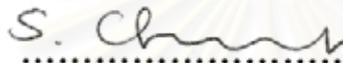
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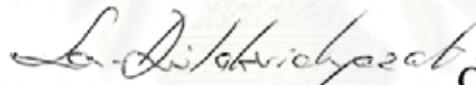
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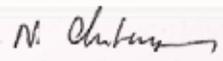
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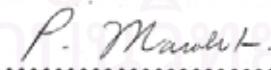
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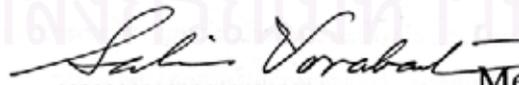

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การช่วยเหลือจากต่างประเทศนับว่าเป็นส่วนสำคัญของความสัมพันธ์ของประเทศที่พัฒนาและประเทศที่กำลัง
พัฒนา มาช้านาน แต่ในช่วงเวลาที่ผ่านมา การช่วยเหลือจากต่างประเทศได้มีการแปรเปลี่ยนไปมากจนแทบกลายเป็น
อุปกรณ์ทางเศรษฐศาสตร์ซึ่งผู้บริจาคนำมาใช้เพื่อประโยชน์ของตนเอง มากกว่าการให้เพื่อการช่วยเหลือผู้รับอย่างแท้จริง
ปัจจัยเหล่านี้ทำให้การช่วยเหลือจากต่างประเทศ มีผลกระทบที่ไม่พึงประสงค์ต่อประเทศผู้รับอย่างมากมา อย่างเช่น การ
ทำให้นโยบายทางเศรษฐศาสตร์ มีการบิดเบือน หรือแม้แต่การทำให้ผู้รับหันมาพึ่งผู้บริจาคมากไปก็ตาม แต่กระนั้น การ
ช่วยเหลือจากต่างประเทศก็ยังเป็นสิ่งที่มีความสำคัญอย่างยิ่งยวดต่อประเทศโลกที่สามมากมาย เนื่องจากการช่วยเหลือเหล่านี้
สามารถยืดเวลาให้ประเทศเหล่านี้ เพื่อที่จะทำการแก้ไขปัญหาค้างได้บ้าง แต่อย่างไรก็ตาม การช่วยเหลือจากต่างประเทศก็
เป็นดาบสองคม ซึ่งสามารถทั้งช่วยเหลือหรือทำให้เศรษฐกิจของผู้รับเลวร้ายลงได้เท่าๆกัน ด้วยเหตุนี้ประเทศผู้รับจึงควร
ไตร่ตรองให้ถี่ถ้วนเสียก่อน

ประเทศไทย ถึงแม้ว่าจะไม่ได้เป็นประเทศผู้รับการช่วยเหลือจากต่างประเทศอย่างมากมาย แต่กระนั้นก็เป็นผู้รับ
ความช่วยเหลืออยู่ดี และก็ดูเหมือนว่าประเทศไทยจะประสบความสำเร็จกับความช่วยเหลือจากต่างประเทศมากกว่าระ
เทศผู้บริจาครายอื่นๆอีกมากซึ่งสามารถดูได้จาก คุณลักษณะและคุณสมบัติทางเศรษฐกิจ ที่น่าประทับใจมากในยุค 1980 มัน
เป็นการยากที่จะสรุปว่า ความสำเร็จทางเศรษฐกิจของไทยนั้นเป็นผลลัพธ์โดยตรงจากความช่วยเหลือจากต่างประเทศ แต่
วิทยานิพนธ์ฉบับนี้เชื่อเป็นอย่างยิ่งว่า ความช่วยเหลือนั้นส่งผลอันสอดคล้องกับความสำเร็จของประเทศไทย ด้วยการวาง
รากฐานที่มั่นคงซึ่งทางประเทศไทยสามารถใช้เพื่อนำมาซึ่งความพัฒนาและการเจริญเติบโตอย่างมั่นคง

ทั้งอเมริกาและญี่ปุ่นเป็นประเทศผู้บริจาคที่ใหญ่ที่สุดของโลก จึงไม่น่าแปลกใจเลยที่จะพบว่าทั้งสองประเทศนี้
มีบทบาทอย่างมากในประวัติศาสตร์ของความช่วยเหลือจากต่างประเทศของประเทศไทย สาเหตุของการให้ความช่วยเหลือ
และรูปแบบของความช่วยเหลือนั้น แน่นนอนว่าต่างกัน แต่ท้ายที่สุดทุกอย่างก็มีส่วนร่วมในการพัฒนาของประเทศไทยทั้ง
นั้น จากการศึกษาค้นคว้า ความสนใจและเหตุผลสำคัญของการให้ความช่วยเหลือของอเมริกา ก็คือ ความมั่นคง ซึ่งจะเห็น
ได้จากการที่อเมริกาให้ความช่วยเหลือทางการทหารเป็นหลัก และในช่วงระหว่างสงครามเวียดนามนั้น ความช่วยเหลือ
จากอเมริกานั้นสูงที่สุด แต่ก็ลดลงอย่างกะทันหันพร้อมกับการปิดฉากของสงครามเวียดนาม ในขณะเดียวกัน ญี่ปุ่นนั้นดู
เหมือนจะมีความสนใจต่อประเทศไทยในระยะเวลาที่ยาวกว่า ทั้งนี้น่าจะมาจากเหตุผลที่ไทยมีวิถีดุคิบาลหลายอย่าง ซึ่งเป็นที่
ต้องการของอุตสาหกรรมญี่ปุ่น และรวมถึงการที่ไทยเป็นหนึ่งในไม่กี่ประเทศในแถบเอเชียที่ไม่ได้มีอคติกับญี่ปุ่นภายหลัง
สงครามโลกครั้งที่สอง

วิทยานิพนธ์ฉบับนี้เชื่อว่าความช่วยเหลือจากต่างประเทศ ไม่ว่าจะเป็นไปในรูปแบบใด มีส่วนสำคัญในการช่วย
การพัฒนา และการเติบโตของประเทศไทย และถึงแม้ว่าในความเป็นจริง ประโยชน์ของโครงการต่างๆ อาจจะเป็นผลทาง
อ้อม เพราะประเทศผู้ให้มีความประสงค์นอกเหนือไปกว่าที่แสดงไว้ ประเทศไทยก็ได้รับผลกระทบที่ดีจากการรับความ
ช่วยเหลือจากต่างประเทศ และยิ่งเชื่ออีกว่าความเจริญเติบโตและความสำเร็จทางเศรษฐกิจของประเทศไทยในช่วงปี 1980
จนกระทั่งช่วงที่เกิดวิกฤตการณ์ทางเศรษฐกิจนั้นเกิดขึ้นได้ก็เนื่องมาจากการผสมผสานกันอย่างลงตัวของปัจจัยความช่วยเหลือ
จากอเมริกาและญี่ปุ่น และนโยบายของไทยด้วย

ภาควิชา.....เศรษฐศาสตร์..... ลายมือชื่อนิสิต.....ชาตรีชนรทิพย์ เสวีกุล.....
สาขาวิชาเศรษฐศาสตร์และการเงินระหว่างประเทศ..... ลายมือชื่ออาจารย์ที่ปรึกษา.....นราทิพย์ ชูติวงษ์.....
ปีการศึกษา.....๒๕๔๒..... ลายมือชื่ออาจารย์ที่ปรึกษาร่วม.....นราทิพย์ ชูติวงษ์.....

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KEY WORD:

FOREIGN AID/JAPANESE ASSISTANCE/ THE UNITED STATES ASSISTANCE / THAILAND
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Foreign aid has been an integral component in the relationship between the big developed country and the small developing countries for quite sometime now. But over the years, foreign aid had undergone a transformation that have turned it into an economically driven instrument, manipulated by the powerful donors to extract as much benefit as they can. Such self-interest has caused adverse effects on recipient economies, such as distorted economic policies, and over reliance on the donors. But despite its shortfall, foreign aid is still necessary for most Third-World countries, as it offers them a lifeline, and buys them some time to cope with their problems. However, foreign aid is a double-edged sword that can help, or just as easily harm, a recipient economy, so careful consideration will have to be taken.

This thesis attempts to identify, analyze and compare the foreign aid received by Thailand from the United States and Japan over the crucial period of the 1970s. This is because it seem that foreign aid had played a part in helping the Thai economic success of the 1980s, and the smooth transition from an agricultural economy to a rapidly industrializing one. Thailand although not a big aid recipient, was an aid recipient non-the-less and it seems she had more success than most, as evident from her impressive economic performance during the 1980s. It is questionable if this was a direct benefit from foreign aid, but this thesis argues that foreign aid, at least to a certain degree, contributed to Thailand's success, by providing a solid foundation upon which Thailand's growth and development was built upon.

The United States and Japan, as the two biggest foreign aid donors of the world, naturally played a very influential role in Thailand. Their reasons for giving aid and the forms of their aid are undoubtedly different, but all contributed to Thailand's development. A Close examination reveals that the U.S. main concerns and reasons for giving aid to Thailand was one of security, as evident from the dominant of military aid and the U.S. aid soaring to a peak during the Vietnam War, and dropping dramatically immediately after the War. Japan, on the other hand, seems to have a longer-term interest, undoubtedly because Thailand is home to many raw materials that are needed for the Japanese industries, and Thailand was also one of the few countries after the Second World War that did not have a negative sentiment towards Japan.

The final analysis shows that Thailand's economic success had been based on the right combination of input, both from the United States and Japan, as well as the Thai government itself. If Thailand was the flower, then the United States was the soil, and Japan the water. Too much soil, or bad soil, i.e. tied-aid, will harm the flower, and too much water, i.e. investment, will have the same effect too. But with the right combination and conditions, the flower will blossom, and blossom, Thailand did. Both the American and the Japanese aid were significant to Thailand's development and growth in their own ways, and it seemed they complimented each other well, and that without one or the other, the whole picture would have been a very different one indeed.

ภาควิชา.....เศรษฐศาสตร์.....	ลายมือชื่อนิติศ.....Charkrienorrathip Sevikul.....
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Any mistakes and omission in the thesis is solely my responsibility alone, and I would truly appreciate any comments and criticism from the readers.

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April 2000

Contents

Abstract (Thai).....	iv
Abstract (English).....	v
Acknowledgements.....	vi
Contents.....	vii
List of Tables.....	x
List of Exhibits.....	xi

Prologue

Introduction.....	1
Objectives.....	7
Scope.....	7
Literature Review.....	8
Thesis Hypothesis.....	13
Methodology.....	13

Chapter I – Foreign Aid

Overview.....	14
Foreign Aid.....	16
Foreign Aid History.....	17
Foreign Aid in Economic Considerations.....	18
Thoughts on Development.....	19
Economic Growth Theory.....	21
Rostow’s Growth Theory.....	21
The Balanced Growth or Big Push Theory.....	22
External Trade and Capital Import.....	23
Economic Development and Foreign Aid.....	24
Donors’ Views.....	26
Recipients’ Views.....	29

Chapter II – Forms of Aid

Overview.....	31
Types of Aid.....	32
Economic Aid.....	32
- Financial Aid.....	32
- Commodity Aid.....	33

Non-Economic Aid.....	34
- Technical Assistance.....	34
- Military Assistance.....	36
- Humanitarian Aid.....	37
Foreign Aid.....	39
Benefits and Drawbacks.....	40

Chapter III – Thailand; an overview

Overview.....	42
The National Economic Development Board.....	44
The First Six-Year Development Plan.....	45
The Second Five-Year Development Plan.....	46
The Third Five-Year Development Plan.....	47
The Fourth Five-Year Development Plan.....	48

Chapter IV – The United States and Thailand

History.....	52
Health.....	53
Education.....	55
Diplomatic Relations.....	57
World War Two.....	58
American Foreign Aid and Thailand.....	59
- The Security Syndrome.....	59
Modern Era.....	62
Types of Aid.....	63
- Project Loans.....	64
- Military Aid.....	66
- Technical Aid.....	72
United States Aid Agencies.....	76
- USAID.....	76
- Peace Corp.....	77
U.S.-Thai Economic Relations.....	77
Final Analysis.....	80

Chapter V – Japan and Thailand

History.....	84
Pre-Second World War Era.....	89
Second World War Era.....	92
Japanese Foreign Aid.....	95
- Reparation Programs.....	95
Japan and Foreign Aid.....	99
Types of Aid.....	101
- Loans.....	102
- Grants.....	102
- Technical Aid.....	103
Japanese Foreign Aid and Thailand.....	103
Thailand National Social and Economic Development Plans.....	104
- Second Plan.....	106
- Third Plan.....	108
- Fourth Plan.....	110
Japanese Aid Agencies.....	113
Japanese Investments.....	115
Japanese Joint Ventures.....	116
The Trade Account Balance Deficit Issue.....	120
Thai Students' Anti-Japanese Movement.....	122
Japanese Aid since 1974.....	124
Final Analysis.....	126

Chapter VI – Comparative Analysis

Overview.....	129
The American and Japanese foreign aid to Thailand - Comparative Analysis and Conclusion.....	130
Objectives and forms of Aid.....	133
The Negative Sides of Foreign Aid.....	135
Final Analysis.....	136
Limitation of Study.....	138
Further Studies.....	138
References.....	139
Appendix.....	143
Biography.....	150

List of Tables

4.1)	U.S. Loans to Thailand: 1965 – 1980	65
4.2)	U.S. Military Assistance to Thailand: 1960 – 1985	67
4.3)	U.S. Military Construction Project in Thailand	69
4.4)	Counterinsurgency Projects	70
4.5)	Poverty Alleviation Projects	71
4.6)	U.S. Agriculture Projects; Selected Years	73
4.7)	USAID Education Projects; Selected Years	74
4.8)	Thai – U.S. Balance of Trade, 1969-80	79
5.1)	List of Japanese Goods and Services Acquired by Thailand through the war reparation program	98
5.2)	Earliest Joint Ventures Efforts	118
5.3)	Japanese Held Shares in Joint Venture Companies In Thailand	119



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

List of Exhibits

The Pyramid of the World's Nations	15
Map of Thailand	51



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Prologue



Introduction

Foreign aid, or foreign assistance as it is also known, is “the administered transfer of resources from the advanced countries for the purpose of encouraging economic growth in the developing countries¹.” The transferred resources can be in the form of capital – loans and grants – or goods – food and building materials – depending on the recipients’ need and the donors’ interest and ability in providing the resources. But foreign aid is a controversial topic that can stir up hot debates because there are those who support aid and those who are against it on both the donor and the recipient sides. On one extreme, the advocates believe that aid is crucial for the development of the developing countries and that without aid, the developing countries can never reach their potentials. But they believe that the aid process at the moment is “detrimental to development” because aid agencies deal mainly with the government sector and thereby weakening the private sector that is a much more powerful engine for development². On the other extreme, the people who oppose foreign aid feel that aid causes the recipient country to rely too much on the donor, and thus lose their ability to develop themselves in the way that is most appropriate for them. Also they view aid as an instrument employed by the donor countries to intervene into the affairs of the recipient countries, a mechanism of imperialism in other words, and used to force or persuade the recipient into adopting policies it would not otherwise take³. The argument still exists today, and as we approach the new Millennium, the debate is as heated as ever.

No one really knows when foreign aid was first introduced, but undoubtedly the Marshall Plan, or the Economic Cooperation Administration, established by the United States government in 1948 to counter the alarming advance of Soviet Communism throughout Eastern Europe, was the first recorded massive government-sponsored approach to foreign assistance⁴. The main objective of the Marshall Plan, apart from countering Communism, was also to assist in the

¹ Bannock, Graham, R.E. Baxter, and Ray Rees – “Dictionary of Economics”, p.178

² Muscat, Robert J. – “Thailand and the United States”, p.5

³ *ibid.*

⁴ Zimmerman, Robert F. “Dollar, Diplomacy and Dependency – Dilemmas of U.S. Economic

reconstruction of the war-ravaged Europe; the aftermath of World War II, and it was so successful that it became the benchmark for foreign assistance that would come on the following decades⁵. Although the Marshall Plan was the first recorded foreign aid program as we know it today, a similar form of assistance existed quite sometime before World War II. According to De Gregori and Pi-Sunyer (1969), during the celebrated age of Imperialism, the motherland offered assistance in the forms of grants and loans and resources, not dissimilar from the foreign aid of today, to their colonies around the world. As a matter of fact, many historians and academics blame the very concept of underdevelopment and the subsequent need for foreign on Imperialism⁶. The notion behind this is that the smaller countries, or as were referred to by the Western Colonial Power as “underdeveloped countries”, were quite happy with the way of life that they had led and the way of life that they were accustomed to. But with the introduction of new technology and knowledge by the Westerners, the population of the smaller countries found themselves in a new environment that was forced on them. This is the argument that claims that the Westerners must be responsible for their past actions and their imposition of unnecessary knowledge and technology, and in the process creating the concept of underdevelopment, by providing aid to these so called “underdeveloped” countries⁷. In other words, many view foreign aid as an obligation owed by the developed countries to the developing countries to make up for past mistakes.

Although the history of foreign aid, as we know it, is relatively short if we regard the Marshall Plan as the birth of foreign aid, but over the past four decades, it had developed swiftly and has transformed into an economic and political tool employed by the developed countries to manipulate and stimulate growth in their economies as well. No longer does foreign aid benefit only the recipients, as the donors’ interests are placed higher than the recipients’ needs in most cases. This is the area where those who are against foreign aid constantly attack, and demand that changes be made. The issue that raise the most concern is that of “tied aid” where the donor give aid that are string-attached, requiring the recipient to perform certain tasks that benefit the donor or their citizens directly or indirectly⁸. The issue of tied-aid is an economical one and a recent phenomena, but it is by no mean the only side effect of foreign aid.

⁵ *ibid.*

⁶ De Gregori, Thomas R. and Oriol Pi-Sunyer, “Economic Development – The Cultural Context”

⁷ *ibid.*

⁸ Morrissey, Oliver “The mixing of trade and aid policies.”

Corruption, brain drain and misallocation and mismanagement of aid are also symptoms amongst the world's aid recipients. But despite these possible setbacks, aid can be a crucial lifeline for many developing Third-World countries by helping to jumpstart their economies, as well as buying some valuable time for the recipient government. To these governments, it seems tied-aid is better than no aid, and hence their continued request and reliance on foreign aid,

Aid can come from the developed countries in the form of bilateral aid, or it can be provided through aid agencies that are answerable to the governments of the developed countries. The most common form of aid is financial aid, i.e. grants and loans, but other forms of aid such as humanitarian aid, technical aid, and military assistance also exists. Donor's interest for providing aid varies from country to country, but the most common reason is to help the developing countries cope with their difficulties. According to Martin (1977), rapporteur on the "United States and the Developing Countries" of the Atlantic Council Working Group, the United States have many reasons for wanting the Third World countries to make rapid progress⁹. One reason is that if the Third World countries develop well, they become expanding markets for the U.S. exports, and are better organized to supply the imports needed by the U.S. industries and consumers. The other reason is that with steady progress, in terms of economic, social and politics, they will help in the smoother functioning of the international trade and financial system¹⁰. So the United States, as one of the richest and most powerful country, as well as the starter of the foreign aid phenomenon, has provided large amount of aid to the developing countries all around the world, ever since the Marshall Plan. But the United States is not alone in their "crusade" to help the developing third-world countries, on the same path lurks Japan, and the two have been contesting with each other for the coveted title of the World largest foreign aid provider for the last couple of decades.

Japan, a relatively new player compare to the United States, joined the rank of the world' aid donor in 1954 when it joined the Colombo Plan¹¹. This is quite an extraordinary achievement, for at one stage Japan too was a borrower from the World Bank. Japan mainly provides three types of aid; loans, grants and technical assistance¹². After providing loans to mostly Asian countries during the early period of her involvement, Japan

⁹ Martin, Edward M. "The U.S. and the Developing countries", the Atlantic Council Working Group on the U.S. and the developing countries.

¹⁰ Ibid. p.4

¹¹ Gurumruthi, S. "Development through Aid – Role of Japan", p.1

¹² Potter, David M. "Japan's foreign aid to Thailand and the Philippines"

expanded her aid to other parts of the world, resulting in Japan being ranked first in terms of volume among the Development Assistance Committee (DAC) in 1989¹³. Japan's initial objectives for providing assistance to the developing Third-World countries are probably not too different from that of the United States, but over the year, she had been heavily accused of extending aid as a mere extension of private overseas investment¹⁴. However, in a move to counter these accusations, Japan incorporated new objectives into their aid scheme; namely environmental conservation, promotion of democracy and market oriented economy and reduction of military expenditure in the recipient's country¹⁵. And since both the United States and Japan are the main donors of foreign aid, it is not surprising to find that most aid receiving countries rely heavily on them. And Thailand is no exception.

Thailand, although not a big aid recipient country, is an aid recipient nonetheless. She has had a long, and at times stormy, relationship with both Japan and the United States. The government of Thailand and the United States has had formal relationships since 1833, which started with a Treaty of Amity and Commerce signed in Bangkok¹⁶. But it was only after the Second World War that the relationship developed into a closer one. The Vietnam War saw the two countries' relationship move up another gear, as the fear of Communism threats gripped Washington. The fear of the "Dominoes Theory" saw a tide of aid, mostly in the form of military assistance poured into Thailand¹⁷. Speculations can be made about the impact that the U.S. aid had on the Thai society and economy, but one thing that is certain is the fact that Thailand had a stable foundation on which to build her future on. As for her relationship with Japan, aid wise, dates back to 1966, when the Thai government made a formal request for long-term Yen loan from the Japanese government, worth 21.6 billion Yen. The package was used to finance Thailand's Second Economics and Social Development Plan, which were mainly development of the infrastructures, with transportation and communication receiving the largest share¹⁸. Since then, Japan has become both an important donor, continually providing

¹³ Gurumruthi, S. "Development through Aid – Role of Japan", p.1

¹⁴ Potter, David M. "Japan foreign aid to Thailand and the Philippines", p.17

¹⁵ Gurumruthi, S. "Development through Aid – Role of Japan", p.222

¹⁶ Muscat, Robert J. "Thailand and the United States", p.18

¹⁷ *ibid.* p.23

¹⁸ Potter, David M. "Japan foreign aid to Thailand and the Philippines", p.24

much needed aid to the Kingdom, and a significant trading partner for Thailand. However, there was a time when the relationship between the two countries were in serious doubt as the Anti-Japanese sentiments swept through Thailand and the whole Asia continent during the 1970s¹⁹.

Thailand is a frontrunner amongst the developing countries, and up to 1997, when she was hit hard by the Asian financial crisis, performed well and posted regular growth – economic wise. There are many reasons behind Thailand’s success, and one can argue quite concretely that foreign aid must be one of the main reason. To have achieved a level that put her on the verge of becoming the Fifth Tiger, behind South Korea, Taiwan, Hong Kong, and Singapore, and on the verge of joining the coveted Newly Industrialized Countries, “NICs”, she would have needed a good foundation. Rome was not built in one day, and neither was Thailand’s splendid economic performances. And I honestly believe that the 1970s era and the foreign aid received from the United States and Japan, as well as the other donors, were instrumental in Thailand’s development, both economically and socially. Grateful for the assistance, Thailand should be, but it might also be appropriate to question the motives of the donors.

To many, foreign aid is a double-edged sword, which can help or harm the recipient. So in Thailand’s case, what were the United States and Japan’s real interest in Thailand? And how did the important incidents such as the Vietnam War and the Anti-Japanese movement affected these two countries’ interests? And do the different forms of assistance have different effects on the recipients, and if so, why did the United States and Japan decided to give the type of aid that they did to Thailand? Is the United States’ interest in Thailand one of security – a quest for an ally in this strategic region against the advancing Communist threats? Or is it that the concerns that the “Dominoes Theory” might actually take place that induced the United States to offer her assistance? What about the Japanese? Were the Japanese only interested in developing Thailand into a potential market for their exports and a supplier of their imports? Or was Japan actually concerned about the well being of her fellow Asian neighbor? Could it be possible that the world’s two most influential countries were just trying to be good citizens of the world community by trying to help the countries that were struggling? But whatever the objectives of the United States and Japan were, the importance of their assistance is unquestionable. But of course, there

¹⁹ *ibid.*

could have been adverse effects caused by the assistance too, and this will have to be closely examined as well. Maybe Thailand is only one unique case in the complex debate of foreign aid, but it can provide some examples of how aid can be successfully managed to help strengthen the economy. And if her experiences can be shared with and use by other developing Third World countries facing the same situations that Thailand had faced so many years ago, then maybe foreign aid can be better understood and employed to give better results and help those countries to develop to their fullest potentials.



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Objectives

- I – To distinguish between the United States and Japanese assistance to Thailand during the 1970s, and to scrutinize their objectives and the forms of their assistance.
- II – To consider the factors that affected the United States and Japan's decisions to offer assistance to Thailand.

Scope

Sources for the year 1970 to 1980 will be collected, studied and analyzed. Special attention will be paid to the Vietnam War and the Anti-Japanese movement in Thailand, to see if these incidents had any effects on the assistance from the United States and Japan. Statistical data will also be collected, and used to backup arguments, and to help strengthen the points made in this thesis.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Literature Review

The topic of foreign aid can stir up different emotions and perspectives from the citizens of the world community. On both sides of the equation, namely the donor and the recipient countries, are affected by aid, and hence the population of those countries involved have something to say about foreign aid. In some cases, mostly in the Least Developed Countries, the decision to ask for aid is carried out solely by the government, literally without the consent of the people, but it is the ordinary people on the streets that bare the responsible for it. This is the reason why aid has become a controversial issue. There are both the supporters and those who are against aid on both the donors and the recipients' sides. Those who are supportive of aid regard it as a tool or mechanism that will help encourage growth and development in the developing countries, which is the basic idea behind foreign aid, and they believe that without aid, the developing countries could never catch up to the developed countries, or reach their full potentials. On the other hand, those who are against aid feel that aid causes the recipient countries to rely too much on the donors, and thus loose their ability to develop themselves in the way that is most appropriate for them. There are of course good aspects and bad aspects of foreign aid, and they would have to be examined and scrutinized closely in order to see the real benefits or harms of aid. And since the topic of foreign aid is a topic of controversy and hot debate, it is not surprising to find a large amount of literature on it.

For this review, the materials that I have read is an interesting mix, with perspective from both the donor and the recipient sides. One thing that stands out is that no one seems to be totally against foreign aid, and James Bovard, who by far has the strongest sentiment against aid, is by no mean against aid itself, but rather the way that it is administered and implemented. His article outlines the continuing failure of foreign aid in the developing countries, and the disaster that it had become. Meanwhile on the recipient side, Haron Wachira shares Bovard's views and sentiments, and feels that his country, Kenya, was being turned into a 'country of beggars' by their continuing reliance on foreign aid. But while Bovard and Wachira are not in favor of aid, others such as Kunchai and Wiratchai, in their Master Theses on the 'Determinant of Econometric models of education and the accelerated growth in Thailand – with and without aid, respectively, although not showing outright support for aid, implied that aid is necessary and desirable. But they were discussing the issue of 'Technical Assistance' and the importance of improving Thailand's education system with the assistance of foreign

personal, and not necessarily Financial Assistance like Wachira or Bovard. The issue of education becomes inevitably important, due to the fact that it will create what can be classified as a form of class society; the educated and the uneducated. And this will lead on to other problems that are the side effects of foreign aid, the brain drain effect.

Andrew Mountfield, in his article 'Can a brain drain be good for growth in the Source Economy' (1997), consider whether the famous Brain Drain effect is in fact harmful to the recipient economy. He classified the economy into two classes, as mentioned above, and relying on Miyagiwa's (1991), 'brain drain and the human capital formation' model, insisted that some level of emigration by the elite of the society will be acceptable, and may even cause the acceleration of growth in the source economy, with more people being induced to get an education to earn more and lead a more comfortable life. So considering Kunchai's stance, if foreign aid can be used to improve the Thai education system then it would be beneficial to the Thai economy in the future, as the people would be better educated, and have more access to technology, and hence their productive capacity would be expanded. This can lead to more and better competitive power on the part of the educated, and help the economy grow indirectly. It all sounds great, however the power to decide and allocate where the aid should go is rarely in the hand of the recipients.

Although the developing countries are the ones who need the assistance, but once they receive it, they usually never have too much power or authority over it. The process of allocating aid by the donor countries is a good example of this. The major donors of aid only give aid when it serves their purposes as well. Political and Commercial objectives are usually disguised behind the foreign aid tag. This is what Bovard is against, and this is why distortions are caused in the recipients' economies most of the time. Schwalbenberg joins in the debate to see if aid is helpful or harmful to the recipient economy by presenting an econometric model that calculates the distortion caused by aid to the recipient economy. His work rely on the theory that the more aid received by a country, the more distorted their economy tended to be. Although Schwalbenberg's model does not specifically prove that distortions occurs in all the recipient countries, it is undeniable that there are some connections between aid and the adverse effects on an economy. Alfred Maizels and Machiko K. Nissanke in their article; "Motivation for aid to developing countries.", also introduced econometric models to examine foreign aid, two of the most important ones are; the "Donor Interest Model" and the "Recipient Needs Model". The Donor Interest Model grouped a number of interests of the donor into three broad categories namely; political and security interests, donor investment interests, and

donor trade interests. Cross-country multiple regression method was employed, and the results confirmed that “bilateral aid allocations were made largely (for some donors) or solely (for others) in support of the donors’ perceived foreign economic, political and security interests. By contrast, aid flows from multilateral sources, as would be expected, are allocated essentially on recipient needs criteria” (Maizels and Nissanke – 1984). And as proven, most donors give aid only when it benefits them too, so some have clauses that require the shipment of aid to be shipped by the donors’ companies only. In other cases, there might be a requirement that a specific amount of materials, to be used in the projects with aid funds, be purchased from the donor countries only. And sometimes some specific parts or materials are only obtainable from the donor country only. This creates a distortionary effect on the recipient economy, for if they were not required by the donors to buy those specific goods, they could buy them from the world market, which would usually be at a lower price and sometimes of better quality. This issue is widely referred to as “*Tied-Aid*”, and it is this form of aid that harms the recipient economy most. Morrissey, mentioned in “The Mixing of Aid and Trade Policies” that tied-aid is being closely looked at by the OECD, and with the “Helsinki Package”, reached in 1992, the donors have been asked to limit the use of tied-aid in their economic policies. But the prospect is still pretty grim.

And because most aid serves the interests of the donor, as much as - if not more than - the recipients, those who require it most and are urgently in need of aid rarely get it. Donors want to see physical evidence of their money, and so the recipients have to comply with them, and end up developing projects that are not of the highest priority or of little use to the ordinary citizen. An example of this is the road building projects, where a large amount of aid fund is consumed up, but it caters only to those elite with access to cars, not those farmers who need a better irrigation system, or the children who need better education. And because the donors’ wish is practically the recipients’ command, the fund are usually spent with such speed that it can not be supervised wisely. Because recipients fear that if they fail to, or do not comply with the donors’ wishes, they will receive smaller financial assistance, or none at all the next time round. This is the cause of another side effect of aid; mismanagement and abuse of aid and corruption in the recipient country. There have been cases where the developing countries have demanded only the best quality wheat from the United States, only to use them in hotels to serve the foreign guests, or countries that sold the donations to buy arms and weapons instead.

The issue of military expenditures by the Third World country was addressed in the 1978 United Nations “Economics and Social

Consequences of the arms race and of military expenditures” report. Concerns were raised about the resources, manpower, raw materials, technical skills and research and development capabilities that had been diverted to the military interests instead. These diversions caused a lot of drawbacks on the economy, and it seem that some of the Third World countries were ready to give up development and aim for security instead. Corruption is another issue that raises a lot of concerns for the OECD, and is regarded as one of the main obstacle, in the progress towards the achievement of sustainable development by the developing country. The main reason for corruption is that in the developing countries, there usually still exist a hierarchical system where the peasants treat the elite as gods. This means that the ordinary people are never aware of their true potential and accept whatever the elite tell them without questions or hesitations. And when the elite are in power, then the country is practically theirs to do whatever they like with. This is what Wachira meant when he stated that the people should not be blamed for the situation that they are in now, but rather the politicians that do not have responsibility or accountability, and keep asking for more aid from foreign countries and make themselves rich while the people are starving. Once again the issue of education comes into play. But is education the only solution to all the problems faced by the developing countries?

While those who are against aid truly believe that aid distorts the recipient economy and put the recipient in a bigger mess than when they started off, supporters do not necessarily agree with this view. Muscat outlines Thailand and the United States’ relationship and claims that with the foreign aid from the United States, Thailand had “racked up one of the strongest sustained growth records of the Third World”(1990). Potter (1996) agrees with Muscat that foreign aid played a part in Thailand’s development and emergence as one of the possible “tiger” of Asian economies. Although Potter accepts the fact that most of the aid provided by Japan are tied-aid, he believes that it is not all bad. And that although the recipients may not get everything that they ask for, they do get quite a lot. But it seem that aid can help or just easily harm the economy, and if the recipient is not prepared enough, aid packages can do more harm than good, and leave the country with an ever-growing debt problem. So in order for the others to help them, the Third World countries have to help themselves first, at least to a certain point.

Wachira makes a very constructive suggestion and urges his people to get up and start helping themselves. He wants his people to stop waiting for the charity of “The Big Brothers”, and finally make something happen by their own hands. He cited Japan and Taiwan as examples of how a country can learn to stand on their own feet, as Japan and Taiwan never relied on foreign aid, but on the sheer hard work of the

people. It seem to be a right concept that any improvement to the situation should come from the internal side first. But it seems that at the moment, most of the developing countries are already in too deep a hole to pull themselves out. They have been relying on the assistance of foreign power for far too long, without realizing the harms that they have inflicted upon themselves. Foreign aid may be a good way to jumpstart an economy, but it is not easy money, nor is it free. Nothing is free in this world, and it is all too true with the issue of foreign aid. And although most of the literatures give differing views on foreign aid and its mechanism, one thing that can be said is that aid may be needed by the developing countries at first. But only to get them on their feet and sort their economy and internal problems out, and not to use it in a way that they would have to keep asking for more aid and continually relying on aid. And the other issue is that the process of giving aid should be cleaned up by the donors, and that for once, they should genuinely give for the benefit of humankind, and not for the money alone.



สถาบันวิทยบริการ
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Thesis Hypothesis

- The assistance provided by the United States during the 1970s were driven mainly by the threat of Communism in Southeast Asia, and hence her assistance to Thailand were mainly military assistance.
- The assistance from Japan were mainly commercially driven, to improve the Thai economy to expand Japan export market.

Methodology

Descriptive method will be employed to answer the objectives of this thesis; to distinguish and scrutinize between the objectives and forms of assistance provided by the United States and Japan to Thailand during the year 1970 to 1980. The same method will be employed to explore the factors that affected the decisions to give aid by these two countries. That is why the period 1970 to 1980 have been chosen. The threat of Communism spreading through Southeast Asia, the Vietnam War, the rise of the Cold War and the Anti-Japanese sentiment were some of the main events that took place during that period. Some of these events, if not most of them, were definitely influential on the United States and Japan's decisions to give aid to Thailand. And it was during this period that paved the way for Thailand's dynamic economic performances of the 1980s, so it would be very interesting to see if the foreign aid received played any part in Thailand's economic success. Annual statistical data for the years 1970 to 1980 on the amount of assistance transferred from the United States and Japan will be acquired and analyzed. The amount transferred will be closely examined to determine the reason why a certain amount of aid goes to a particular sector of the Thai economy, and it will then be traced back to see if it met the objectives of the donors. The main types of assistance existed in Thailand's case were project transfers and financial transfers, and both types will be studied very carefully to come up with the final conclusions to answer the stated objectives.

Chapter I

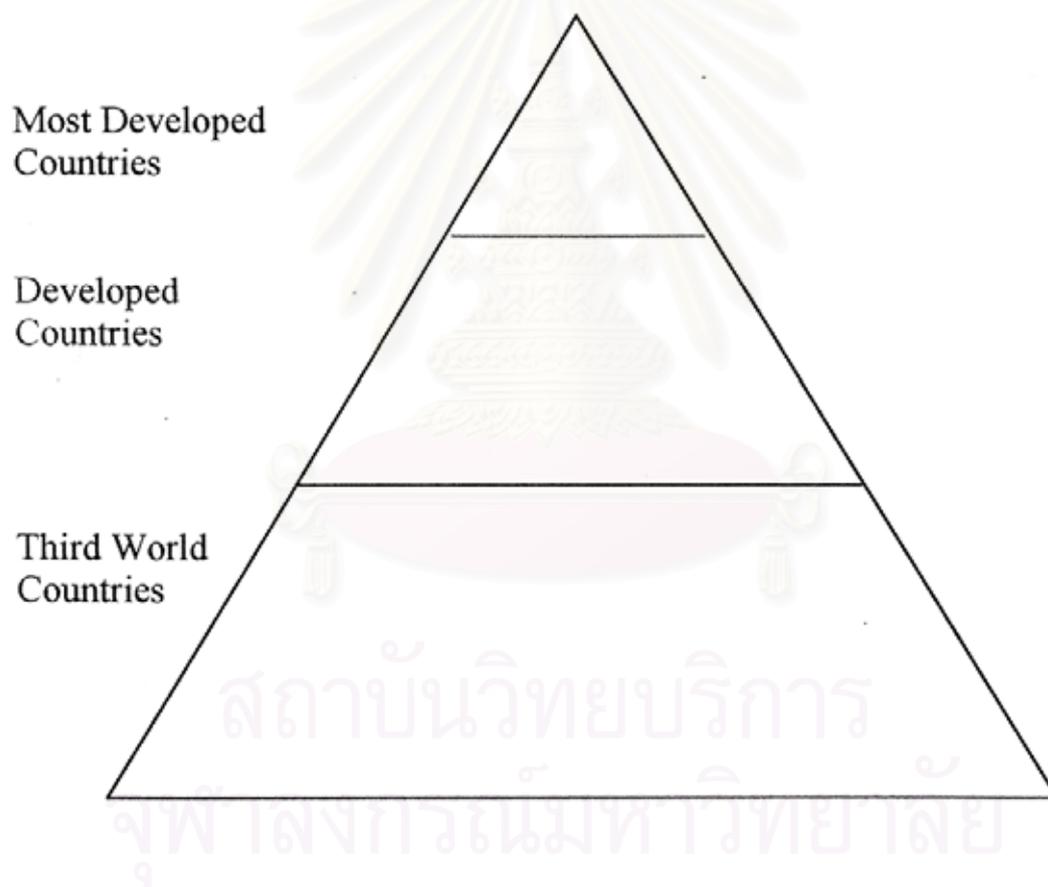
Foreign Aid

The world is made up of over one hundred and fifty countries located all over the surface of the planet. And although all these nations share the same world, there are distinct differences between them. Some are resource abundant, some are population abundant, some possess fertile plains while others are mountainous and barren. These differences coupled with the different heritages, cultures, ideologies, experiences and way of life make the gap between these countries even more visible. It might make things a little easier if we were to view the nations of the world in the form of a pyramid. We will find that the developed and powerful nations, such as the United States and Japan occupy the apex of the pyramid. Just below them are nations that are developed, but not to the same extent as those at the top. The nations in this area would be industrialized, and have stable economies and political systems, such as Canada, Australia and the European Union members. And finally, at the base of the pyramid, consisting of most of the nations of the world, we will have the less-developed nations, or the Third World countries as they are also known. It is interesting to note that at the bottom of the pyramid is made up mainly of African, South American and Asian nations. From this pyramid, we will be able to see the gap that occurs quite clearly. These gaps may be social gap, economic gap or political gap. Smaller nations have to rely on assistance from the bigger nations in order to survive in the world, for they are not yet strong enough to stand by themselves yet, especially those newly formed or newly independent countries. Bigger nations also require smaller nations, maybe for the cheaper labor, or for their markets and buying power. So intertwining and interdependency between the big and the small nations is the trend that has developed in our world over the last century.

Hence, the bigger nations help the smaller ones in the form of financial assistance, technical assistance or humanitarian assistance, collectively called "*foreign aid*". These assistance are meant to give the smaller nation a helping hand in solving the problems that they are facing and keep them afloat in the sea of chaos and complexity of the world economy, and politics today. It is by no means, however, meant to help pull these smaller nations from the bottom of the pyramid to the apex, for the bigger nations would lose all their advantages and negotiation powers, no big nations would ever wish that fate upon themselves. And although foreign aid is meant to help the recipients, it is not uncommon for donors to expect some benefits in return for their assistance. Some

recipient might pledge their full loyalty to the donor, which would be beneficial to the donor in the world arena, while some donors can be assured of a market to dump their low quality goods at a higher price. Different donors have different reasons for giving aid, so too different recipients have different reasons for asking for aid. But whatever their reasons may be, they have certainly transformed foreign aid into something totally different from what it started off as, and what functions it was meant to serve.

Figure 1.1
The Pyramid of the World's Nations



Foreign Aid

Foreign aid, or foreign assistance as it is also known, is the term given to “the administered transfer of resources from the advanced countries for the purpose of encouraging economic growth in the developing countries”¹. The transferred resources can be in the form of capitals - loans and grants – or goods – food and construction materials – depending on the recipients needs and, more importantly, the donor’s interest and ability in providing the resources. Some economists consider foreign aid only as the transfer of capital which are non-commercial from the donor’s point of view, given in concessional terms in the sense that if a rate of interest is charged and a repayment period is specified, these should be softer or more generous than commercial terms and are non-military in nature². Foreign aid is a controversial topic however, and can stir up heated debates about its forms and purposes, and there are those who support aid and those who are against it on both the donor and the recipient sides. On one extreme, those who support aid believe that aid is crucial for the development of the developing countries, and that without aid they would never be able to develop to their fullest potentials. The supporters believe that the aid process at the moment is “detrimental to development” because the aid agencies deal mainly with the government sector rather than the private sector, which is a much more powerful engine for development³. On the other extreme, those who are against aid feel that it causes the recipient country to rely too heavily on the donor country, and thus loose their ability to develop themselves in the way that is most appropriate for them. Also, they view foreign aid as an instrument employed by the donor country to intervene in the affairs of the recipient country, and used to force the recipient into adopting policies it would not other wise take, a mechanism of imperialism in other words⁴. And as we are approaching the new Millenium, the debate is still as heated and sensitive as ever. One thing is for sure though, foreign aid today is totally different from what it was when it originated around forty years ago, in the form of the “Marshall Plan”.

¹ Bannock, Graham, R.E. Baxter and Ray Rees "Dictionary of Economics" p.178

² Tan, Gerald "The End of the Asian Miracle" p.65

³ Muscat, Robert J. "Thailand and the United States" p.5

⁴ Ibid. p.5

Foreign Aid History

Although no one really know the origin of foreign aid nor when it was first introduced, it is generally accepted that the “Marshall Plan”, or the Economic Cooperation Administration, established by the United States government in 1948 to counter the alarming advance of Soviet Communism throughout Eastern Europe, was the first recorded massive government-sponsored approach to foreign assistance⁵. The main objectives of the Marshall Plan, other than countering the Communist threats, was to assist in the rebuilding process of the war-ravaged Europe, the aftermath of the Second World War, and it was so successful that it became the benchmark for the foreign assistance programs that followed in the ensuing decades⁶. Although the Marshall Plan is the first officially recorded foreign assistance program as we know today, a similar form of assistance existed quite sometimes before the Second World War. According to De Gregori and Pi-Sunyer (1969), during the celebrated age of Imperialism, the motherland offered assistance in the form of resources and grants and loans, not dissimilar from the foreign aid of today, to their colonies around the world. Great Britain and France in particular, have been perfecting this practice for a very long time. As a matter of fact, many historians blame the very concept of “underdevelopment” on Imperialism⁷. The notion behind this is that the smaller countries or as referred to by the Western Colonial Powers as “underdeveloped countries”, were quite happy with the way of life that they were accustomed to and have lived that way for hundreds and hundreds of years before being colonized by the Westerners. With the introduction of new knowledge and technology of the Westerners, some of which were of no use what so ever to the natives, the population of these small countries found themselves in a new environment that was forced upon them. And since the Westerners created the problem of “underdevelopment”, many argue that they must hence be responsible for their past actions and their imposition of unnecessary knowledge and technology on the natives by providing aid to these so called “underdeveloped” countries⁸. In other

⁵ Zimmerman, Robert F. “Dollar, Diplomacy and Dependency – Dilemmas of U.S. Economic Aid” p.8

⁶ Ibid. p.8

⁷ De Gregori, Thomas R. and Pi-Sunyer Oriol “Economic Development – The Cultural Context”

⁸ Ibid.

words, many view foreign aid as an obligation owed by the developed countries to the developing countries to make up for past mistakes.

Foreign Aid in Economic Considerations

Apart from atoning for past mistakes however, foreign aid more importantly was designed so that it had some effects on the recipients' economies, but lately however, it has also been employed to serve the donors' interests as well. The effects of foreign aid on a recipient's economy are largely felt in the growth area, economic or otherwise. On the macroeconomic side, foreign aid can be employed to fill gaps that are hindering economic progress, the three most important gaps being;

- The Saving - Investment Gap,
- The Foreign Exchange – Earning - Expenditure Gap, and
- The Capital Absorptive Capacity Gap.⁹

Cherney and Strout believed that the objectives of foreign aid was to primarily help the recipient become self-reliant, economically, over time. They also believed that if a country was to receive aid during its "take-off" period, as outlined in Rostow's growth theory, the country's development would be strengthened and quicken substantially¹⁰. Mackinaw also agreed that aid would be beneficial to the recipient, but only if it is handled with care. Cherny, Strout and Mackinon, although writing at different times, all agreed that there are some obstacles in the development process however, and although they prioritized them differently, they came up with three main constraints;

- Saving Constraint,
- Trade Constraint, and
- Labor Quality Constraint.¹¹

But despite these constraints, they believed that the positive effects of foreign aid could more than cancel out and eliminate the effects of these constraints.

On the microeconomic side, the costs and benefits of aid should be considered carefully first. It is important that both the recipients and the donors work out, plan and prioritize projects together so that they yield maximum utility. It must be reminded that some projects' outputs can not

⁹ Vivutthanachart, Wanlada, "Economic of Foreign Aid" p.44

¹⁰ *ibid.* p.50

¹¹ *ibid.* p.55

be measured in currency terms however, but these projects such as infrastructure, transportation, and education development usually yield what is called "Secondary Benefits"¹². Meaning once these projects have been successfully accomplished, further benefits will follow, for example transportation and electrification projects will undoubtedly motivate businessmen and investors to look at the newly developed areas too.

Foreign aid can also be employed to further serve microeconomic purposes, for example technical aid can help increase the quality of education, and financial aid can be used to invest in the development of the health system. These developments will in time lead to a better way of life for the country's workforce, which will lead to better production efficiency. Both health and education are big issues and need large capital input and long-term investments, but since most of the developing countries lack the capital but have high expenditures in the areas of health and education, foreign aid can truly serve its intended objectives of stimulating growth and help the development process of a developing country in this area.

Thoughts on development

Economists have debated about economic development from the earliest time. Great economists like Adam Smith, David Ricardo and Karl Marx have all engaged in the debate to find the truth behind economic development. Smith's masterpiece was the 1776 publication of "An Inquiry into the Causes of Wealth of Nations". Smith was primarily concerned with factors that led to increased wealth in a community and began his analysis by means of a sketch of a primitive society of hunters¹³. "If it cost twice the labor to kill a beaver as it does a deer, one beaver would exchange for two deer. Labor was the fundamental measure of value, though actual prices of commodities were determined by the supply and demand on the market. There were two elements in the problem of increasing wealth: (a) the skill of the labor force and (b) the proportion of productive to unproductive labor"¹⁴. The key to solve the labor force problem was the division of labor, and the key to solving the proportion of productive to unproductive labor was the accumulation of capital. Furthermore, Adam Smith advocated "specialization", free market and free competition as essential factors for growth and economic development.

¹² *ibid.* p.70

¹³ Bannock, Graham, R.E. Baxter and Ray Rees, "Dictionary of Economics", p.403

¹⁴ *ibid.* p.403

David Ricardo, writing at a different time, studied international trade policies, and capital accumulation, and although concentrating mostly on agricultural issues, he concluded that these two factors were important in the economic development process. According to Ricardo, “with demand rising as a result of increasing population, and a level of subsistence, which tended, by custom, to rise also over time, more and more less fertile land had to be brought into cultivation. The return of each further addition of capital and labor to more land fell, and the process would continue until it was no longer considered sufficiently profitable to bring any additional plots of land under cultivation. However, costs and benefits must be the same on all land, whether or not it was marginal, and labor cost the same wherever it was applied. If profit was higher at one place than another, it would encourage capital to be invested at the place of higher return, until by the process of diminishing returns, profit fell into line with profits elsewhere. Furthermore, with a rise in wages, capital intensive-goods became cheaper relative to labor-intensive goods, with a consequent shift in the demand and output in favor of the former.¹⁵”. Hence, country with limited land will export capital to other country, which would result in more efficiency in per unit production, than investing in their own country, thus we can regard grants and loans as a form of capital export.

On the contrary, Karl Marx saw capitalism as a temporary tool to keep the profit ratio stable for a short time, and only a stage in the process of evolution, removed from the primitive agricultural economy and moving towards the inevitable elimination of private property and the class structure¹⁶. Marx developed from Adam Smith and David Ricardo their labor theory of value, which held the central place in his economic theory. But unlike Ricardo who viewed the amount of labor used in the production of commodities as a rough determinant of relative prices in the long run, Marx thought that the quantity of labor used in manufacturing a product determined value and this value was fundamental and immutable. But under capitalism, economies will face a decrease of surplus value, due to the competition of the bigger, wealthier nations to claim colonies which would lead to “Imperialistic War”, and this, coupled with the class conflict would become increasingly acute until the environment would be such that the change inherent in the economy would be made manifest by the overthrow of capitalism¹⁷. Marx admit, however, that international trade and capital export play a big role

¹⁵ *ibid.* p.383

¹⁶ *ibid.* p.291

¹⁷ *ibid.* p.292

in the expansion and the economic development process, but the profit would remain only in the hands of foreign investors, hence Marx saw foreign investment as a basic factor to stimulate growth, but at the same time being an obstacle to growth too.

Other economists, such as Joseph Alois Schumpeter defined “development” as a combination of factors such as; introduction of new technology, introduction of new goods into the market, and the quest for new markets and new sources for raw materials. But unlike Smith, Ricardo or Marx, Schumpeter did not view investment or even saving as the driving force behind economic development, but entrepreneurs and inventors instead. This is due to the fact that entrepreneurs are responsible for allocating and controlling raw material usage. They are also responsible for initiating the usage of new technology, or research new production technology to increase production efficiency and introduce new goods. But in cases where the entrepreneurs and inventors of a developing countries have low level of inventiveness and production management, the economic development of that country would never realize its highest potential, thus foreign aid would be necessary to stimulate economic development and growth¹⁸

Economic Growth Theory.

I – Rostow’s Growth Theory

Economists’ thoughts on economic development and growth as well as foreign aid can also be found in their growth theories. One of the most influential growth theory must be that of Walt Whitman Rostow. In his theory, he postulated that societies pass through five stages of economic development;

- i) the traditional society,
- ii) the precondition for take-off,
- iii) the take-off,
- iv) the drive to maturity, and
- v) maturity.¹⁹

Rostow regarded the take-off stage, when growth became a normal feature of the economy, as the most important and fragile stage of the whole process. And once the take-off process began, maturity; when production, consumption and investment are done on a major scale, will

¹⁸ Vivutthanachart, Wanlada, ibid. p.31

¹⁹ Bannock, Graham, R.E. ibid. p.387

follow some sixty years afterwards. But he warns that before a country could even start thinking about growth, 3 main issues would have to be addressed first, these are;

- i) Increase in domestic and foreign investment relative to GDP,
- ii) Development of industries as a precondition for industrialization, and
- iii) Political, economic and other institutions have to be stabled and balance.²⁰

II - The Balanced Growth of Big Push Theory

Each country can attain a self-sustained growth status if they were to invest all their resources towards increasing the national income and aim for a higher saving rate. One approach is to distribute all their resources evenly throughout all their industries, the Balanced Growth Approach. Developing countries usually lack saving efficiency because their per capita income is relatively low, and the lack of capital and technology only aggravate the problems which will result in minimum low quality output. Savings will only occur if there were incentives for investment – but the investment in the developing countries would still be quite low due to the low purchasing power of the population. This process thus becomes a vicious cycle for a developing country, and it is very difficult – if not impossible – for most of them to break away from the cycle. Hence some economists recommended the “Balanced Growth” approach as the solution in escaping the vicious cycle trap²¹.

But because most developing country usually rely too heavily on only a handful of agricultural exports, which lack stability in the world market, the problem of liquidity is compounded even further, and the developing country end up having minimal income from their exports which would be insufficient to allocate for investments as designed by the balanced growth approach. Hence in such cases, the developing countries have to find a solution, with the answer usually being foreign aid and foreign investment. The development problem is aggravated even further when one realize the astronomical amount of capital that need to be invested in a large number of industries in the balanced growth approach. So the developing countries are faced with another choice, instead of distributing their resources in a large number of industries, they could

²⁰ Vivutthanachart, Wanlada, *ibid.* p.33

²¹ *ibid.* p.33

chose the one with the best potential and foster those industries, the “Big Push” approach²².

The big push approach is the investment of resources into a specific industry to promote and foster it, and in most cases seem more achievable than the balanced growth approach. But nonetheless, the big push approach must be considered carefully too. This approach should be concentrated on the infrastructure development such as transportation and energy. The reason for this is because infrastructure development would usually lead to further investments in other areas such as the industrial sector and the agricultural sector too. But this approach would have some effects on the international trade, because once a country has the ability to produce a specific product, she will no longer need to import it from abroad. When production technology increases, as a result of the domestic and foreign investors joining force, international trade will suffer even further.

A country should seriously weight their options and study the possible consequences and impact on the social-overhead capital before deciding to pursue the balanced growth or the big push approach. Big push seem to be the better option in that it results in stability and build a base to facilitate further investment from abroad. But different country will experience different levels of success no matter which approach they choose, because of the different policies and economic conditions, so each country need to examine them closely and choose the approach that suit them best.

III – External Trade and Capital Import

Gunnar Myrdal and Hans Singer viewed external trade and capital import as important factors in the economic development process. The profit from international trade would dictate the manner in which foreign investors invest in the developing country, but the heavy reliant on only a handful of unstable agricultural products will cause instability to the developing country’s income. In contrast the demand and import of capital goods and consumption goods from abroad will be quite high which will cause a trade imbalance problem. In order to solve this situation, most developing countries engage in dualism economy – encouraging growth in both the industrial and agricultural sector simultaneously. Under dualism, the agricultural product quality will become higher so that when it is traded in the world economy or traded to a trading partner, it will yield more profit. The profit from the agricultural

²² *ibid.* p.34

products will be used to import more capital goods and consumption goods for further development and investment. In cases where there is an import-substituting industry, the domestically produced good will be sufficient in meeting domestic demand, hence resulting in the decline of foreign imports. In the 1950s, the developing countries tried to acquire foreign aid, both financial and technical, for the purpose of establishing import-substituting industries. However, although the import-substituting industries will provide them with more profit, the developing countries would still be relying heavily on the agricultural products for the bulk of their profit.

At the same time, the smaller countries are trying to increasing their bargaining power against the bigger countries by establishing regional groupings and economic integration to strengthen and develop their economies together. Most developing countries realize that increasing the quality and volume of their exports is a much better way to develop than relying only on foreign aid. The profit from international trade can be used to import more goods, invest and distributed in a manner that they see fit. This give them total control over the country's development. But if they were relying on foreign aid from the bigger, developed countries, they would have to listen to the donors' "suggestions" and comply with them, and their control over the resources and the overall development of their own country would be very limited indeed.²³

Economic Development and Foreign Aid

As is evident from the mentioned economic thoughts and growth theories – investment, capital and resource allocation are very important in a developing country's economic development process. Both the donor and the recipient have to work closely together to get maximum utility from aid, but it can get very complicated because both the donor and the recipient want total control over the allocation and the implementation of aid. There are a large number of theories concerning development, but the developing country will have to consider them carefully because economic development and foreign aid are double-edged sword that can help or harm the economy as easily.

It is generally recommended that the developing country invest their resources in activities and sectors that yield the maximum benefits, and to prioritize their objectives in order to allocate resources

²³ Vivutthanachart, Wanlada, *ibid.* p.40

accordingly. Infrastructure development should generally be high on the development policies list, because the development of infrastructure will provide further benefits, one of the most important being foreign investment. But foreign investors will be wary about investing in a developing country, so the country should facilitate foreign investment by improving production technology, and investing in sectors such as education and health to raise the standard of the workforce.

In short, we can say that economic development and foreign aid can go hand in hand, and that the three most important and influential factors that can drive the development process are;

- i) **Capital** – This include financial flow, machinery and capital goods. If a developing country lack this factor, it will result in low investment, which lead to high unemployment. Income distribution to rural area will be minimal, the saving rate will in turn be low and ever-declining. Faced with this problem, the developing country need to open up their economy and encourage foreign investment to receive foreign capital and increase employment rate. After receiving foreign capital, investment may be done in the balanced growth or big push approach, as seen fit by the government.
- ii) **Labor** – Most economists agree that the issue of labor is as important as that of capital. Labor in most developing countries are usually unskilled, or semi-skilled which cause a problem if new production technology were introduced as the labor would be incapable of managing these new technology. Since this can is a big obstacle to economic development, the developing countries can solve this problem by employing skilled labor from abroad to help lay the track and assist in the initial process. This movement of skilled labor from a developed country to a developing country can be done in the form of technical aid or joint venture efforts common in almost all developing countries.
- iii) **Stability** – Development will occur more rapidly in countries that have economic, social and political stability. Stability will help in the smoother running of the development policies and the implementation of these policies. Furthermore, stability is an incentive to encourage foreign investors to invest in the developing country, since there are

fewer risks involved in investing in a stable economy, and the profit would be unquestionably better.

It can then be said that there might be some or minimal economic development in the developing country if there were no foreign aid. Foreign aid, an exogenous factor can be introduced to stimulate and improve the endogenous factors such as savings and the population growth. It can also increase production efficiency by mean of introducing new production technology or machinery. The development process will be more rapid and more visible in an open economy, where the doors are open to the influx of new technology and capital in all different forms and sizes. As for the reasons why donor give aid and why recipient ask for aid, the answer vary from donor to donor and recipients to recipients. The only thing in common is that they all agree that foreign aid should be beneficial to them, in one way or another.

It takes two to tango, and that applies too with foreign aid, for in every aid relationship there has to be a donor and a recipient. Foreign aid can be approached in a *bilateral* manner – only two countries are involved in the aid agreement process, the donor and the recipient and all negotiations and discussions are done government to government, with the implementation of aid resting solely in these two players' hands. Aid can also be approached in a *multilateral* manner – where aid is channeled through an organization or agency, usually an international one, which receives funding from donors around the world, and allocate and distribute these funding to the developing countries that have made requests for aid.

Donors' Views

Most foreign aid donors are developed countries with stable economy, political system, and can spare resources that are needed by the developing countries. The main bilateral aid donors of the world are the United States, Japan, Australia, Germany, England and some of the Scandinavian countries. It is not surprising at all to note that most of the countries in the list are also major players in the world economic and political arena. Their history of aid giving, reasons and experiences are diverse, and so are the methods and forms of aid that they distribute. The decisions to give aid are usually motivated by interests that can be roughly classified into;

- i) Self interest, and
- ii) Humanitarian interest

Self Interests.

This is usually the case when a donor weight the benefit that they will get from helping a developing country, and if the returns or benefits were not high enough they would probably look at helping other developing countries that offered better returns. The self interest motive is more common in bilateral aid than in the multilateral aid, and it can be further classified into *commercial interest* and *political interest*. The donor can fulfill their commercial interest by adding clauses in the aid agreement that require the recipient to purchase a certain level of goods or raw material only from the donor country – commonly referred to as tied-aid. Tied-aid was designed to benefit the donor more than the recipient because it distorts the recipient economy – a recipient may be able to buy the goods at a cheaper and may be of better quality, in the world market, but will not be allowed to do so because of the requirement in the aid agreement. Most donor add this clause because sometime they have an excess supply of the good and this will be the best way to get rid of them. Furthermore, most developed countries encourage investment in the developing country, but this also is another method of pursuing their commercial interests. These investments are usually concentrated on labor intensive industries, and because the unskilled labor of the developing country are not yet capable of handling high production technology, the goods produced will be of low quality and will not be competitive against the high quality goods produced by the skilled labor in the developed countries. Hence, this way all the profits remain in the donors' hands because their products are higher value-added.

Political interest is also an important motivation for giving aid. Military assistance is usually identified as being politically driven, and was very important during the Cold-War years. The United States is the master in the art of giving aid with political motivation. The Marshall Plan is the epitome of the United States politically motivated aid, for apart from helping to rebuild the war-ravaged Europe, its other main purpose was to contain Communist threats in Eastern Europe and Asia, and gain allies and ensure their support in the fight against Communism. The Communist states also employed foreign aid as a tool to exert their influences on vulnerable states around the world during the Cold-War years too.

Humanitarian Interests.

Humanitarian interests are usually the main motivation for international organizations such as the United Nations or the World Bank. Contrary to the aid given bilaterally by the developed countries, aid from these multilateral sources are usually untied and are project-specific – aid are concentrated on projects or areas that will truly benefit and have a positive impact on the recipient economy and population. This motivation follow the in the genuine objectives of foreign aid, which is to help developing countries with their difficulties, and improve the lives and living conditions of the people living in the developing countries. Technical aid, loans and grants are usually made available to these developing countries for the development of their economies and social conditions to help stimulate growth and help them reach the self-sustainable growth stage and hence encourage further development.

Knorr (1973) sums up the rationales for self interest aid as follow;

Short-Term Payoffs

- i) To stimulate additional commercial exports.
- ii) To get rid of burdensome surpluses (e.g. agricultural products, obsolete military supplies)
- iii) To stimulate the foreign production of raw materials for importation.
- iv) To stimulate or preserve abroad a favorable attitude toward foreign private investment, or to promote the development of public overhead capital that encourages such investment.
- v) To compete for political influence in the donor country against rival states.
- vi) To gain or preserve the friendship of the donor state.
- vii) To enhance the military security of the donor state.
- viii) To protect internationally the image of a country which cares about world poverty.²⁴

Commercial interest, political interest, humanitarian interest and other motivations for aid that are mentioned above are only some of the

²⁴ Knorr, Klaus "Power and Wealth" p.166-167

main reasons for giving aid, and understandably different donors have different priority. But what is clear is that donors are interested in their own benefits and the potential return as well as, if not more than, that of the recipients. And it is undeniable that this attitude of some donors is responsible for transforming foreign aid from a tool that was designed genuinely assisted in the development and growth of the developing countries, into a manipulative economic and political tool employed by the donors only to exert their influences on the developing countries and stimulate growth and accumulate more wealth for themselves.

Recipient's views.

Most aid recipients are small countries facing difficulties in staying alive in the complex world. They are like patients with serious illnesses that they themselves can not cure, and if the sicknesses were not treated and were left unattended it could threaten their very existence. Hence donors are like doctors and foreign aid is the equivalent of medicines. Most recipients suffer the same or very similar symptoms – most are agricultural society in nature, they have weak infrastructure to support their economies, they lack hospital and modern medicines and usually suffer from high population growth rate. Furthermore, since the population growth rate rise quite uncontrollably, food problem such as famine occur, and this problem is especially severe in the regions that have infertile land or suffer annual natural disasters such as flood and typhoons. Another common problem is education, and eventhough almost all the developing countries place education quite high on the priority list, their method of teaching or the system itself may be outdated which would result in illiteracy problem that would result in low absorptive capacity. This means that the labor force of the country will not be adept at handling modern production technologies, which would help improve the quality of the country's export, thus without these modern technology, the export will remain low in quality and will not stand a chance against the high quality exports from the developed countries. The low competitiveness of the exports coupled with the need to import more goods from abroad, for the purpose of further development and consumption, will result in trade imbalance and liquidity problem for the developing countries, which would further aggravate the developing country's poverty problem. A developing country may be suffering from one, some or even all of the above symptoms depending on the level of their economic development. Thus, all these symptoms create a vicious cycle for a developing country and can be something of a giant maze, for even if one issue seem on the verge of being solved, another issue will

present itself and push the country right back into the pit that it is trying to climb out of again.

Many view foreign aid as a way out to all the problems faced by the developing country. This view can be very harmful because it must be realized too that foreign aid is by no mean a universal solution. It is true that technical aid can be employed or implemented to help improve the country's education and health systems, and grant aid and loans can be allocated to infrastructure development, and hopefully with some time, the impact of these aid allocation will produce positive results and help the development process of the developing country. But the fact is that it is easier said than done, aid is a lot more complicated than just black and white, and there are a lot of self interests involved. But for foreign aid to work effectively and to reach its fullest potential, careful planning is required and both the donor and the recipient have to put their heads together and cooperate in the aid allocation and implementation process. Prioritization will be very important so that the most severe problems can be addressed first. It must be realized too that aid is not a permanent solution, only a quick-fix tool, and should not be treated or employed as one, for if that occur catastrophic consequences could follow. Aid however, can be very helpful to a struggling economy, if employed correctly, and thus it is understandable why some view aid as godsend and would want to secure aid flow from the developed countries. Different types of aid yield differing results depending on the recipient's level of economic development, and more importantly their ability to handle and allocate aid efficiently. The recipient however, will still need to study the possible consequences of aid closely before committing themselves, for taking the wrong medicines could be fatal.



Chapter II

Foreign Aid

Foreign aid, in all its types and forms, had risen to become a very prominent feature in the relationship between the larger states and the smaller ones. Aid can be distributed in the form of capital, loans and grants, or materials, such as food or machinery. All the different types of aid have different impact, and are employed for different reasons, as seen fit by the donor. The recipients would normally welcome any type of aid, as it gives them a helping hand in their affairs, even at the cost of losing a certain degree of their sovereignty. Usually, the location of the recipient, or the interest of the donors at the time, dictate the amount of aid that the recipient receive. The recipients do not usually have much say in the process of aid giving, in most cases the donors come up with project that they are willing to initiate, usually projects that are highly visible and are identifiable with the donors, and the recipients choose from these list the projects or programs that they would like. Hence, aid in most cases are not recipient-need driven, but rather donors' interests driven. In turn, the aid received are generally not practical and do not address the problems that the recipients are having, thus aid do not go to the people that need it the most, the poor population of the recipient. Cases have been reported where the recipient initiate road building programs, but the poor do not have cars to drive on these roads. There are also reported cases where the recipient request high quality food aid, but instead of giving them to the starving population, they serve these food at their five-stars hotel in order to attract more tourists. Some recipients use the grants received, to buy weapons and equip their army.

Many argue that aid is not an effective tool in combating poverty, and stimulating economic growth. Many see foreign aid as dangerous, as it gives the recipient governments time to do other things, instead of addressing the problem at hand. The governments may postpone adjustment to their national development policies, because grants and loans give them some liquidity to buy more things that they want, but do not need. The people who are against aid feel that aid is "Taxing from the poor of the rich country, to give to the rich of the poor country". They also feel that aid corrupts the recipient government, and exacerbate the recipients' problems, as the international debt rises with more aid received. But like everything in this world, there are two sides to every story, and it is true in this case, as there are both benefits and harm

associated with foreign aid. How effective, or destructive aid can be to a country, depends not only on the recipient's ability to manage the aid effectively, but also on the goodwill of the donor. For even if the recipient has a good aid management system in place, it will mean nothing if the donor are using aid as a manipulating tool to extract as much economic and political advantages as they can. For aid to work, both parties must be willing to commit to the cause with goodwill and sincerity. Then, and only then, will aid become an effective tool to eradicate poverty, and increase economic growth and development.

TYPES OF AID

Foreign aid can be divided into two categories for a better understanding, economic aid and non-economic aid. How the aid are categorized depends solely on the authors, for example, some economist might view technical aid as an economic aid, as the end result of this type of aid yield some economic consequences. Others might see it differently, as the main objectives of technical aid are not economically related. There are also many forms and types of foreign aid, but there are only few that are the main ones and have any impact on the recipients. For this thesis, the distinction between economic and non-economic aid is also based entirely on the author's own perception.

- Economic Aid
 - Financial Aid,
 - Commodity Aid
- Non-Economic Aid
 - Technical Aid,
 - Military Aid,
 - Humanitarian Aid

Economic Aid

Financial Aid

In countries that are facing account deficit, and do not have a strong economic system in place, one of the major problems, and obstacle to development and growth is the lack of liquidity. Without the capital, they will not be able to import the raw materials that might be required in

the production process of their exports. They would also not be able to import consumption goods that are required by their population. Under Financial aid, the donor can dispatch aid that are convertible foreign currency, and inconvertible credit. Convertible foreign currency is more beneficial to the recipient as it can use the capital to purchase good and imports from any country without restrictions.

Furthermore, financial aid is usually composed of two elements, grants and loans. In general, grants are more preferable than loans, as it has less attachment. Grants are given by the donors, in order to better the relationship with the recipients, or to exert some influence, or earn the recipients' support in a certain matter. The more interest the donors have in a particular country, the more likely that it will receive more grants. Grants have direct effect on the recipient's economy, in that it will increase the recipient's liquidity, and hence buying power. Most developing countries would do almost anything to ensure they receive, and continue to receive grants from the donor. This is because, unlike loans, the recipients do have more authority on the distribution and its usage. Loans also have more constraints and will produce a backlash in the future. Loans are made available to the developing countries, with a lower interest rate, and a longer period of repayment than the usual commercial banks. Loans, like grants, also increase the country's liquidity, but it will be more restricted, as the recipient will have to think about repaying the loan as well. In many cases, recipients ask for loans from a number of different donors in order for the loans to offset each other. This might not be so wise, as more international debt keep piling up, but it is a common practice, and most developing countries are characterized by their large and ever-increasing international debt. Loans, thus are more beneficial to the donor than the recipient, in that the donor will get their money back, with interests, but the recipient may not be left with anything in the end. But if employed effectively, Loans and Grants can be effective tools in fostering the recipients' economic growth and development.

Commodity Aid

Commodity aid is also usually donor interest driven, and can be leaning very closely on the border of humanitarian aid. But the reason that I have categorized this type of aid under economic aid is the effect that it has on the donor's economy, rather than the recipient's economy. Commodity aid is usually given under circumstances such as natural disasters, but this is but no means a rule. It is usually the result of over-production of a particular product in the donor country, and with the donors such as the United States, France and Canada not wanting to lose

ground in the world market, and not wanting to lower their production level, for reducing the production would also affect their employment levels, they donate these surpluses. The most common products that are transferred under this type of aid are; cotton, rice, animal feeds, tobacco and wheat¹. Sometimes, the recipient can approach the donors with the list of the needed products, but in cases where no requests have been made, the donor will allocate the transfers as they see fit, hence when this occur, the recipient may not receive what they really need. Furthermore, it is common for these products to have low market value, and may be of lower quality than those found in the world markets. Commodity aid is important to the donor in the sense that it acts as an outlet of their surplus products, and is important to the recipients in the sense that it can relieve some pressures in dire situations.

But there are cases where commodity aid had been misused and abused by the recipients. James Bovard in his article "The Continuing Failure of Aid" reported that some developing countries have demanded only the best quality wheat from the donors, only to serve them to the tourists in their five stars hotels, or even worst sold the donations to purchase arms and weapons instead. Commodity aid can also make lives worst for the farmers in the recipient countries, as the aid will push the price in the domestic market down, simultaneously making prices the domestically produced goods to fall as well. Moreover, commodity aid affects more than just the donors and the recipients. The trading partners of the recipient countries are also affected by this type of aid, for when a recipient receive a particular products from the donors, they will be less likely to import the same products from their trading partners.

Non-Economic Aid

Technical Aid

Technical aid is arguably the most important form of aid, in the development context. It is by far the most desirable type of aid for the developing countries, because technical aid gives them as recipients of foreign aid a level of dignity and integrity, whereas in the case of financial aid, they may be perceived as beggars. Technical aid also gives the recipients more control, as the programs are catered to their needs and policies than the other forms of aid. Expert dispatchment, and specialist training, such as scholarships or observatory trips, are the main components of technical aid.

¹ Wivattanapanchart, Wanlada, "Economics of Foreign Aid", p.83

In the case of expert dispatchment, the donor country sent specialists who are experts in particular fields to the recipient country, so the experts can train the recipients' workforces. The expenses of the experts during their stay in the recipient country are usually covered by the donor country, but the recipient countries have to arrange the domestic things such as the accommodations and other necessities. The duration of the expert's stay in the recipient country depends largely on their role and business. Some may be there for a short while, while others may have to stay for years. Some experts are there to help lay the foundation for a new system, some are there to observe, analyze and make suggestions about existing systems, while others are there to educate the recipient country's forces about new technology or how to utilize old systems.

The other component of technical aid, specialist training, is no less important than expert dispatchment. Specialist training involves the donor country offering scholarships to citizens of the recipient country, as well as observation trips for the government officials. All the expenses are also paid for by the donors. For specialist training, both the donor and the recipient have to meet and discuss and work out the sector of the recipient country that need immediate attention, in order to address them accordingly and have the personnel of the recipient country receive the appropriate training. Specialist training and scholarships are valuable in that it gives the citizens of the recipient countries to experience a new way of thinking in the donor country, and also give them first hand experiences that they would otherwise not have the opportunity to experience in their country. The developing countries may also receive technical aid from the donors in the form of capitals. These capitals would usually then be allocated to such projects as academic and research funds, and constructions of educational institutions.

Overall, technical aid increases the recipient country's human resource capability, and country with good work force will almost always have greater ability to progress in the industrial sector, which is the engine for growth. And once the developing country can have a stable industrial sector, they can start to get up and walk by themselves, and that is surely what all the developing countries would like to do. The other good point of technical aid is that it is always catered to the recipients' needs, and is always under the control of the recipient's central government and policies. But despite its value as one of the worthiest of all forms of foreign aid, technical aid has its downfalls, which heavily offsets its value. The most important issue of concern is the problems that are sure to surface once the experts leave to return to their countries. The problem would be the inability of the recipient's personnel to step into the void left by the foreign experts right after their departure, the work may

stall abruptly, and it might take some time before things finally fall into places, but during that time, valuable resources could have gone to waste. But this shortfall should not discourage donors from giving technical aid, for the true value and worth of technical aid lies in what it can do to help improve the lives of people in the developing countries.

Military Aid

Military aid is undoubtedly one of the most interesting type of foreign aid, for under the United Nations decree it is not regarded as foreign aid. The reason for this is because resources received under military aid will not appear in the recipient's national income account, because military aid will only result in increases in resources such as armaments, machines and military expenditures only. Under a closer scrutiny, military aid should not be regarded as aid because generally speaking, aid should contribute to the recipient's peace and development. It is undeniable that military aid can help the development of a developing country, but it has no real contribution to peace on a regional and global context. The donor, however, might view military aid as contributing to peace in that it prevents their opponents to keep their distance from their ally, and thus creates a certain degree of peace.

It should now be stated that military aid was born out of a struggle between two factions that support different ideologies; those that support socialism and those who support capitalism, with the former Soviet Union and the United States of America being the prime examples of the advocates of the two ideology respectively. The Cold War was the main battleground for the two sides to voice their opinions and show their power to the world in order to influence other members of the global community to embrace their differing ideologies. And in order to show their muscles, military aid was perceived as the best mean to exert their power, influence and perceptions. Military aid was used to identify the supporters, as well as strengthening their supporters capability to withstand potential attacks and infringements from their adversaries. Military aid usually involve expansion of strategic transportation routes and systems, upgrading of communicative devices and systems, combat vehicles such as warplanes and tanks, and the maintenance of military facilities such as airports and seaports. Other resources such as fuel, garments and textiles as well as automotive parts and electrical components may also be transferred under military aid. Training for military staffs and officers to help them better look after the military resources and facilities is also initiated under this type of aid.

However, these resources, despite being transferred under military aid, can be employed by the public sector as well to offer results on the

economic front as well. For example the expanded transportation systems will have more benefits than militaristic benefits, as the citizens of the recipient country can enjoy its usage as well, and these systems would usually connect main centers that had previously been neglected, or that the recipient had been unable to connect thus far. The upgraded communication systems may be employed by the industrial sector to better coordinate their businesses as well, and the specialized training can result in a more capable labor force for the recipient country. It is in this regard, military aid have a trace of foreign aid, because it can help the economic growth process of the recipient, and despite the difference in the forms and the primary objectives, the results is similar to those of the other types of aid.

However there are both supporters and oppositions to military aid on the donor side also. The supporters are usually those who are paranoid about security concerns and believe that military aid gives them and their supporters a sense of safety against possible attacks from their enemies. On the other hand, the donors who are against military aid view it as a waste of valuable resources, and believe that it does not produce anything substantial or constructive. They also view the exertion of military influences and power to intimidate and interfere in other countries' policy as amoral, and they would rather concentrate on other forms of aid that would ensure economic development and growth of the recipients instead. Military aid was once a major type of aid, especially during the war periods, such as the Second World War and the Cold War, but had declined in importance ever since. It is not an important type of aid anymore, as securities concerns had declined, and donors and recipients are working more and more towards developmental goals. Legacies such as the road constructed, or the military bases are pretty much all that is left from the era of military aid.

Humanitarian Aid

Humanitarian aid is probably the best example of aid that represents the ideology behind foreign aid. The donor gives humanitarian aid without worrying about the benefit that it might bring them but instead, gives it because people in other part of the world would suffer further without their assistance. Hence, humanitarian aid is not cyclical, in that it is not given continuously, but when there is a need to only. It is very different from other forms of foreign aid for it is not administered in a program or project manner, and do not have any set rules by which it has to stick to, but rather, it is treated on a case by case basis. This form of aid is usually carried out at dire moments, for example when a country is hit by natural disaster such as flood or earthquake, or when a country is

facing situations such as famine and starvation. In most cases of humanitarian aid, the donors are responsible for coordinating with the potential recipient countries about the dispatchment of aid, as well as the transportation and the distribution of aid.

Most humanitarian aid usually consists of necessities such as food, medicines and clothing, as well as medical experts and rescue workers. Other aid may be tailor made to suit particular occasions, for example in the case of flood, aid can also include tents, inflatable dinghies, blankets, and in some cases, donors may provide money to help pay for rescue helicopters and boats, as well as the setting up of tents for the refugees and the homeless. Humanitarian Aid is not to be confused with Food Aid however, because there are distinct differences between the two types of aid. Food aid is a kind of foreign aid on its own, that is given by the developed countries to the developing countries usually because the developed country has an excess food supply such as grain and wheat, and do not want to reduce the production of these agricultural products for it would mean a rise in domestic unemployment. Food aid offers economical benefit to the donor in that they can retain their products' market prices in the world economy, but it has far-reaching consequences on the recipients. When the recipient receive food aid, it is true that their food supply increases, which might help them, but it is the farmers of these countries that will suffer, for the domestic prices of these products would be pushed down further. Giving the food received to the truly poor people, who would otherwise not be able to afford to buy food, can solve this problem. Another problem that food aid cause is that the international trade of the recipient will suffer, because once they receive the aid, they will no longer need to buy or import food or agricultural products from their trading partners, which could lead to a deterioration in their economic relationships.

But humanitarian aid is so much more positive as the aid is given genuinely for humanitarian causes. People who are starving or are suffering from malnutrition can be saved. People who have lost their houses or possessions in earthquakes or flood can be given a new hope. But it must be said that humanitarian aid is a heavy burden on the donor, in that in some cases, it is not sufficient to give aid only once to a certain country, for it might take them sometime to pick themselves up. Maybe the conditions are not favorable and would pose as an obstacle in the country's recovery process. During that time, the donor might be expected to constantly offer a helping hand. This may have an impact on the donor's national budget. But humanitarian aid is not only carried out by the governments of developed countries. There are organizations all over the world, both government agencies and the non-governmental organizations who are working very hard to make a difference. These

organizations usually work on donation basis. But overall, despite the burden it place on the donors, it is generally accepted by their citizens in because it offer help to the helpless and thus this type of aid meet less opposition and enjoy a higher profile. Humanitarian aid also gives the donor country a better status as a good citizen of the world community, so there are less hesitances to offer humanitarian aid in time of need.

Foreign aid

According to the Development Assistance Committee (DAC), aid has to have three characteristics to be classified as Official Development Assistance (ODA); it has to be undertaken by official agencies, has the promotion of economic and welfare as its main objective, and it has to have a "grant element" of more than 25 per cent². Foreign aid need to have a donor and a recipient for the equation to be completed, with the donor usually being governments of industrializing countries, and the recipients being the developing countries. Aid can be bilateral, where arrangements are made between two governments, and multilateral, where arrangements are made between governments and an agency-international or otherwise. The main multilateral agencies that aid can be channeled through are the Regional Development Banks; i.e. the African, Asian and Inter-American Development Bank, and specialized agencies that are affiliated with the United Nations. The United Nations family of specialized agencies includes the UN Development Programme (UNDP); mainly concerned with technical aid, the Food and Agriculture Organization (FAO), and the World Health Organization (WHO). These multilateral agencies also carry out a wide range of economic analysis and reporting, as well as helping to coordinate and encourage international aid cooperation³.

Both have their benefits and drawbacks. Bilateral aid can be prone to being tied, meaning the aid packages come string-attached, making the recipient's control of the aid very limited, while multilateral aid are usually more fair, and more transparent. The interests in bilateral aid and multilateral aid also contrast quite vividly, with the donor's interest being a prominent feature of the former type of aid, and the latter being more interested in the concept of development and growth of the recipient. The two types of aid also offer very different terms to the donors, with the bilateral aid being usually more attractive with bigger amount of aid being more readily dispatched. But when everything is said and done, the

² Cassen, Roberts and Associates, "Does Aid Work?", p.3

³ Cassen, Roberts and Associates, "Does Aid Work?", p.5

bottom line is still that both types of aid have to depend on the same group of developed countries as the donors, it is just the names that are changed the principles remain the same. Some donors are more interested in their own growth and development rather than the recipient's growth, and will try to work out measures and terms that will benefit them more than the recipients, and this is usually the case with bilateral aid. But in multilateral aid, the donors pool their resources together under a different banner, and thus it is harder for any one of them to get what they are really after, so they compromise to arrive at a point where they are all satisfied, and that the aid they offer can be beneficial to the recipient as well.

Benefits and Drawbacks

Foreign aid is a controversial and a very sensitive issue, for how it is viewed or assessed is solely in the eyes of the beholder. Measuring the successes and failures of foreign aid is a daunting task, and hence foreign aid can not be generalized, or readily applied to differing environments, and remain something of an enigma even today. Generally speaking, foreign aid can benefit the recipient in that it can increase the real incomes, and improve the living standards-such as longer life expectancy and declined infant mortality rate, and in many cases have also played vital roles in extending education to reach more people, and in the process creating skilled labor forces. Foreign aid have also contributed to infrastructure developments, promotion of agriculture and manufacturing and promoted institution building.

On the other hand, foreign aid can also be responsible for corrupting the elite ruling class of the recipient country, causing them to adopt distorted and harmful economic and foreign policies. Aid can also undoubtedly cause the recipient to become over-reliant on the resources from the donors. It can also buy some time for the regime, and cause them to further ignore and neglect the problems that are faced by their nation. In some cases, the recipient governments lack the appropriate administrative and coordinating body to monitor the distribution and usage of the resources, which can also creates an adverse effect on the recipient country. Never the less, how effective the aid are, or how the aid are requests are solely the decisions of the governments of the recipient countries. They are made up of a few people, and are responsible for a much larger amount of people, so their decisions need to be made carefully, with the people's interest being the foremost priority. In this world of big fish eat small fish, it is understandable that the smaller countries may not muscle up or offer much resistance to the bigger, developed countries, but never the less, the governments of the recipient

countries have to consider all their options most cautiously, for in most cases, they already are small, vulnerable countries on the verge of drowning, and one mistake could spell disaster. Foreign aid can be a lifeline, and can be a very effective tool in helping to get them on their feet, but this option has got to be taken with care, every steps of the way. The success stories in the field of foreign aid are very few and far, but if all concerned parties are serious and sincere about tackling the problem of poverty, and are all interested in the concept equality in the world, then foreign aid is the way to go. But those who are against aid argues that aid is undesirable because it causes the recipient to be over-dependant on foreign aid and the donor, and this could give rise to distortion in the recipient country's policies. Moreover, they also state that instead of the donors giving the developing countries aid, or manipulative tools under the mask of aid, they should help to promote trade between them and the developing countries, because this would in itself lead to economic growth, which would help them overcome their poverty and trade deficits problems.



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Chapter III

Thailand; An overview.

In order to better understand and appreciate the impact and effects of foreign aid on the recipient, Thailand in this case, we should now have a look at Thailand during the 1970s, in order to see the country's environments and grasp the changes and the developments that occurred during this period to see whether these changes were indeed brought on by foreign aid or not.

Thailand is a country of long history and heritage, and prides herself as the only Southeast Asian country never to have been colonized by the Western powers during the age of Imperialism. Thailand has a total land area of 513,115 sq. km. Malaysia lies to her South, Myanmar to the West and North, Laos to the North and East and Cambodia to the Southeast¹. Thailand is made up of 79 provinces with a total population, as of 1998, of 60,000,000 - 9.55% of whom live in the capital; Bangkok. Buddhist is the country's main religion with 95% of the total population being devotees, Muslim with 3.9%, Christianity with 0.5% and others 0.6%². Thailand's political system is democracy, with constitutional monarchy headed by King Bhumibol Adulyadej.

Thailand has been quite stable, socially, politically – coups aside, most attempts of coups d'état were bloodless, and economically – at least up until the recent Tom Yum Kung Crisis. Krupaisarn (1984) attributed three main factors that contributed to the country's unity and stability;

- I) Language: The Thai language is the common medium of understanding among at least 90 per cent of the population.
- II) Assimilation: The assimilation of the largest alien element in the Thai society, the Chinese minority, has been comparatively effective, unlike in the neighboring countries; and
- III) Religion: There is a wide popular support for the monarchy and Buddhism.³

¹ <http://www.thaifile.com/fact-figure.htm>

² *ibid.*

³ Krupaisarn, Nipa; "The Measurement of Foreign Economic Aid Flows to Thailand during 1961- 1981" p.4

Since the 1960s, the growth of the Thai economy had been nothing short of a phenomenal achievement, posing an average Gross Domestic Production growth rate of 7 per cent per annum, and the Gross National Product in real term per capita grew at the rate of 4.6 per cent per annum⁴. The rapid growth of the Thai economy during that period can be unmistakably attributed to two factors, the first is the growth of the agricultural sector, through utilization of natural resources, particularly, agricultural land, the development of the agricultural and agro-industries, and the rise of agricultural exports. The successful growth of the Thai agricultural sector is a good indicator of the concentration and the importance that the government had placed on the sector. Krupaisarn points out two characteristics of the agricultural growth during the period; most of the growth of the sector was achieved through the expansion of the area of land under cultivation rather than more extensive use of existing land, with an annual rate of expansion of approximately 4 per cent per annum⁵. The second characteristic was diversification and the introduction of new cash crops in order to satisfy domestic and world-demand. Agricultural production was diversified from relying on a few major crops, namely, rice, rubber and maize to more cash crops such as sugar cane, cassava, tobacco, kenaf, garlic and fruits.

The second factor that played a key role in the rapid growth of the Thai economy was the manufacturing sector. The share of the manufacturing sector increased steadily over the two decades and increased from 13.1 per cent in 1961 to 21.0 per cent in 1981⁶. It should be noted here too that the shares of the manufacturing sector moved in a reverse manner to the agricultural sector, as it rose in contrast to the gradual decline of the agricultural sector share. The growth in the manufacturing sector was based primarily on meeting domestic demands, which contributed between 64.1 per cent to 91 per cent of the total growth in the real output of the manufacturing sector according to a study by the World Bank⁷.

Furthermore, the Thai economy is an open one and hence international trade also played a key role in the country's economic growth. Thailand's main trading partners during the period were Japan, the United States, Singapore, West Germany, the Netherlands, the United

⁴ Krupaisarn, Nipa; "The Measurement of Foreign Economic Aid Flows to Thailand during 1961- 1981" p.4

⁵ *ibid.* p.5

⁶ *ibid.* p.6

⁷ *ibid.* p.7

Kingdom and Saudi Arabia⁸. Economic growth of Thailand had depended to a great extent on foreign trade, which provided foreign exchange to import essential goods and services to keep the country growing. And since the 1960s, Thailand had always enjoyed a balance of payment surplus in most of the years, in spite of the increasing balance of trade deficit, due mostly to the net service receipts, unrequited transfers and capital inflow.

But despite the somewhat successful growth of the economy, Thailand still faced quite a number of problems, the biggest one of which was undoubtedly poverty and underdevelopment in the rural areas. The roots of the problem arise from the fact that most of the rural areas were engaged in agricultural activities, while the urban areas were increasingly becoming more industrialized. It is understandable to place industrial activities close to the major cities, due to the better transportation systems and the ease with which to handle administrative issues, but what followed was the migration of labor from the rural areas, to seek better jobs and higher wages. This aggravated the poverty issues in the rural areas, and caused more issues in the urban areas, such as social welfare, unemployment and health issues. The Thai government had tried to address these problems, as was evident from their efforts to try and help the poor rural population by trying to develop these areas extending services to them. Foreign assistance was perceived as one possible solution to effectively help the development of the rural areas, and the agency charged with overlooking and handling foreign aid matters as well as planing development strategies was The National Economic Development Board (NEDB).

The National Economic Development Board.

Foreign aid to Thailand had started since the 1950s, but back then Thailand had neither an agency that would plan or implement aid, nor a formal structure to request foreign assistance. But development planning was essential to ensure aid, because donors view development plan as a framework for giving aid, so when Thailand decided that she needed foreign aid to assist in her development, she was urged by aid-giving institutions to formulate Development Planning. Prior to the formation of development planning, the development efforts in Thailand were quite unsuccessful due to the lack of coordination among the involved parties, and an unclear direction. The International Bank for Reconstruction and Development assessed the Thai economy towards the end of 1958, when

⁸ *ibid.* p.17

many other developing countries had already adopted development planning, and recommended that Thailand too, should establish development planning program “as a central machinery at the national level for dealing with long-term development planning in Thailand”⁹.

The Thai government, then under the leadership of Prime Minister Sarit Dhanarat, responded with the creation of the National Economic Development Board (NEDB) in July 1959. The NEDB was created as a central planning agency and contained four subordinate organizations, namely, the Office of Thai Technical and Economical Cooperation (TTEC), The Economic Planning Office (EPO), The Central Statistical Office (CSO), and the National Income Office (NIO). The NEDB has many key functions, one of which unquestionably, is the formulation of the national development plan and the evaluation of public development projects¹⁰.

The First Six-Year Development Plan, 1961 - 1966

This is the first of its kind in Thailand, and it was a pretty good first attempt, as it laid the tracks for development plans that would follow quite effectively. The Plan emphasized investment in economic infrastructural facilities such as roads, power and irrigation system. As a result of the Plan’s efforts, the agricultural sector grew at the relatively high rate of 6.3 per cent per annum, while the industrial sector went one better, with an average growth of 9.3 per cent per annum. Initially, the target growth rate of the Gross Domestic Production was marked at 5.3, but the actual figures were much better, posing a growth rate of 8.1 per cent during the six years period of the Plan. Of the achievements by the First Plan, one of the most important must be the successful introduction of Cooperative societies, particularly land improvement and land settlement cooperatives throughout the country.

During the First Plan, the agricultural sector was the lead actor, dominating the economy as well as generating greater employment and producing raw material for domestic industries and providing the country’s major exports such as rice and rubber. The population growth rate at the end of the Plan was 3.2 per cent per annum, with the per capita gross national product also rising by 5 per cent per annum from 2,066 Baht to 2,693 Baht in 1966.

But despite these figures, the Plan had its problems. It was, by no mean, well prepared, since it was drafted immediately after the creation

⁹ *ibid.* p.25

¹⁰ *ibid.* p.25

of the Board, and several weaknesses were evident. It contained no aggregative analysis or consistency test, what so ever, and the sectoral targets were vague and rather in the form of forecast than actual targets. It had little backing from the government, as the government showed little commitment to ensure the effective implementation of the program. Furthermore, the Plan also contributed to the widening of the national income gap between the urban and rural areas, despite the Plan's success in generating more income as those who are involved in the dominating agricultural sector remained poor in comparison to those who work in the industrializing urban areas.

But all in all, notwithstanding the various weakness, due to the relatively newness and inexperience of the Board and their ability to plan and implement economic development plan, the First Plan should be considered a success in its own right, as it constituted an important initial step toward national economic planning and development.¹¹

The Second Five-Year Development Plan 1967 – 1971

Having learnt a great deal from the mistakes and the successes of the First Plan, the Second Plan became much more sophisticated and employed new techniques such as Macro models in the planning process. These new techniques led to internal consistency among various sector targets. The Plan also successfully completed projects initiated during the First Plan, most of which were economic infrastructure projects such as roads, power, and irrigation system, and also succeed in initiating more infrastructural projects for further growth too. But this Plan period covered a period of great uncertainty, as the world events were heating up such as the increased expenditure of the United States military expenditure in Thailand and Vietnam, the Board adopted an annual planning process in 1968 to review, adapt and adjust their policies, targets and programs in accordance with the changing conditions of the world.

The two poorest regions of Thailand, the Northeast and the North received particular attention from the government, with the implementation of the Accelerated Rural Development Program aimed at reducing the differences in the standard of living among the different areas of the country. The Plan also placed special emphasis on manpower development planning, and involved the generation of employment opportunities in both rural and urban areas and the improvement of the quality of the manpower through education and various types of training programs. Public sector also received broadened coverage, and state

¹¹ *ibid.* p.26

enterprises such as infrastructure projects, the generation and distribution of electrical power, and transport and communication facilities and local governance received special care. The Private sector was also involved, for the first time, in the process of establishing targets for private production and investments.

But despite the technologies and efforts of the Plan, the Plan implementation fell short in terms of targets and objectives. Gross domestic product grew at a rate of 7.2 per cent during the period, somewhat short of the targeted 8.5 per cent. The agricultural sector also fell 0.1 per cent short of the target, posing a 4.2 per cent growth per annum. The industrial sector also fared no better, and although the sector's expansion process was mainly to meet domestic demand and provide import substitution, most of the import substitution industries still had to rely on imported raw materials anyway.¹²

The Third Five-Year Development Plan, 1972 – 1976

Following the first two development plans and the resulting unbalanced growth of the country, the government could no longer neglected or ignored the widening gap in income distribution and the distribution of social services, hence solving these issues became the main priority of the Third Plan. Other objectives included the further improvement and development of economic infrastructures, increased output and the maintenance of economic stability. The scope of the Plan was also extended to cover such policies as family planning, greater emphasis on regional development and the role of private sector.

The main strategies of the Third Plan included the change in perception of international trade. Firstly, the Plan regarded the balance of payments as the main constraint on further growth because of the decline in international reserves during the latter half of the Plan. The international trade strategy was thus shifted from inward looking, such as the practice of import-substitution adopted during the Second Plan, to a more outward looking, with export promotion being the main weapon. Greater emphasis on agricultural sector also reflected the recognition of the sector's potential contribution to export diversification and growth. The strategy was achieved through the introduction of projects to accelerate the production of major crops with good market potentials, and the re-allocation of development budget funds away from new and big capital projects to support better utilization of existing infrastructures.

¹² *ibid.* p.28

Secondly, in order to raise the standard of living of the rural people, a family planning was introduced for the first time, to reduce the population growth rate, and to ensure that the economic and social services provision would keep pace with the increase in population in the future. The family planning program was highly successful, as the rate fell from 3.3 per cent in 1971 to 2.5 per cent in 1976. Furthermore, existing economic sources such as irrigated water delivery system, agriculture credit, agriculture research and extensions, feeder roads and public utilities services were to be improved, and new facilities such as schools and health services were also planned to reach more rural people.

But once again, the growth of the gross domestic product fell short of the target rate, 6.2 per cent rather than the target of 7.0 per cent, which was attributed to the drought conditions in 1972 and then again in 1976. However, the manufacturing sector managed to grow at 0.6 per cent higher than the target rate of 8.0 per cent. Agro-industry and manufacturing exports, particularly sugar, canned pineapples, garments and textiles grew substantially. At the same time, the import increased several times more than anticipated because of the quadrupling in the import oil price between 1973 and 1976. At the end of the Plan period, Thailand's problems seem to take a turn for the worse, as the economy was slow to recover due to both internal and external factors, and the unemployment rate rose sharply because of the closure of the United States' military base in Thailand. The unbalanced growth among the regions of Thailand continued despite the government's efforts, and income disparities remained a persistent problem for the government and made the prospect of the Fourth Development Plan quite bleak.¹³

The Fourth Five-Year Development Plan, 1977 –1981

The main objectives of the Fourth Plan were to correct problems that remained unresolved and those new ones that arose during the Third Plan. Since recession was a major obstacle in the Third Plan, the government kick-started the Fourth Plan with immediate measures to revitalize the economy. Agricultural expansion was promoted to reach the target growth rate of 5 per cent per annum, and was to be achieved by ways of crop intensification and agricultural diversification. Major economic crops in which intensified production were introduced included, dry season paddy, maize, sugar cane, and kenaf. Agricultural diversification was promoted in livestock, sericulture, oil palm, and coconut, while the agro-industry also received extensive promotion,

¹³ *ibid.* p.29

especially those that produce export products such as paper, food canning and livestock feeding. Industrial investment, both domestic and foreign were encouraged and were facilitated by providing infrastructure facilities such as electricity, water supply, and telephone lines, as well as rapid custom clearing for imported machinery.

Reducing income inequality was also a main issue for the government and was high on the priority list. But the Plan failed to identify the target groups that deserved special development assistance, therefore the strategy to narrow down the income gap was also vague as a result. However, the country's two poorest regions, the Northeast and the North continued to receive special help and attention, especially in the areas of land development, and the provision of social services. The successful family planning campaign initiated during the Third Plan received continued support in the Fourth too, and it aimed for further reduction of the population growth rate, from 2.6 per cent per annum in 1976 to 2.1 per cent in 1981. The government needed to slow the population growth rate in order to give more room to improve the quality of manpower, provide sufficient economic and social services for all their citizens and reduce the employment problem.

The Fourth Plan period suffered from high inflation rate which was caused by the oil price increase in 1979, and averaged as high as 11.7 per cent per annum. The increase in import oil price and the higher prices of other imports also affected the country's trade deficit, which increased to 65.8 billion Baht in 1981, from 25.7 billion Baht in 1977. It seemed the Thai economy was having problems adjusting to the rapid pace with which the world economy was changing, and at the end of the Fourth Plan, the economy was facing high inflation, a rising government budget deficit, and a weakening external financial position. And even though there were some light in the dark, in the form of balances of payment surpluses in 1980 and 1981, the balance of payment deficits had been fairly large and lasted from 1977 – 1979, which had caused the internal reserve to draw down by as high as 21,050 million Baht during the Plan period. But the overall objective of the economic recovery plan was successful, as the gross domestic production surpassed the target rate for the first time for a decade, posing figures of 7.4 per cent growth rate, 0.4 percent more than the targeted rate. But the severe drought of 1977 and 1979 limited the growth rate of the agricultural production to 1.5 per cent lower than the target rate.

It can be seen that throughout the 2 decades of planned development, Thailand had gone through a number of changes and these changes were reflected in the objectives of the country's Development Plans. From all out infrastructural development, to import substitution, to export promotion, to solving the unbalanced income distribution throughout the country and providing the poor rural population with social services and economic infrastructures, it had truly been a long road. There had been successes, and failures over the 20 years, but they all served as lessons for future development of the country. Thailand had had to rely on foreign assistance to finance a portion of the development budget, and now having understood the development goals of Thailand over the 1970 – 1980 period, we can now turn to look at two of Thailand's main donors, and see the reasons for their aid giving, and to see how well their assistance fit with the objectives of Thailand's development plans.

Thailand's Social and Economic Development Plans had been quite successful, and ran relatively smoothly throughout its history, but it is questionable whether the Plans would have enjoyed the same level of success had it not been for the various assistance from the United States and Japan. The next chapters will take the foreign aid received from the United States and Japan into considerations to see if this claim is indeed valid.

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Map of Thailand

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Chapter IV

The United States and Thailand

Although separated by 120,000 miles of ocean, this had not at all been an obstacle or a hindrance in the American-Thai relationship, which dates back over 150 years. The American-Thai relationship, has been typical of most relationship between a big country and a small country, with the bigger country helping the smaller one throughout their history, but the most important feature of the American-Thai relationship has been the understanding between the two country and the compassion and sincerity extended to each other over the decades. It is true that in this world of ours, the rule of nature states that the big fish eats the smaller fish, but sometimes, it seem the big fish might preserve the smaller fish for bigger goals, and that seemed to be the case, all too true with the American-Thai relationship.

History

The American-Thai relationship can be traced back to 1821, when the first American ship reached Bangkok harbor¹. The ship was captained by a certain "Captain Han", and carried among its cargo, flintlock guns, which the then Siamese government was very interested in. As a sign of gratitude, after Captain Han represented the king with five hundred of the guns, the king bestowed a Siamese rank – Khun Pakdiraja - upon him². This event was no doubt important, in that it set into motion the American-Thai relationship that would stand the test of time, but the arrival of the next group of Americans, the Missionaries, undoubtedly had a much more important bearing and impact on the Thai society as a whole.

Pioneers such as Rev. Adoniram and Mrs. Anne Hazeltine Judson, who although did not actually worked in Siam, worked with the Thais in Burma since 1818. Mrs. Judson's contribution to the missionary movement, and also to the Thai society, were her translation of some books of the Bible into Thais, and more importantly the casting of the first Thai printing press and type, with which she published her translations³. The first American missionary to actually arrive and work

¹ Indorf, Hans H. edited by, "Thai-American Relations" p. xiii

² "The Eagle and The Elephant" p.1

³ *ibid.* p.4

in Siam, was Rev. David Abeel, who came in response to a request made by pioneer Protestant priests who had been working in Siam since 1828. Their request for assistance for more missionaries from the Protestant churches in America, was conveyed through Captain Abel Coffin who made the trip in 1828. However, the most important aspect of that trip might not have been the request for assistance of the priests, because among the passengers and merchandises, the first Thai travelers to the United States were also present. They were Eng and Chang, the world-famous Siamese Twins, who set sail for America at the tender age of just 17. They gained fame and wealth and became the foremost attraction of the era, performing acts such as horseback riding and playing chess throughout the major cities in Europe and America⁴.

Meanwhile, Siam was becoming a center for Christianity missions, due to high tolerance shown to the Christian faith by King Rama III. And although the missionaries had more success converting the Chinese community than the Thai, their main achievements had been the removal of the Thais' mistrust of Westerners. The first Protestant church was set up by Rev. William Dean in 1837, and many more churches were established after that, both in and beyond Bangkok. Where the missionaries went, they built churches, school and hospital, which was very instrumental in changing the face of Siam and contributed significantly to the country's development and modernization. Since the arrival of the first missionary in Siam, hundreds have worked tirelessly for almost a century in the pursuit of converting non-believers to their faith. And although it is true that they did not have much success in their efforts, but from a humanitarian point of view, they have contributed greatly to the improved well being and welfare of the Thais especially in the areas of health and education.

Health

Health was unquestionably one of the area that the missionaries made the most impact in, introducing new technologies and medicine to the Thais. Dr. Dan Beach Bradley, was probably the most important pioneer in this field. He arrived in Siam in 1835, and set up a medical office near Wat Koh, treating the sick and dispersed medicines. His most memorable contribution was probably the introduction of the smallpox inoculation, which he worked and developed on his own since the vaccine would never have survived the long voyage from America. He succeed in 1840, prompting king Rama III to sent his court physician to learn the

⁴ ibid. p.2

new inoculation technique from the doctor, who was awarded 400 Baht. He was also the first person to perform a surgical amputation in Siam, the first operation for cataracts and the first successful vaccination against smallpox. On July 4, 1844, Dr. Bradley also founded the first Thai language newspaper, the Bangkok Recorder, which he published on the printing press, which was created some time ago by Mrs. Judson in Burma, which he took possession of⁵. Rev. Daniel McGilvery was also another American who contributed significantly to the Thai society, with most of his works being done in the Northern part of Thailand, he was responsible for the founding of enduring institutions such as the Dara Academy for Girls, Prince Royal's College for Boys, the McCormick Hospital, a nurse's training school, and the Chiang Mai Leper Asylum⁶. Others who contributed greatly to the field of medicine included Rev. Dr. Samuel House, who combated the cholera epidemic of Rama III's reign with a mixture of concentrated alcohol and camphor, and Dr. Edwin C. Cort who set up the first nursing school at McCormick Hospital in Chiang Mai⁷. The first American missionary hospital was established in 1882, with a donation from the king, in Petchburi, which was followed soon after by other provinces such as Chiang Mai, Lamprang, Trang and Nakhon Srimthamaraj. These hospital were encouraged and partly funded by local leaders who valued modern medical knowledge of the missionary, and although not all missionaries were medical doctors, they did the best they could to help, with the wives often becoming nurses at these hospitals. The missionaries also worked with the lepers, who were previously shunned by the Thai society, and Dr. James W. McKean who had also played a vital role in the establishment of the McCormick Hospital, founded the first leprosy sanatorium in Chiang Mai in 1908, and a laboratory to produce smallpox vaccine six years after that. Two other Americans who contributed significantly to the medical field were Thomas Heyward Hays, who brought the first X-ray machine to Siam, and Dr. G.B. McFarland, son of an earlier missionary to Siam, who spent many years teaching, equipping and building up the Royal School of Medicine at Siriraj Hospital, which by the time of his retirement had become a modern situation producing high quality doctors and nurses, translated many textbooks into Thai, as well as completing a dictionary which updated the works done by his father, and was of immense value to both the American and the Thai public, as it created a bridge between the

⁵ Mungkandi, Wiwat and William Warren, "Thai-American Relations", p.158

⁶ *ibid.* p.160

⁷ "The Eagle and The Elephant" p.1

two contrasting societies. But apart from just introducing the new technologies to the Thai society, more importantly the Americans also persuaded and encouraged the Thais to acquire medical knowledge of their own. They taught the Thai doctors the new techniques, and also encouraged the Thais to go and study in the United States, with Nai Thianhee Sasarin being the first Thai to receive a medical degree from the United States, graduating in 1871⁸.

Education

The American missionaries also left a lasting impression in the field of education, which was no less important than their contribution to the field of health. By teaching English, establishing schools throughout the country, introducing the printing press, and the establishment of newspaper, they had a hand in changing and shaping the face of new Siam, which was undergoing rapid modernization in order to survive the aggressive colonization by the West, especially the French and the British. Language was a constraint on the Siamese development and modernization, and soon the Thai realized that fact too, and one of the very first Thai to study English was king Mongkut, who learnt the new language under Rev. Jesse Caswell while serving as the abbot of Wat Bavornnives. When king Mongkut, or Rama IV, ascended to the throne of Siam in 1851, the educational activities of the American missionaries developed even more rapidly. The process started when the king persuaded three missionary wives to teach English to the court ladies, and with one of the earliest Chinese converts, Ki-eng Kuay-sin, starting to teach the language to a group of boys under one of the missionary's supervision. The school grew into from a small room into a thriving community, and it was moved to more spacious premises, and this school became the Bangkok Christian College, one of the foremost educational institution in Bangkok, in 1913. The north also boasted one of their own school with the Prince Royal College, in honor of the Crown Prince, later King Vajiravudh, being one of the very first school for boys in the northern part of the country. Education for girls was not neglected by the missionaries either, and usually the wives were responsible for educating the girls. Mrs. S. G. McFarland founded a handicraft school for girls in Petchburi in 1865, and another famous girls' school, Wattana Wittaya Academy, developed from the Wang Lang School founded back in 1874⁹, also by a missionary's wife. Chiang Mai, in the north, also received the

⁸ *ibid.* p.16

⁹ *ibid.* p.20

missionaries' attention, with Phra Rajjaya School being established around 1875, later to become Dara Academy, the school started by teaching home crafts, needlework and Scriptures. Another important institution, the American University Alumni Association, generally known as A.U.A., originated as a social organization, set up in 1924 by the Thai students who had returned from the United States. The association's main aims were to encourage education and culture, charity works, sports and entertainment, and friendship between the people of Thailand and the United States ¹⁰.

Printing was also another area pioneered by the American missionaries, with Dr. Bradley being the first person to introduce and later publish Thai language articles. During king Mounkut's reign Dr. Bradley owned and published several newspaper, in his publishing house behind Vijaya Fort. Evidently, all the early newspaper published in Siam were owned by Americans, with Dr. Bradley founding the Bangkok Recorder around 1844, J.H. Chandler started the Siam Times Weekly in 1864, Alexander MacDonald, former member of the United States' Office for Strategic Services, O.S.S, establishing the Bangkok Post in 1946, and Darrel Berrigan founding the Bangkok World around 1956 ¹¹. The first Thai-owned newspaper was the Darunovad, created in 1874 by king Chulalongkorn's younger brother, Prince Kasemsanta Sopark.

And by king Chulalongkorn's, Rama V, reign, Western ideology, language, sciences and technology were widely accepted and a common practice in the Thai society. The school curricular of the period was significantly influenced by the missionaries, with Wang Lang School being particularly influential on the girls' schools curricular. Former students of the missionaries worked as teachers for the newly-formed government schools throughout the country, and worked tirelessly like their mentors to educate the youth of Siam, and their impact and contribution were significant in changing the face of the country. It is true that the missionaries contributed momentarily to Thailand's health and education field, but also important and never to be forgotten, was their role in creating an understanding between the people of the two countries and weaving a friendship that stood the test of time, and creating a solid relationship that have not been undone, or severed by any event in the history of the world.

¹⁰ Mungkandi, *ibid.* p.169

¹¹ *ibid.*

Diplomatic Relations

With the friendship and trust that have been cultivated through their contact with the missionaries, the Thais became more prepared to receive diplomatic relationships with the Westerners. Great Britain was one of the earliest Western country to secure Siam's signature, having signed a treaty of friendship in 1826. The American realizing Thailand's potential as being an alternative market to China, also raised efforts to sign a treaty with Siam, which resulted in President Andrew Jackson sending Edmund Roberts, a prosperous merchant and ship owner as the first American envoy to the kingdom of Siam in 1833¹². With his extensive experiences of trading in Asia, and his diplomatic charm, Roberts was very well received by the Thai officials, and managed to complete the treaty without any difficulties, and the first treaty of Amity and Commerce between the United States and Thailand was concluded on March 20, 1833¹³. The treaty allowed free trade for American merchants, except in rice, firearms and opium, and also included "the most favored nation" clause, which was similar to the treaty with Great Britain. But contrary to the expectations of both the British and the Americans, trade with Thailand never gained momentum nor took off, mostly due to the Royal monopoly system which was in place in the kingdom at the time. The American traders often complained of the system, and in the end, they ceased to visit the ports of the kingdom at all. This was one reason why the relationship between Thailand and the Western were on difficult terms, and efforts were made to amend the treaties in order to revive and rejuvenate the relationship. The Thai-American relationship entered a new era with the signing of the Harris Treaty, signed in 1856. The treaty was an amendment from the old treaty and was signed a year after Great Britain succeed in securing the Bowring Treaty. In the new treaty, Siam agreed to impose no monopoly or restrain trade, and included extraterritoriality and an import duty of three percent ad valorem in place of the former measurement duties¹⁴. But the economic relationship between Siam and the United States improved only a little bit, which was probably why the relationship between the two nations remained cordial. And things stayed that way, up until the Second World War, with the relationship taking a sharp turn when the world events brought the two countries closer to each other than they had ever been before.

¹² *ibid.* p.11

¹³ "The Eagle and The Elephant" p.29

¹⁴ *ibid.* p.38

World War Two

Although Thailand and the United States had pretty much been on friendly terms, they were never close. But the compassion, understanding and sympathy displayed towards Thailand by the United States during, and after the Second World War, as well as playing the crucial role of securing the Kingdom's freedom and integrity when the Axis lost the war, has earned the United States an enduring gratitude and affection of the Thai people. When the Thai government declared war on the United States and the Great Britain on January 25, 1942, the Thai ambassador to Washington, MR Seni Pramoj refused to accept the declaration as legitimate, claiming that Japan forced the Thai government to do so against the will of the citizen. Washington accepted the ambassador's statement, ignored the declaration of war and agreed to help Thailand in any way they could, treating Thailand as "an enemy-occupied state"¹⁵. Discontent also surfaced in Thailand, and resulted in Pridi Phanomyong, a prominent and very influential politician, the then regent to the throne whose signature was missing from the Thai government's war declaration, establishing an underground resistance movement called "Free Thai". The movement was echoed in other parts of the world, especially in the United States and Great Britain, where the Free Thai members worked closely and receive extensive training from the American and British governments in preparation to dislodge Japanese influence on Thailand. Free Thai cooperated intimately with the United States, offering assistance to the United States' Office of Special Services agents operating in Thailand, and providing valuable intelligence on Japanese status and activities in Southeast Asia to the Allies¹⁶.

At the conclusion of the war, when Japan surrendered to the Allies, it would not be wrong to say that the Free Thai movement and the United States were responsible in ensuring that Thailand maintained her sovereignty, because Great Britain, who had lost so much in the war, demanded compensations. The British proposed a twenty-one clause demands, which included the right to reorganize the Thai armed forces, the right to station military forces in Thailand, full compensation for property losses and a monopoly of foreign trade, which would practically make Thailand her colony, by nature even if not by name. But the United States immediately intervened, and suggested that an independent Thailand could be used as a model for emerging Southeast Asian countries. In the end, with the United States' assistance and advises,

¹⁵ Randolph, R. Sean, "The United States and Thailand", p. 7

¹⁶ *ibid.* p.7

Thailand maintained her sovereignty, and Great Britain only received compensation for the loss properties, which included the reparation payments of one and a half million tons of rice, worth about 2,500 million Baht, but surely this was a much more desirable term. The United States also played a very important role in helping Thailand gained acceptance and membership into the United Nations, by giving support and valuable advises in negotiations with France and Russia, the two Security Council members who initially opposed Thai participation. The negotiations were finally successful, and the United Nations accepted Thailand as a member on December 15, 1946¹⁷. And even after the war, the United States continued to provide a guiding hand to Thailand, firstly by supporting the kingdom's application to the United Nations, and then offering a loan of \$10,000,000 for the purchase of railroad equipment and rehabilitate the country's transport system¹⁸. The United States and Thailand remained on good terms, with the United States providing occasional economic and financial aid to Thailand, but they were mostly modest and it stayed that way until the threat of Communist expansion into Southeast Asia prompted a change in the attitude and commitment of the United States which shifted more and more towards security concerns.

American Foreign Aid and Thailand

The Security Syndrome

Since the end of the Second World War, security had been the common concern of both the United States and Thailand. The two worked closely with each other during the Korean War, 1950 – 1953, where Thailand sent 4000 ground troops and 40,000 metric tons of rice to support the United States sponsored resolutions in the United Nations directed against China and North Korea. The United States was a frontrunner who opposed Communism, and Thailand then under Field Marshall Pibun's government also had strong anti-Communism policy. With first the Chinese Revolution, and then the Vietnam Crisis, the situation looked bleak, and Thailand, who was situated right at the heart of Southeast Asia, felt the pressure and many feared that sooner or later, she would crumble under the pressure. Surrounded by small, weak countries, which was the result of the Second World War, Thailand's neighbor were not immune to Communism and one by one they started to fall. These events led to the United States' concept of "the Domino

¹⁷ "The Eagle and the Elephant", p.87

¹⁸ Randolph, R. Sean, "The United States and Thailand", p. 8

Theory”, where the loss of any single country would probably lead to a relative swift submission to or an alignment with Communism in the rest of Southeast Asia. The Americans feared the Domino Theory so bad that they decided to counter it by increased coordinated defense in the area and encouraged and supported the spirit of resistance among the peoples of Southeast Asia to Chinese Communism activities and to the encroachments of local Communists¹⁹. Hence, with Thailand vocally opposing Communism, and more importantly her strategic location right at the heart of Southeast Asia, the United States realized that Thailand could become a formidable ally in their fight against Communism.

Mutual concerns about Communism was the factor that firmly established foreign aid in the United States-Thai relationship. Under Field Marshall Pibulsongkram’s second term as Prime Minister, he told the West that he was concerned about the large Chinese presence in Thailand, and asked for aid and protection. Following the Second World War, the United States emerged as a world power, but she faced a dilemma of wanting to present a united front with the Western powers while at the same time feeling sympathy for their colonies. Her relations with the Soviet Union was fast deteriorating, and there were fear that a major vacuum might occur, if the West’s colonies in Asia were given immediate independence, and that the Communists might easily exploit it. So the United States looked carefully at Asia and sent a fact-finding mission to investigate. The mission recommended that the U.S. provide technical and economic assistance to help Asian nations develop, and military aid to enable them to maintain their security against Communist attack or subversion²⁰. Thailand too received the U.S.’ attention, and on July 1950, the U.S. and Thailand signed an education exchange agreement, which was followed by a technical aid pact in September. The development of the Thai agriculture, public health, communication, technical training and education were given the top priority by the U.S.. Although military aid was not among the main concerns, it gained a new and quite urgent recognition with the sudden outbreak of the Korean War in 1950. Following the outbreak of the war, the U.S. sent a military mission to evaluate Thailand’s defense needs, which was followed by the U.S.’ provision of equipment and training for the Thai army – the assistance was recorded at US\$4.5 million in 1951, US\$12 million in 1952, and US\$56 million in 1953²¹ – showing the U.S.’ security concerns in Asia, and concerns against Communism.

¹⁹ Mungkandi, Wiwat, p.90

²⁰ The Eagle and the Elephant, p.90

²¹ *ibid.* p.91

On the technical assistance side, Thai agriculture received special attention which led to the creation of a special rice department and training programs in rice breeding. The works done under the U.S. supervision a 10-80 percent higher yield output from the six best quality strains carefully selected, and by 1960 – it had received sufficient distribution to boost nationwide production by six percent, which improved to 15 percent 5 years later. The fishery industry also received a boost from U.S. assistance, which saw new types of fishing nets being successfully introduced, and helped to increase the catches significantly. Other agricultural programs helped provide credit, improve marketing, and encourage soil conservation²². Public health also benefited from the U.S. assistance, with an impressive increase from only 20 provincial hospital to one per province – 71 in total, over 5 years from 1950 to 1955. Their effort also resulted in the decline of malaria death rate by half, from 1950 to 1954. Furthermore, the U.S. also assisted in the rebuilding of the kingdom's war-damaged railroad system, by contributing to the planning and the building of three repair shops as well as providing US\$1 million worth of materials and parts, and giving more than a hundred Thai railways employees training in the U.S.. Thailand also received assistance in the construction of a new rail line from Udorn to Nong Khai, as well as receiving improvements to Bangkok's port facilities, and receiving a donated used dredging vessel for use in the deepening of the Chao Phraya River channels²³.

Through the change of time, as well as the Thai political leaders, and the Communists stance during the late 1950s, the U.S. and Thailand remained closed. Aid flow from the U.S. continued, as the events in Asia, and the fear of Communist incursion still existed in the minds of the Americans. But by the late 1950s, it seemed the U.S. had shifted their foreign aid interests in Thailand somewhat, maybe due to the intensifying situation in Asia, the U.S.' funds were then concentrated and given mainly for highways and airport construction. The "Friendship Highway" – began in 1954 with US\$13.6 million aid fund – was at the time of construction a dangerous and at times impassable 400 kilometer road linking Bangkok with strategic Korat and Northeast Thailand. The highway took 4 years to complete, and with its completion, the drive from Bangkok to Korat was shortened by at least 150 kilometers, and the communications with the Northeast was improved significantly. Airport construction also received American assistance, beginning in 1954, airfields at Korat, Thakli, Phitsanuloke, Udorn, Chiangmai, Phuket, and

²² *ibid.* p.91

²³ *ibid.* p.92

Don Muang all receiving new communications equipment, lighting and navigation aids²⁴. But of far more importance was the fact that throughout the whole time when the projects were being completed, Thai workers and personels were given technical training in the fields of modern construction techniques as well as the operation and maintenance of modern equipment. And although most of the American aid to Thailand during the early 1960s were concentrated on transportation and infrastructure building, reflecting the U.S.' security concerns, these infrastructures undoubtedly had significant impact on the economic development of the country as well.

Modern Era

The launching of the United States' large-scale and coordinated foreign aid effort in Thailand, was unquestionably prompted by the Communist insurgence in Indochina in the early 1960s, and hence it is not surprising to find that most of the United States' aid to Thailand during the ensuing period were in the form of military aid. And although their main objectives were concerned with security, some of the projects had economic intentions as well, as economic well being was seen as a form of weapon against Communism. 1954 marked a change in the nature of American aid, when foreign aid program was divided into "Technical Cooperation" and "Defense Support". Technical cooperation consisted most of the economic and other development programs that had been undertaken earlier in the 1950s, and Defense support consisted of funding and supplies designed to develop and strengthen the Thai security structure, especially intended to increase the Thai government political control over the countryside through the nationwide construction of military oriented infrastructures²⁵.

Furthermore, during the Vietnam War, Thailand was very vocal against Communism, and aligned herself with the United States. Thailand opened her airbases to American troops and warplanes, which flooding into the Kingdom in 1964. The United States kick-started her Vietnam War campaign using Thailand as her headquarter, launching the air strikes against North Vietnamese forces from the Thai airbase, which by 1968, hosted an amazing 600 American planes and 45,000 men²⁶. As the Vietnam War escalated, so too did the U.S. aid to Thailand, when in 1968, the amount reached a record US\$75 million, a level that had never

²⁴ *ibid.* p.97

²⁵ Randolph R. Sean, "The United States and Thailand", p.21

²⁶ *The Eagle and the Elephant*, p.102

before or since been seen. The U.S. also invested heavily in upgrading the Thai facilities, contributing US\$370 million from 1965 to 1969, which were concentrated on the improvement of Thai military bases which were being used temporarily by the U.S. troops.

Simultaneously while military aid was pouring into the country from the United States, the non-military aid was not neglected. The U.S. Operation Missions (USOM) was set up in 1968 as an administrative agency which at its peak, had 511 Americans and 634 employees. The U.S. non-military aid to Thailand during the perilous time of the Vietnam War was concentrated on strengthening public security forces and also funding for the Thai government's Accelerated Rural Development Program, which were allotted as much as 55 percent of the total U.S. technical aid to Thailand between 1967 to 1972. Public Safety received US\$59.2 million during those 5 years, while community and social development received US\$58.8 million, health was allocated US\$22.4 million, agriculture received US\$17.9 million, and education received US\$13.5 million²⁷. Rural Development Projects also received special attention from the U.S. as it was seen as another mean of fighting against Communist insurgence in the rural areas. The effort saw an improvement of water supplies, village communications, livestock production, and health care facilities, while rural cooperative programs, and soil preservation programs also received enthusiastic support.

On the social and cultural side, the U.S. also provided Thailand with assistance and cooperation in the fight against drugs. The Thai authorities received continual training and equipment, as well as received backing in the drug abuse prevention and treatment programs, and the King's crop substitution programs were also warmly received. The education field also underwent dramatic change over the 1960s, when a number of exchange programs and special training programs were established to bridge the cultural gap between the two countries. The Peace Corp was one of the earliest efforts of such nature, while the American Field Service – AFS - and the Rockefeller Foundation were the other important organizations that played very active roles.

Types of Aid

Unquestionably, the United States was, and still is, the world leader in the field of foreign aid, having set the world an impressive example of foreign aid with the highly successful Marshall Plan Program that have since been the measure stick of all foreign aid programs. Although the

United States' ulterior motives behind the Marshall Plan was to counter the Communism expansion into Europe, it was the first time that a governmental foreign aid program had been so well organized and successfully implemented on a large scale. Stability and security, had been the United States' main weapon against Communism in Europe, as she strove to rebuild the war-ravaged Europe with economic assistance, and this successful experience in fighting the Communist insurgency was transferred to Asia when the threats of Communism expansion and the "Dominoes Theory" were on the verge of becoming reality. It is quite clear that Thailand strategic location right at the heart of Southeast Asia, which had long attracted the West's interests, and her vocal opposition to Communism, had made her the perfect partner for the United States in her conflict with Communism. And it was only natural and sensible that Thailand became the American main ally in the region, and the United States' main headquarter for the anti-Communist activities. The United States employed three main types of foreign aid in connection with Thailand; project loans, military aid and technical aid, which over the years and through the different events that took place in the region, both types played varying roles that reflected the United States interests and concerns. It is true that other foreign aid elements were also present in the United States' foreign aid to Thailand, but the amount and importance had pretty much been overshadowed by these three types of aid.

- **Project Loans**

The loans received from the United States were primarily Project loans, meaning the funding were given for the specified projects only. Generally, the project loans or grants are a good way to combat corruption in the recipient country, as the fund can not be used for any other purposes, but it is sometimes not appropriate because of limitation it places on the recipient. And because the control of the fund remain solely in the hands of the donor, the recipient doesn't have much say or authority over it at all. Under the United States' project loans, Thailand had received some highly valuable projects that had been instrumental in her economic development, such as the Mae Moh power project in 1957, the Lomsak-Saraburi Highway, and Antimalaria projects.



Table 4.1

U.S. Loans to Thailand: 1956 – 1980		
Year	Purpose	Amount
Completed Loans		
1956	Nonproject, commodity imports	10.0
1957	Mae Moh Power	3.3
	Aviation Overhaul	0.1
	Nonproject, commodity imports	6.4
1958	Telecommunications	6.9
1959	Metropolitan Electric Authority	19.8
	Bangkok Dredging	1.8
	Meat Processing	0.8
1961	Locomotives	1.9
1962	Three Irrigation Projects	10.2
1965	Lomsak-Saraburi Highway	0.4
1967	Lam Nam Oon Irrigation	3.3
1974	Feasible Studies	1.7
	Agriculture Development	5.0
1975	Seed Development	3.7
1976	Sericulture Settlements	1.7
1977	Agriculture Extension	2.4
1978	Lam Nam Oon	3.2
	Primary Health Care	4.6
1979	Antimalaria	3.9
	Land Settlement	3.7
Subtotal		94.8
Active Loans		
1980	Northeast Small-Scale Irrigation	5.8

In US\$ million

from Robert J. Muscat, "Thailand and The United States", Table A.20

- **Military Aid**

Military aid had been an integral part of the United States' foreign aid relationship with Thailand. After the Second World War, there was a fall in the military assistance from the United States, but the trend surged again with the United States' increasing concerns about Communism expansion in Southeast Asia. As the upholder of the Capitalism and Democracy, the United States was obliged to launch a show of force that would promote her ideology, win more support from the other countries, as well as protect her allies. In Southeast Asia, the United States' main nemesis was China, and with the influence that China had on the smaller Asian countries, there was a real chance that she could force Communism on these small countries one by one, and the United States felt that she had to step in. There were not many Southeast Asian countries who supported the West after the Second World War, due to the fact that most of them were the West's colonies and were badly mistreated. But Thailand stood out among her peers, because she was never colonized, so no negative sentiment was present in Thailand. Furthermore, Thailand was very vocal in her opposition of the Communism ideology, banning the Thai Communist Party at one point. And since Thailand did not object the Western ideologies, and shared the United States' concerns about the regional security, they became the perfect partners.

During the Vietnam War years, Thailand was the headquarter for the United States' operations, as well as becoming the Rest and Recreation Center for the American troops. The military assistance offered to Thailand reflected well, the United States' concern for the regional security, and her interest in combating Communism. The leaders of the United States was clearly forward looking, and had been laying the foundation and preparing for the worst since the first scent of trouble. The military aid at the beginning did not give any hint of military components, as they were mostly upgrading of facilities, road buildings and staff training. But they were all important part of the process, and their value increased further as the sign of trouble was becoming reality. The roads that did not seem to have too much value, connecting Bangkok to the Northeast was indeed of major strategic importance, while the upgrading of the facilities were carried out so that they could cater to the U.S Army's technologies and standards.

Table 4.2

U.S. Military Assistance to Thailand: 1960 – 1985

Fiscal Year	Grants (MAP)	Credit Financing	Other	Total
1960	34.0	-	6.4	40.4
1961	52.7	-	8.2	60.9
1962	64.0	-	14.4	78.4
1963	47.8	-	16.7	64.5
1964	28.3	-	7.7	36.0
1965	22.3	-	8.2	30.4
1966	41.7	-	9.8	51.6
1967	59.8	-	9.8	69.9
1968	80.2	-	9.6	89.8
1969	81.7	-	14.7	96.4
1970	87.5	-	22.5	110.0
1971	73.7	-	25.0	98.7
1972	95.9	-	26.1	122.1
1973	40.6	-	22.2	62.8
1974	29.2	-	6.2	35.4
1975	27.6	8.0	6.1	41.7
1976	17.6	36.7	49.6	103.9
1977	16.0	30.0	1.2	47.3
1978	8.0	29.5	1.1	38.6
1979	1.2	30.0	0.9	32.1
1980	0.6	36.0	0.8	37.3
1981	0.4	53.4	0.8	54.6
1982	4.5	74.7	1.5	80.7
1983	18.5	76.0	1.7	96.2
1984	5.0	94.0	2.2	101.2
1985	5.0	95.0	2.3	102.3
TOTALS	\$943.8	563.3	275.7	1783.2

In US\$ million

From Muscat, Robert J. "Thailand and the United States", Table A.21

From the table, it is evident that the Vietnam War had a great bearing on the United States' military aid to Thailand, and in 1972, at the peak of the War, the MAP Grants – Military Assistance Program – which financed such ventures as war material, constructions, and transport reached a record 95.9 million. Credit financing was mainly for the royal Thai government procurement of American military equipment, while the cost of training Thai military officers, and acquisition of American military surplus supplies were classified under the “other” category. Apart from these assistance, military aid was also involved in some important construction projects in the kingdom.

The Military Construction Projects in Thailand had started as far back as 1955, with about US\$ 18 billion being spent over 8 years on improvements of airfields, installation of military communication networks between Bangkok and the Northeast, and construction of contingency-oriented facilities at the Sattahip Naval base. Furthermore, roads were built to connect strategically important destinations, beginning with the road that connected Sattahip with the Northeast gateway town of Korat. According to Muscat (1990), these military aid projects were carried out to strengthen Thailand internal military mobility in the face of possible threats from Communist China or North Vietnam, and the improvement of the Sattahip naval base and the Northeast airfields were designed to give Thailand the ability to receive and deploy military reinforcement from the United States, when necessary²⁸.

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จุฬาลงกรณ์มหาวิทยาลัย

²⁸ Muscat, Robert J. “Thailand and the United States”, p.21

Table 4.3

U.S. Military Construction Projects in Thailand		
	Length	Date
Road Construction		
1. Bangkok bypass, Route 304, 311		
Chachoengsao – Kabinburi	96 km.	built 1962-66
Kabinburi – Korat	168 km.	built 1962-68
2. Route 331		
Sattahip naval base – Chachoengsao	127 km.	completed 1968
3. Route 22		
Sakon Nakhon – Nakhon Phanom	54 km.	built 1968-70
4. Route 223		
Sakon Nakhon – That Phanom	70 km.	built 1968-70
5. Route 1009		
Chang Thong – Doi Inthanon	48 km.	completed 1976
Total	563 km.	
Airfields		
1. Limited provincial airfield improvement		
Lighting, POL storage, aprons		built 1961-63
2. Large scale improvement and Constructions		
U-Tapao		
Nam Phing		built 1963-68
Kamphaeng Saen		
Naval Base		
Sattahip		
LST ramps, piers, depot		built 1961-63
Major port development		
Breakwater, dredged harbor, dock		built 1963-69

From Muscat, Robert J. "Thailand and the United States", Table A.18

At the height of the American concerns with possible Communist activities and insurgency, especially in the poor Northeast Thailand, could be best summarized by the various

Counterinsurgency Projects. Although some of these projects were not directly military assistance projects, but since their objectives were concerned with security, the projects will be display below.

Table 4.4

Counterinsurgency Projects				
Projects	Years	AID Contributions	Counterpart Fund	Total
			----- (\$ equiv.)	
Counterinsurgency Operations				
Civil Police Administration	1957-76	77.2	41.4	118.6
Village Radio	1966-70	2.1	0.6	2.7
Village Security Forces	1966-71	0.3	*	0.3
CSOC operations	1967-73	0.1	-	0.1
Volunteer Defense Corps	1955-59	0.1	0.9	1.0
50-KV Transmitter	1966-71	0.3	*	0.3
Border Patrol Police	1962-72	6.7	1.6	23.2
Subtotal		86.8	44.5	131.3
Counterinsurgency				
Development Activities				
Accelerate Rural Development (ARD)	1964-77	63.2	11.7	75.3
Mobile Development Units (MDUS)	1964-76	5.7	0.8	6.5
Mobile Medical Teams	1968-71	0.6	*	0.6
Security Road Program	1963-65	5.1	5.0	10.1
Subtotal		75.0	17.5	92.5
TOTAL		\$161.8	62.0	223.8

In US\$ Million

Muscat, Robert J. "Thailand and the United States", Table A.10

* Less Than 50,000

Also of significance was the United States' poverty Alleviation Projects, which were becoming the common mean of combating Communism threats in the rural areas.

Table 4.5

Poverty Alleviation Projects		U.S. Contribution
	Period	----- (\$ Million)
1. Hands-On		
PVO Co-Financing(a)	1976-	12.0
Peace Corps Impact(b)	1983-	0.2
2. Site Specific Area Development		
Northeast		
Sericulture Settlements(L)	1976-82	1.7
Lam Nam Oon Irrigation (L)	1967-86	6.7
Land Settlement(L)	1979-85	3.7(c)
Northeast Small-Scale Irrigation	1980-	8.6
North		
Mae Cham Watershed	1980-	9.2
3. Delivery System and Northeast-Region Wide		
Primary Health Care(L)	1978-87	6.5
PHC Operations Research(b)	1983	0.5
Decentralization Development		
Management	1981-87	10.6(d)
Rural Development Monitoring		
& Evaluation	1984-	5.4
Agricultural Extension(L)	1977-83	2.4
Agricultural Development(L)	1974-	5.0
Northeast Rainfed Agricultural		
Development	1981-	7.5(e)
Khon Kaen University	1983-	2.2
TOTAL		\$81.8

(a) Includes mission and regional funds. Muscat, Robert J. "Thailand and the United States"

(b) Centrally funded. Table A. 12. p.318

(c) Includes \$5.8 million loan.

(d) Includes \$7.5 million loan.

(e) Includes \$4.3 million loan.

L - Loan funded

- **Technical Aid**

Technical aid had also been a very important instrument for the United States in her foreign aid relationship with Thailand. Technical aid gives the Thai officials an understanding of American way of thoughts, as well as introducing to them new technology and know-how. New techniques to increase agriculture yields, for example, are very important knowledge that can truly help a struggling small village become self-sustainable. The increase knowledge also caters for the Americans to be able to bring in newer technology for usage in Thailand. And with training, the Thai official become more efficient and more capable. This has an indirect effect in helping the country to grow and develop.

The United States' technical assistance to Thailand during the 1970-1980 were mostly administered by USAID, who were responsible for a number of tasks, covering varying fields such as agriculture, health, and infrastructures. And although the ulterior motives behind some of the projects are strategic, the development progress made in these fields played a vital role in increasing the quality of lives of the Thai people too.



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Table 4.6

USAID Agriculture Projects; selected years		
Projects	Years	U.S. Contribution
Agricultural Research	1964-74	5.3
Agricultural Economics	1967-74	3.0
Agriculture Development	1965-74	2.6
Agricultural Credit	1968-74	0.2
Farmer Groups	1967-74	1.1
Soil & Water Development	1965-74	1.4
Fishery Development	1968-76	0.5
Livestock Development	1968-74	0.2
Water Development	1968-74	1.2
Agriculture Extension	1968-77	6.8
Highland Development	-77	0.1
Seed Development I	1975-82	3.7
Sericulture	1976-82	1.7
Lam Nam Oon Irrigation	1977-86	6.7
Extension	1977-82	2.4
Village Fish Pond Development	1979-82	0.4
TOTAL		US\$ 37.7

Muscat, Robert J. – "Thailand and the United States", Table A.6

And above and beyond the agricultural development projects, and the health projects, American technical aid also contributed solidly to the education area, which as most developed countries realize, is the prime mechanism of growth and development. Although the funding for the education projects were no where as big as the funding from military aid, the value is unarguably no less, if not more, than the military aid projects. The education and training given would have a far reaching consequences, as it undoubtedly transformed and increased the quality of the Thai work force, which would help ease the transition of the Thai economy from an agriculture economy to an industrial one.

Table 4.7

USAID Education Projects – selected years.		
	Years	U.S. Contribution \$ Million
Vocational and Technical		
Technical Education	1953-57	*
Agricultural School	1952-58	0.1
Improvement of Technical Education	1955-62	1.6
Vocational School Development	1952-68	2.2
Vocational Education (With IBRD)	1966-76	3.6
SEATO Skill Labor	1958-67	1.3
Mobile Trade Training School	1966-72	3.5
Technical Training for ARD	1966-71	3.9
Subtotal		16.2
Higher Education		
Chulalongkorn University	1955-62	1.7
Kasetsart University	1952-58	1.8
Asian Institute of Technology	1959-76	9.2
Khon Kaen University	1983-89	2.2
Institute of Public Administration (NIDA)	1954-69	1.9
Subtotal		16.8
Primary, Secondary, and General		
Elementary Education	1953-60	0.5
Secondary Education	1956-60	0.1
Curriculum Development	1952-58	0.1
Supervisory & In-Service Education	1955-58	0.2
Education Program Administration	1953-59	0.1
English Language Training	1958-66	1.7
Education Research & Planning	1964-67	*

Teacher Training	1952-76	4.2
Education Finance	1973-75	0.1
General Education		
Development	1953-68	2.2
Regional Educational		
Development	1967-69	0.5
Educational Planning	1964-69	1.5
Hill Area Education	1980-86	1.6
Subtotal		12.8
Nonformal		
Adult Education	1952-58	*
Adult Education	-77	0.2
Rural Training	1964-76	8.0
Nonformal Vocational		
Education	1979-83	0.4
Subtotal		8.6
TOTAL Education		\$54.4

In U.S.\$ million

* Less than 50,000

Muscat, Robert J. "Thailand and the United States", Table A.8., p.312

It is obvious that most of the projects initiated under the USAID Education projects were very significant, some more so than others, in helping to increase the quality of the Thai people, and in doing so, gradually increased the country's workforce's ability to handle new technology. The increase in the quality and capability, then led to an increase in the competitiveness of the Thai workforce, and having a positive impact on the growth of the Thai economy. With an able workforce, the prospect and attractiveness of the country to foreign investors also increase, and this too must have contributed to the economic development and growth. Clearly, the technical assistance helped in bettering the Thai labor, which contributed to providing a solid foundation for the economic growth that was to follow in the ensuing decades.

United States Aid Agencies

The United States, as one of the world biggest foreign aid donor in the world distribute her aid through some of the major international institution including;

- The International Monetary Fund, IMF
- The World Bank
- Organization for Economic Cooperation and Development, OECD

The main agencies created specifically to handle American Aid in Thailand at various times included;

USAID

The United States Agency for International Development (USAID) was established in Thailand in 1950, and had played a very important role in development assistance and cooperation. Among the Agency's main achievements, it was responsible for the creation of USAID played an important role in creating the National Science and Technology Development Agency, the National Institute of Development Administration and the Thailand Development Research Institute. The Agency also contributed to the Thai agricultural sector introducing improved seeds for rice, maize, peanuts, mungbeans and soybeans. Between 1950 to 1995, USAID contributed over US\$1.1 billion to assist Thailand in agriculture, sciences and technology, environmental management, rural development, health and family planning, and infrastructure development. Thai citizens also received training under USAID supervision, with over 11,000 Thais trained in the United States, and over 100,000 receiving in-country training in a variety of sector. USAID was also responsible for such important projects as the Friendship Highway, which the Agency helped financed, the Phitsanulok-Lomsak Highway, while also funded 3,000 kilometers of all-weather roads, and 25,000 kilometers of auxiliary roads. Family planning projects, which have helped reduced the annual population growth rate from 3 percent to 1.3 percent, was also undertaken by the agency²⁹.

²⁹ The Eagle and the Elephant, p.160

Peace Corps

The Peace Corps is an organization the United States channel their development assistance in the form of volunteers, with the main purpose of promoting understanding between the people of the two countries. In 1962, first party of 45 volunteers arrived in Thailand, and the number for the 1960s was an impressive 400 volunteers in total. The Peace Corps' works involved agricultural development, community development, as well as teaching English. Other priorities included education, environment, health, human resources development, as well as promoting self-sustainability.

Over the years, the program had undergone some radical changes, for example the health concentrations had shifted from malaria eradication to HIV/AIDS control and prevention, as well as health, hygiene and addressing the malnutrition problem in rural areas. Environmental concerns have also been increasing in importance, and as a result, more emphasis has been placed on the training of management of national parks, promoting agro-forestry techniques that would help increase the efficiency of land usage, as well as promoting fishery technology and improving conservation and agricultural techniques³⁰.

U.S – Thai economic relations

As a result of the close ties between the United States and Thailand that had developed over the years, it is not surprising to find that the economic relations had also been flourishing. The Thai economy had been transformed from an agricultural economy to an industrial one, and the United States, as well as Japan, had a very active role in supporting and ensuring a smooth transition. From 1950 to 1968, the United States had been the principal donor of foreign aid to Thailand, with a total grant of close to US\$ 450 million. Since the start of the Cold War, American aid to Thailand had been devoted to economic and social development projects, as Thailand was an open market and welcome foreign direct investment with open arms. The U.S. aid during the Cold War was thus devoted to projects such as highways, health, and education, all of which contributed to the growth and development of the country, and increased her capability and facilities to accommodate more foreign investments. Under Technical Assistance projects, American experts helped to boost the production of rice, which had long been the major foreign exchange earning commodity for Thailand. Economic conditions in the Northeast,

³⁰ *ibid.* p.174

the poorest region of Thailand, also received special attention from the American, despite the fact that the U.S. aid that helped developed the region were actually meant to strengthen the country's defense against Communist intrusion. But new infrastructures such as the Friendship Highway had economic values as well, as it shortened the distance between the Central Plain and the Northeast, and had since become one of the main transportation route of the country. American foreign aid projects such as the Yanhee hydro-electric power project also contributed significantly to Thailand's economic growth, as it had helped expanded the industries with the electricity that it had been providing.

And with the initiation of the Thai National Social and Economic Development Plans, American capital and export have been pouring into the kingdom. The trade activities between the two countries developing rapidly since the introductions of the Development Plans, with the bilateral trade volume jumping dramatically from the 1961's mark of approximately US\$ 115 million to about US\$ 300 million in 1970. But that was only the beginning as the bilateral trade volume increased further to record an impressive US\$ 2,450 million in 1980³¹. Growth of bilateral trade can be witnessed in the growing purchase of Thai goods by American importers, making America Thailand's main export market. The rapid growth and the structural changes of the Thai manufacturing sector induced a rise in the export of capital goods. In 1980, Thailand's other major exports to the United States included tin, metallic materials, integrated circuits, textiles, rubber and canned products, while Thailand mainly imported U.S. electrical machinery and equipment, and cotton. U.S. arms and military hardware sales to Thailand was on the increase as well, and in 1980 alone the cost of the imports of military hardware and U.S. built aircraft was recorded at half a billion U.S. dollar.

The intimate economic relationship between the United States and Thailand went from strength to strength, and was reinforce by the signing of the Treaty of Amity and Economic Relations in 1966 that resulted in the United States granting special privileges to Thai products under the Generalized System of Preference, GSP. In 1979, there were six items enjoying the GSP status, and by the mid-1980s, the number had risen to over 200³².

³¹ Kangwan, Chuchart "American-Thai Economics and Trade Ties" p.188

³² *ibid.* p.191

Table 4.8

Thai-U.S. Balance of Trade, 1969-80
(US\$ Million)

Year	Volume of Trade	Export	Import	Balance
1969	297.95	106.07	191.88	- 85.81
1970	293.34	97.11	196.23	- 99.12
1971	297.01	110.76	186.25	- 75.49
1972	376.12	138.99	237.13	- 98.14
1973	448.92	159.54	289.38	- 129.84
1974	615.80	193.00	422.80	- 229.80
1975	713.07	245.27	467.80	- 222.53
1976	776.65	300.39	476.26	- 175.87
1977	907.57	341.80	565.77	- 223.97
1978	1,179.96	452.24	727.72	- 275.48
1979	1,710.99	598.89	1,112.10	- 513.21
1980	2,392.22	828.74	1,562.48	- 734.75

From Indorf, Hans H. "Thai-American Relations", Appendix C, p.226

From the table it is obvious that the Thai exports to the United States experienced a continuous growth over the 10 year period between 1970 to 1980, but the growth had been overshadowed and hampered by the also increasing imports from the United States which were much bigger in value, causing a trade balance deficit problem.

Anyhow, for the Thai economy to have developed to the point that the quality of their exports are acceptable by the United States market, there must have been quite a shift in the Thai economic and manufacturing structures. And this was also, arguably, an indirect result of American foreign aid. Most significant of the repercussion of the American foreign aid were the education, training, and operating experiences that have all contributed to creating a new generation of Thai managers who are forward looking and more adaptable to the increasingly important international economic environment. The new generation of Western-influenced Thai managers have helped considerably in the country's smooth transition from an agricultural society that used to rely on a handful of crops, small farms, tiny shops,

few financial institutions and systems, and virtually no industry³³, to a country that was going from strength to strength, and notching up consistently impressive economic growth over the following decades. The Thais who were trained or received training under various Technical Assistance Program contributed extensively to the economic growth process, as it was their skills that met the country's needs and filled void, and bridged the gap between the agriculture society and the industrial economy.

Final Analysis

The United States emerged from the two World Wars as the undisputed world leader. After the First World War, with her role in helping the rebuilding of Europe and combating the Communism ideology with the Marshall Plan, as well as the fact that all the other previously powerful European nations were left to tend to their wounds, the United States had become a leader by consequences. Furthermore, of far more importance was probably her role as the advocate and defender of the Capitalism ideology, which would have a great bearing on her activities and movement in the world arena. And as the advocate of Communism, her main enemy was Communism, and the battle between the two camps was epitomized by conflicts such as the Vietnam War, and the Cold War. Interestingly, one of the United States, and Capitalism, most effective weapons against Communism was not advanced war machines, but surprisingly development and economic well being.

And that strategy was also quite successfully employed in Thailand. The United States had long been able to recognize Thailand's strategic importance in Southeast Asia, and when Thailand showed commitment towards the opposition of Communism, the United States took the initiatives, and her political and security interests in Southeast Asia were accomplished through the employment of foreign aid. The early infrastructure construction projects were reflective of the United States' leaders forward looking as they anticipated that the situation was going to worsen. These early infrastructure projects, such as highways, connected strategic locations that were to play an important roles in future operations, and these road connections were further reinforced by the upgrading of facilities such as airfields and army bases. The Thai army was further strengthen by technical training initiated under the military assistance program, aimed at increasing the Thai capability to handle new American technologies which might have to be employed, in

³³ Sental, Gerald D. "U.S. role in Developing Professional Management in Thailand", p.177

the event of war. The counterinsurgency programs that were introduced during the Vietnam war to ward off Communist insurgence around the Thai borders were unsurprisingly concentrated in the Northeast region, the country's poorest and most densely populated areas that were close to the conflict itself, also reflected United States seriousness in trying to tackle the problem. The Poverty Alleviation Program introduced during the conflict were intended to further invigorate the United States' strong hold against Communism in the rural areas as well. And as security concerns were the main priority, military and security related assistance were, understandably, the dominant type of aid during the years leading up to the Vietnam War right up until its conclusion in 1976, when the United States' foreign aid to Thailand also experience a decline, which might well sum up the extent of the United States interests in Thailand. The declining trend of the United States' military assistance started in 1973, when the total assistance fell to US\$62.8 million, after a peak of US\$122.1 million the year before. The decline continued as 1974 recorded US\$35.4 million, a slight increase to US\$41.7 million in 1975, and reached US\$103 million in 1974. But since then the numbers continued to decline further, and amidst the decline it is interesting to note that the fall is most obvious in the Military Assistant Program (MAP) grants. From as high as US\$95.9 million in 1972, it declined over the 10 years to just US\$600,000 in 1980, and since 1975 a large portion of the MAP grants were slowly being substituted by financial credit, which by 1980 made up a large portion of total American military assistance to Thailand. This was, in a way was reflective of the United States descending interest in the region, and thus Thailand too.

But after all that has been said and done, it can not be denied that the assistance from the United States played a very constructive, and supportive role in helping Thailand's development process. It can not be denied too however, that the effect of American foreign aid on the Thai economic development were largely indirect, as the ulterior motive for the United States to offer aid to Thailand was security concerns rather than genuine concern for the Kingdom's economic conditions. The indirect effects of foreign aid are for example, the highways and infrastructures development that were initially undertaken to better the communication between the strategic destinations such as from the Sattahip Naval Base to Chacheonsao, or the Friendship Highway were to have significant economic consequences once their use for security concerns were over after the end of the war. These infrastructures would become important economic mediums that played a role in helping the acceleration of the growth of the Thai economy, as they increased the country's capability to handle increased economic activities, as well as shortened the transportation time considerably. While the technical

training were also very significant, because by introducing new technology and technical know-how, it increased Thailand's workforce's quality and ability. This improvement, complemented with the development achieved in the field of agriculture, such as the introduction of better rice grain – which directly increased Thailand's food security and international trade account balance position, as rice was her most important export, also contributed positively to the economic growth and development process. Hence, it is undeniable that Thailand's transition from an agricultural economy to an industrial one was assisted extensively by foreign aid.

But was Thailand the only one benefiting from the relationship, and did she get all that she wanted? Probably not. The United States also benefited from the relationship, perhaps even more so than Thailand. The United States' foreign aid to Thailand was not a big amount, and no where near the aid she gave to India or other strategic locations of more concerns to her. Anyhow, American aid to Thailand was justified by the fact that both were driven by the mutual concern about Communist expansion in the region. Thailand was only a small country strategically placed right at the heart of the conflict that bitterly and openly oppose Communism, while the United States regarded Communism as her main enemy and was looking for a partner to help her contain the threat as well as to show to her leadership as an advocate of Capitalism to the world, hence their interests converged. And in exchange for Thailand's support and the right to use her facilities, foreign assistance seemed only a small price to pay, because by being able to use Thailand's military facilities, the American operations were that much more effective, and in order to strengthen their advantage, the American initiated major infrastructure projects and upgrading of facilities in Thailand.

From Thailand's point of view, it would seem that she got most, if not all, of what she wanted from the relationship. She got security, in the form of military assistance from the United States, she got economic growth and development through technical training program and the new modern infrastructure, and her citizens received a better quality of life and welfare through the various health and education programs initiated by the American foreign aid. The Americans on the other hand, stamped their authority as the leader of the "Free World" quite effectively. The economic sphere had also undergone tremendous changes, as over the 10 years from 1970 to 1980, the United States had emerged as Thailand's main export destination and trading partner. And undoubtedly the close ties that Thailand had enjoyed with the United States through the various assistance, had a major bearing on the direction of trade relations between the two countries. Obviously the quality, and thus the value, of the Thai exports had been cherishing – a direct result of the American technical

programs. And although Thailand's value of export to the United States were increasing every year, she was running a trade account balance deficit against her biggest trading partner. But that did not seem to be an issue because, there were bigger issues that both Thailand and the United States were concerned about during those years, namely the security issues, and they had to rely on one another for the superlative results.

The bottom line of the foreign aid relationship is that security concerns was the principal mechanism that drove the relationship. It is true that the foreign aid relationship at times, may be seen as based on self-interest by the United States; as she only offer assistance when her interests are affected, but Thailand can be said to have benefited from the American self interest, and to be fair to the United States, all the donors give aid depending on their interests too. American foreign aid peaked and fell with the tide of the war and Communism threat in Southeast Asia, and as the war ended and the threat subdued, she immediately started withdrawing her troops from the Thailand, but she encouraged another player to come in and fill the void – Japan. However, upon her departure, the United States had already left a legacy of foreign aid in Thailand. Her assistance had contributed concretely to Thailand's transformation ever since the dawn of the relationship. And although the American-Thai relations had never returned to the level of closeness during the war, nor have any American foreign aid been as big as those of war years, the relationship is still solid, and the United States remain one of Thailand's main trading partner.



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Chapter V

Japan and Thailand



As of 1993, Japan had given Thailand 18 loan packages, with grant aid begin given annually since 1970. Japan had provided about two-thirds of Thailand's total bilateral ODA since the mid-1980s¹. The Japanese's OECF Loans to Thailand as of 1997 worked out to 22 loan packages and 5 special loans, with a total of 207 commitments worth 1,483,634 million yen². From the numbers, we can get a rough idea of the assistance that Japan had been providing Thailand. But why has Japan committed so much to Thailand, and is Thailand really that important to her? For a clearer picture, it would be useful to take a look at the relationship between the two countries, and where else would be a better place to start than the history of the relationship.

History

Ayuthaya Era

The Thai-Japanese political and commercial relationship dates back over 600 years, and it has been a long, long road which at times were as smooth as silk and at others, were rocky and testing. Both Thailand, more precisely then known as the Kingdom of Ayutthaya, and Japan had known about the existence of one another for quite sometimes, through their trade and economic activities with the powerful kingdom of China³. Japan had heard about the kingdom of Ayutthaya, situated at the South of China, which boasted an advanced and very skilled army and military technology, as well as luxurious commodities such as scented woods. Likewise, Ayutthaya had heard about the island kingdom of Japan and their riches and their trading activities with China. According to historical accounts, both Chinese and Japanese, it appears that it was not until 1833 A.D that contact between the two kingdoms took place⁴. It was by no mean official, some Autthayan merchants reached Japanese shores for the first time. Ten years afterwards, another ship from Ayutthaya carrying animal hides, liqueur, woods and sugar reached present day's

¹ Potter, David M. , "Japan's Foreign Aid to Thailand and the Philippines", p.22

² OECF, "OECF contribution to Thailand", p.4

³ Teerawongseeree, Tawee, "The Political Relations Between Thailand and Japan", p.2

⁴ *ibid.* p.5

Okinawa, and although the trip took 40 tedious days to make, it was worth it, as the items were hugely popular with the Japanese. More Ayutthayan ship, hearing of the Japanese desire for their commodities, frequented Japanese ports, some also taking with them commodities of gigantic proportion, such as elephants, horses and peacocks, while scented woods and liqueur were the basic commodities that they took with them. The relationship was gaining more momentum, but it seem that it was all one way traffic, as records show that a lot more Ayutthayan ship visited the Japanese port while no Japanese ship reached Ayutthayan shores at all. At least not until the reign of Shogun Toyotomi Hideyoshi, or around 1592 A.D. Under the Shogun's reign Nakornsrihammarat and Pattanee developed into lively trading ports with many Japanese merchants choosing to settle and open their businesses there. Later in 1606, under the new Shogun Ieyasu, Japanese merchants were granted permission to settle in Ayutthaya for the first time⁵.

And it was under the reign of Shogun Ieyasu that many important events took place, and helped transformed the Thai-Japanese relationship. His era marked the first time contact at head of country, hence official, took place. Many historians regarded 1606 A.D as the official beginning of the Thai-Japanese relationship⁶. It seemed that under Shogun Ieyasu, Japan was quite peaceful after years of bloody internal wars, so the Shogun was able to relax and had time and privilege to enjoy certain luxuries. One of these luxuries was scented woods, and the Shogun must have heard about the reputation of Ayutthaya as a supplier of scented woods, so he sent an official letter dated 22nd, Tenth month, 1606 A.D, to the Ayutthayan court requesting scented woods and cannons. In exchange the Shogun sent Japanese swords and armors, and the Ayutthayan King duly complied with his counterpart's requests. The Ayutthayan king set the task of delivering the goods on the Dutch merchants, but interestingly did not sent any officials or delegations along on the trip. Upon receiving the goods, Japan announced that Ayutthayan ships were free to trade with Japanese ports. In 1608, another correspondence arrived from the Shogun asking for cannons and gunpowder, and once again the Ayutthayan king complied without sending any officials or correspondence nor asking for anything in return⁷.

The Japanese Shogun first received correspondence from his Ayutthayan counterpart in 1610 A.D. in reply to the 2 correspondences previously received. 1612 A.D. was the official year that Ayutthayan ship

⁵ ibid. p.4

⁶ ibid. p.9

⁷ ibid. p.13

began trading with Japan by reaching the trading port of Nagasaki. This historic trip also carried with it, goods sent by the Ayutthayan King as presents for the Shogun. Eversince then, the relationship between the two kingdoms continued to flourish in tandem with the increase in the number of correspondences and exchanges of gifts and visiting delegations and commercial activities⁸. It appears that during the 23 years of the Ayutthaya era, since the beginning of the official contact, some 31 correspondences were exchanged between the two kingdoms. These correspondences were written in Chinese characters and dealt with economic and political issues. The usage of Chinese characters is evidence of the importance and the influence of China on both kingdoms⁹. But despite the usage of Chinese characters, any correspondences to Japan would not have been as successful or smooth as it did if it had not been for the assistance of Japanese merchants in Ayutthaya, especially a prominent figure by the name of Yamada Nakasama.

Yamada Nakasama

A native of Warashina, Yamada Nizaemonmojo Nagasama was born in 1578. It appears that Yamada had inherited the family business, which he had no love for, so he chose a life of adventure and boarded a ship heading the Ayutthaya via Taiwan. Another version had it that Yamada killed a man in a quarrel so he fled to join the pirates. But whichever version is the correct one is unimportance, because once he reached Ayutthaya, he started up a business of his own, which was highly successful and made him rich quite quickly. He became a prominent member of the Japanese community at the tender age of 39¹⁰.

Yamada must have left Japan quite sometimes before 1616, the year Japan started shutting out foreigners and closing their country from all foreign contact. During this period, there was a large number of Japanese migrating to Ayutthaya due to two very important factors. The first, is the prosecution of Japanese who had converted to Christianity. The Japanese Shogun had been opposing Christianity since around 1587 A.D for fear that will tangle with the old Japanese traditions, way of lives, and ruling system, and may cause up-rise against the Shogun by the unhappy peasants. In 1597 A.D, the first crucification of 26 Japanese and European Christians was ordered by Shogun Hideyoshi¹¹. Under Shogun Ieyasu, who took over from Hideyoshi, the hatred and fear of Christianity

⁸ *ibid.* p.15

⁹ *ibid.* p.28

¹⁰ *ibid.* p.22-24

¹¹ Endo, Shusaku, "Silence", p.1-12

was never hidden and it was under his reign that the death sentence for Japanese Christians was irrevocable. It was around 1614 A.D that this event took place, and during the time under Ieyasu, a monumental amount of Japanese converts had to sacrificed their lives for their belief. But it only got worse and worse, so the Japanese converts started to flee Japan¹². But since the country had forbid all foreign contact and leaving the country was prohibited, these migrants had to hid themselves on Chinese ships, as only the Dutch and the Chinese were allowed to trade with Japan, and only at the outpost. Ayutthaya became heaven for the converts due to the tolerance for Christianity and the fact that a Japanese settlement was already established, so they settle in Ayutthaya, and later built their own church in the settlement¹³.

Another factor that resulted in the influx of Japanese into Ayutthaya was the power struggle between Tokugawa Ieyasu and Toyotomi Hideyoshi, which led to many bloody battles, most notably, the battle of Sekigahara in 1600 A.D and the battle of Ooska in 1615 A.D. The battles left many samurais as ronins, samurais without master, so they were no longer assured of life in Japan, hence these master-less warriors fled the country¹⁴. Many became pirates, other became mercenaries. It seem a large number of these warriors found their ways to Ayutthaya, with many then joining the “Japanese Voluntary Army”, which was by no mean voluntary but rather paid mercenaries, established to help the Ayutthayan king fight the wars against his neighbors, Burma and Kmare. The Japanese Voluntary Army was made up mainly of ex-samurais, and worked closely with the king as his personal guards¹⁵. Once established, the army attracted a larger number of Japanese to Ayutthaya, both merchants and mercenaries. The army became renowned for their loyalty, bravery and discipline in battle, and became the launching pad for many Japanese’s political career in Ayutthaya, with Yamada standing out as the most significant example yet.

After success as a merchant, Yamada joined the Japanese army for fame, and was victorious in many battles. During his time in the army, he was bestowed with Thai honors for excellence, firstly in 1621 A.D, a year after he was elected head of the Japanese settlement. Yamada continued to serve in the army and rose through the ranks to ultimately become Okyasenapimuk in 1626¹⁶. The title of Okyasenapimuk is most likely

¹² *ibid.* p.8

¹³ Teerawongseree, Tawee, *ibid.* p.27

¹⁴ *ibid.* p.26

¹⁵ Vjivitvathakam, Vibul, “King Prasart-thong, The Warrior King”, p.27

¹⁶ Teerawongseree, Tawee, *ibid.* p.22

some kind of interior minister's post today, and his duties were to command and look after the Japanese Army, look after the wellbeing and welfare of all Japanese in the Japanese Settlement, protect the interest of the Japanese merchants and keep law and order. Another significant and unquestionable contribution by Yamada is his role in weaving and strengthening the Japanese-Ayutthayan relationship. He made the journeys of the Ayutthayan delegations to Japan more convenient by arranging for Japanese officials to take care of them. Yamada also played a big part in preparing the delegations, and writing up the official letters asking for assistance from the Japanese authority, and most likely official correspondences as well. Yamada became a trusty consultant to the Ayutthayan king in all matters of affair and hence the power that he held was immense¹⁷.

After the death of the King, a power struggle took place and Yamada was also drawn into the struggle. But the Minister of Defense murdered his way to the throne and proclaimed himself King Prasart-thong¹⁸. The new king and Yamada did not get along, for Japanese believed that only royalties could be king, a belief that would lead to the deterioration of the Japanese-Ayutthaya relationship under the new King. He was aware of Yamada's power and capability, and was always suspicious of Japanese, so the king sent Yamada to an outpost in the South and had him poisoned. Yamada's son took over the title and led the Japanese army against the King but was utterly crushed and so the Japanese fled to Kmare¹⁹.

The death of Yamada marked the end of a first golden era in the Japanese-Thai relationship, for after his death King Prasart-thong had no one else who could act as the intermediary between the two kingdoms. Further more he destroyed the Japanese settlement, and banished all Japanese from the land. But years later upon realizing the help he could get from the Japanese merchants, he invited them back but only a handful returned. He also tried to re-establish relationship with Japan sending many delegations to the Japanese ports but the Japanese shogun refused to acknowledge the king's reign as legitimate and so the relationship was left in the cold²⁰.

Yamada's legend is well known both in Ayutthaya and Japan, and the historical sources perceived him as a loyal, and an able merchant and warrior. It is undeniable that if it had not been for Yamada, the

¹⁷ *ibid.* p.24

¹⁸ Vijiwatakarn, Vibul, *ibid.* p.27-36

¹⁹ *ibid.* p.64

²⁰ Teerawongseree, Tawee, *ibid.* p.16

relationship of the two kingdom would have been as smoothly as it did. It is true that many other Japanese also held ranks and titles in the Ayutthayan court, but Yamada outshine all others for the contribution he gave to Japan and Thailand

Pre Second World War Era

After the death of Yamada, and the “isolationist” stance employed by Japan under Shogun Ieyasu, the Japanese-Thai relationship entered a Dark Age. And although during the 224 years of no contact, the Thais have tried, time and time again to re-establish the relationship with Japan, they have always been rejected²¹. However, the Thais have continued trading with Japan, who refused to trade with all nations other than Chinese and Dutch, albeit secretly, by employing ships manned by Chinese workers or hiring Dutch ships to do the trading for them. During this period, the relationship again, returned to a one way traffic relation, with ships taking goods to sell in Japan, but no Japanese ships reaching the Thai shores.

But finally 1854 A.D was the year that things started to take a turn for the better. Japan was forced to open her doors and abandon her “isolationist” stance when Commodore Matthew Perry of the United States Navy entered Japan with battleships. This resulted in Japan being forced into signing unfair treaties with the United States, and subsequently, all the other Western colonial powers as well. Japan realized that 200 years of isolation had left her in a backward and out of date position, so she began modernizing. Western ideas, teachings, technologies, sciences and philosophies were introduced and adapted to the Japanese culture, and more importantly, the political system was returned from Shogunate to Emperor-ship. A young Emperor by the name of Meiji was placed at the throne and it was he who introduced new reforms and transformed his country in such a dramatic fashion that the golden era under his reign became known as “The Meiji Restoration”²².

The reopening of Japan correspond to Thailand’s, or the then Siam, 4th reign, when Siam also underwent national developments and was fighting to keep the country from falling into the hands of foreigners, especially the Western powers²³. As her neighbor fell into the hand of these foreign powers, one by one, the King realized that the only way to save his kingdom was to modernize. Although he wanted to do so in the

²¹ Teerawongseree, Tawee, *ibid.* p.32

²² *ibid.* p.32

²³ *ibid.* p.35

mould of the Westerners, he saw the success that Japan had enjoyed and recognized how valuable Japan's experiences would be for Siam, so he tried yet again to re-establish the ties of the two countries. Japan, also defending herself from the jaws of Westerners, had no reluctance in agreeing to re-establish the ties, and as a result a treaty was signed in 1887 A.D, the first between the two kingdoms. Many more treaties were signed over the next few decades with varying contents, but some of the main ones were; "Declaration of Amity and Commerce between Japan and Siam" signed in 1887, 1897's "The Treaty of Friendship, Commerce and Navigation and Protocol", and "Treaty of Friendship, Commerce and Navigation between Thailand and Japan" in 1937.

It is quite interesting to note that in the first treaty, the "most favored nation" clause was included, and both countries perceived each other as equals, a luxury uncommon to both as treaties with the Western powers always put them at a disadvantage. However, with the second treaty, Japan began to exert her political and commercial power, and hence was given a superior position over Thailand, similar to those granted to the Westerners. The reason that Thailand allowed such a demand by Japan might be because, she saw Japan as an equal to the Western powers, especially after Japan's victory over China in 1895. Japan continued to gain better benefits from her treaties with Thailand and, perhaps, showed a glimpse of the direction that the relationship between the two countries were going to continue in the future.

The Japanese influence on Thailand during Rama the 4th reign was immense, due to the high regards the King had for Japan. It was such an amazing feat that an Asian country could modernize itself and developed so rapidly as to be able to stand on the same plateau with the Western powers. Since Japan was so successful, the Thai authorities thought that following in Japan's footsteps would also yield the same results for Thailand. And also during this time, the Western Colonial powers began colonizing more aggressively, which was that more easier for Japan to step in and exert her influence on Thailand, as protector of Asian values and traditions²⁴. The Thai bureaucrats started to replace Western advisors with Japanese ones, as well as inviting experts from Japan to come and educate the Thais. During Rama the 5th reign, Japanese engineers were invited and employed to oversee the laying of the first railway tracks in Thailand²⁵. Japan also stepped up her role as protector of Asia by acting as the mediator in the border disputes between Thailand and France, which were causing a lot of tension. And although Thailand never got all

²⁴ *ibid.* p.47

²⁵ Teerawongseree, Tawee, *ibid.* p.52

that she wanted, Japan's assistance was deeply appreciated, and Japan became a kind of "big sister" for Thailand. The trade and economic activities between the two countries also continued to grow healthily, and was also very important in helping to spread Japan's influence on Thailand.

The trade activities and volume grew at a rapid pace, with Thailand enjoying trade account balance surplus over Japan in the beginning. And even after the First World War, when all the European countries returned to the Thai economic scene, they were unable to dethrone Japan as Thailand's main trading partner. The reason for Japan's success in the Thai market is that their goods are much cheaper than the European's, as well as matching the consumers' demand and yielding speedy and high profit for the importers. But Japanese trade with Thailand relied primarily on Chinese traders and merchants, who made up a large population of the Thai commercial sector. And when the Chinese staged a protest against Japan, after a conflict between Japan and Mainland China in 1919-1920, Chinese traders took up their motherland's stance and refused to import Japanese goods. The damage to the Japanese economy was devastating, and although Japan had asked for Thailand's assistance in the matter, the Thai authorities did not intervene citing that it was an issue between China and Japan. But the truth was that the Thai bureaucrats were becoming increasingly suspicious of Japan's continuing influence and their unhidden interests in Thai resources²⁶.

The situation took a turn for the worse, when some leading figures in Thai politics suggested that Japan's right to buy land in Thailand that was included in some previous treaties be revoked. Furthermore, between 1928-1934, Thailand's previous trade account balance surplus against Japan changed dramatically to a trade account balance deficit. This further complicated the situations as Japan was then firmly established as Thailand's main trading partner, evident from the fact that in 1937, 26% of all Thai imports were brought in from Japan. The account deficit had a definitive impact on the Thai-Japanese relationship, because since Thailand had an account deficit, her buying power is less and can no longer afford to import as much goods from Japan as she used to. But since Japan still wanted to sell her goods, she had to encourage growth in Thailand's various sectors in order to stimulate growth and improve Thailand's buying, as she still view Thailand as an important market, and did not want to loose her to the competition²⁷. But with the world on the brink of a Second World War, the economic situation between the two

²⁶ *ibid.* p.70

²⁷ Teerawongseree, Tawee, *ibid.* p.65

countries did not improve too much, despite Japan's efforts, the political situation did change however, quite dramatically indeed.

The Second World War

Japan had, for quite some time prior to the Second World War, been trying to persuade and influence Thailand into joining force with her and become her ally. But since Thailand was suspicious of Japan's interests, as well as her increasing concerns and unhappiness about the ever-growing trade account balance deficit against Japan, she did not commit herself²⁸. And although Thailand had announced that she would maintain a neutral stance in the event of war, it was clear that the Allies spearheaded by the United States of America and Great Britain, and Japan would not allow her the luxury of peace. The warring parties were well aware of Thailand's strategic location and realize the advantage they would command if only they had Thailand's assistance.

Japan's interest in Thailand, and more specifically her resources, were spurred on by the sign of war and marked a shift from the interest which were previously primarily economically driven. At the same time, Japan employed the policy of moving onto mainland Asia to exert her power, in preparation for the war²⁹. Furthermore with Thailand being the only Southeast Asian nation that had not fallen into the hands of the Westerners, and Japan promoting propaganda for a "United Asia against Western power", Thailand was the perfect partner to help lead the charge. But Japan had never hid her ulterior motives, which were Thailand's strategic location, as well as the abundant resources essential for Japan's military operations in the area. So Japan, although unsuccessful in her attempts to recruit Thailand as her partner in war, did not want to lose such a strategic gem to the Allies, took Thailand on as a political partner by offering a number of treaties which practically made Thailand her ally, by nature at least, if not by name³⁰. Japan pushed further with the United Asia movement and promoted mottoes such as "Co-existence and Co-prosperity" and "New Asian Order". Thailand relished her role as the "co-leader" of Asia, and started leaning more and more towards the Japanese³¹.

One of the reasons that allowed Thailand and Japan to grow so close during this period was that as the war was approaching, both

²⁸ *ibid.* p.116

²⁹ Kumphantong, Thanida, "The Relations Between Thailand and Japan, 1948-1987", p.20

³⁰ Teerawongseeree, Tawee, *ibid.* p.118

³¹ *ibid.* p.158

countries had undergone uncannily similar changes in their domestic affairs. Both governments were practically handed over to Military leaders as signs showed that war was no longer inevitable. They also became more nationalistic, and since both governments were militaristic, their interests matched more perfectly than in any other era³². The relationship and interests moved from trade to security, from money to armaments. Hence, the treaties signed during this period were far more concerned about the army than the economy. But even though Japan was close with Thailand, her frustration began to show after yet again failing in her bid to get Thailand to join her. Japan was becoming nervous about the possibility of losing Thailand to the Allies, as the war intensified. And although Japan had captured Thailand's signature on a number of treaties, which already put her at a better situation than the Allies, she knew she could not afford to lose Thailand. Thailand's position right at the heart of Southeast Asia, combined with her good transportation systems such as roads and railroads, a large number of which Japan had an active part in building and developing, would be advantageous for the ability to dispatch troops quickly into British strongholds of Burma and Singapore. And Thailand has got all the resources that Japan would need for her troops, as well as timber, rubber and metal and abundant of rice for feeding the army, Thailand was that much more important³³.

After successfully conquering Indochina in 1941, Japan's position as leader of all Asia was undisputed, and it resulted in more Japanese coming into Thailand as tourists and businessmen. It was perilous times and the Japanese presence both in and around the country had the Thais concerned for their sovereignty and on the edge of paranoia. The fear that Japan might suddenly attack prompted the Thai leaders to meet secretly with the Allies for assurances. There were conflicts between pro-Westerners and pro-Japanese around the country, and during this period clashes between the Thais and Japanese on the borders were becoming the norm³⁴.

Japan finally moved troops into Thailand in 1941, citing that this was a crucial part of her campaign, and that if the use of force were needed, they would not hesitate. The Thai leaders were alarmed and met with the Japanese representatives to air their concerns. Japan asked for Thailand's assistance during the war, and asked that they were granted a safe passage through Thailand, and that during their stay in the Kingdom, all necessary and required facilities were made available to them.

³² Kumphantong, Thanida, *ibid.* p.21

³³ Teerawongseeree, Tawee, *ibid.* p.135

³⁴ *ibid.* p.122



Realizing that her army was no match for Japan, and in order to save lives, the Thai leaders agree to comply with Japan's requests, but rejected their offer to become an ally³⁵. Thus the relationship between the two countries was raised to "Offensive and Defensive Alliance", with the Thai authority required to provide convenience, facilities and assist the Japanese army as much as they can, while in return, Japan would respect and defend Thailand's independence and honor³⁶.

However as the war progressed, Japan and her allies enjoyed more victories and most notably the victory at Pearl Harbor, the Thai leaders predicted that Japan would win the war. But by staying neutral, Thailand realize that she would gain nothing, so the Thai leaders held a meeting which resulted in Thailand declaring war on the United States and Great Britain on 25th January 1942³⁷. After the declaration to join Japan, Thailand was required to assist Japanese war activities, and Japan gave Thailand warplanes and ammunitions and promised to return all the territories she lost to the Westerners. In return, Thailand allowed the building of new facilities as seen necessary by the Japanese, which included airports. Japan was also allowed to use Thailand existing resources such as fuel for the warplanes, ammunitions, explosive, literally all Thailand's resources were at Japan's disposal. Transportation wise, Japanese army was granted the privileges to transport their soldiers around the country by trains and all necessary means. New facilities concerned with trains and railroads extensions were allowed, and Japan promised to help in the running and the maintenance of the new trains introduced during this period³⁸.

During the three years as Japan's partner in war, between 1942 to 1945, Thailand co-operated with Japan in all aspects to fulfill her duties and further the cause of "Greater East Asia Co-Existence and Co-Prosperity Sphere" policies employed by the Japanese. The three years affected Thailand greatly, economically and socially. During the war, Thailand suffered from severe inflation, commodity shortages, and damages to buildings inflicted by the Japanese activities. Thailand's partnership with Japan also caused friction in the Thai society, and met with fierce opposition from the "Free Thai" movement, led by Mr. Preedee Pranomyong in Thailand and M.R. Sanee Pramroj, the Thai ambassador to the United States, who initially refused to accept or

³⁵ Teerawongseree, Tawee, *ibid.* p.124

³⁶ Kumphantong, Thanida, *ibid.* p.22

³⁷ Teerawongseree, Tawee, *ibid.* p.135

³⁸ *ibid.* p.137

recognize the war declaration as legitimate³⁹. The group worked closely with the governments of the United States and Great Britain to create an understanding with them and prepare to de-throne Japanese influence on Thailand. The “Free Thai” movement were also responsible for ensuring Thailand’s independence after the war, by negotiating with the Allies by arguing that the War Declaration by the Thai government during the war was illegitimate because only two of the required three signatories signed the declaration. Thailand was thus acquitted of the loser status and did not have to be placed under the Allies’ control or be responsible for the payment of war damages⁴⁰.

Following the war, the Thai-Japan relationship once again entered a Dark Age, because Japan, as the loser of the war, was placed under the control of the Allies. The United States were responsible for all Japan’s affairs, and at first shut Japan out from the rest of the world. But in 1948, the relationship between the two countries was re-established, as the Allies and the United States tried to rebuild the war-ravaged Japan from ashes and rumbles. Trade and economic activities were perceived as the fastest way to rebuild Japan and hence all emphasis were placed on the economy, with the United States inviting and encouraging Thailand to rebuild trade-ties with Japan⁴¹.

Japanese Foreign Aid

Reparations Programs

After the war, Japan was required by the “Peace Accord of San Francisco” to pay the countries that were affected by and suffered damages from Japanese military activities during the war. Japan was required to provide payments of wartime indemnities in the forms of services, capital goods, technical assistance and expert dispatchments⁴². Burma was the first country to receive reparation payments from Japan, and others such as the Philippines and Indonesia followed soon afterwards. Japan started her war reparations programs to Thailand in 1955, after a lengthy discussions and negotiations about the terms and the forms that the payments will take. The reason Thailand qualified for the war reparations program was that during the war, Thailand had loaned

³⁹ Na Pomphet, Vichitwong, “Saree Thai”, p.76

⁴⁰ *ibid.* p.199

⁴¹ Teerawongseree, Tawee, *ibid.* p.196

⁴² Islam, Shafiqul, “Yen For Development”, p.38

Japan some money to use for the Japanese military activities in Thailand⁴³

On 25th 1941, the United States announced that she would confiscate Japanese assets in her country in retaliation to Japan moving troops into Indochina. Others such as Great Britain and the Netherlands followed the United States' lead soon after, which resulted in a shortage of the Pound Sterling in Japan⁴⁴. It affected Japan greatly, because the Pound Sterling was used to exchange for other currencies, the Baht included, and without the Pound Sterling, it means Japan had practically lost her buying power. In order to survive the ordeal, the Japanese government asked for a 10 Million Baht loan from the Thai government to use for buying raw materials essential for her military operations in Thailand. At first Mr. Preedee Pranomyong, the then Minister of Finance, was reluctant to agree for he foresaw that Japan would certainly keep asking for more loans for her continuing military activities in Thailand and Southeast Asia. Loaning such a large amount of money would undoubtedly cause inflation and affect the Thai economy. Instead, Mr. Preedee suggested that Japan should print their own notes for use in time of war, called "Invasion Notes", which Thailand could easily cancel at the conclusion of the war, without affecting the Thai economy and at the same time avoiding inflation⁴⁵.

But after bitter discussions, the Thai government agreed to loan Japan the 10 Million Baht, in order to calm the intensifying situation and display her neutrality. Japan was required to repay the loan in gold, but she at first refused, asking that the Yen be accepted instead. But Thailand did not comply citing that the Yen could not be exchanged for any other currencies. In the end Japan had to agree with the terms set by the Thai government. However, by August 6th, Japan had exhausted the first loan, so they asked for another loan worth 25 Million Baht and promised to repay it in gold, earmarked at the Bank of Tokyo. But the fact was that the terms set by the Japanese were so rigid that Thailand had no possibility of taking the gold out of Japan. Mr. Preedee, who was responsible for the loans, had asked Japan to bring the gold to Thailand. But Japan refused as she wanted to keep the gold in her country, and a fierce conflict erupted. Japan said that they were not treated with respect, since in dealing with the Westerners, Thailand allowed them to keep the

⁴³ Kumphantong, Thanida, *ibid.* p.39

⁴⁴ Teerawongseree, Tawee, *ibid.* p.115

⁴⁵ *ibid.* p.115

gold in their country. But Thailand stood her ground, and Japan finally had to accept Thailand's terms⁴⁶.

Overall, from 1941 to 1945, Japan had received a total of 1,230,701,083 Baht or 1,965,700,000 Yen loan from the government of Thailand⁴⁷. But Japan had not fulfilled her duties in repaying the loans. So once the war was over and Japan was required to initiate the war reparations programs, Thailand raise the issue, which resulted in 2 agreements, signed by the two governments in 1955 and 1962. In the agreement of 1955, it was agreed that Japan would repay a sum worth 54,000 Million Yen in Pound Sterling, payable in settlements, which was fulfilled by 1959. Another amount worth 96,000 Million Yen was to be payable in the form of capital goods, services, technical assistance but a problem arose when Thailand felt that this amount should be given as a grant, while Japan insisted that she expected Thailand to repay the amount in the future. Hence, the negotiation dragged out before finally being settled in 1962⁴⁸. Japan agreed to repay the amount as grants, payable in settlements of 1,000 Million Yen per year for 6 years, with 2,600 Million Yen being payable in the final year. But the grants had attachment clauses that required the Thai government and private sectors to buy Japanese goods and services with the grants. And although the reparations programs were not exactly foreign aid, it certainly paved the way for the beginning of the foreign aid relationship between the two countries.

The following table shows how the reparation payments received from Japan were used by the Thai government.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

⁴⁶ Teerawongseeree, Tawee, *ibid.* p.115

⁴⁷ *ibid.* p.143

⁴⁸ Kumphantong, Thanida, *ibid.* p.45

Table 5.1.
List of Japanese Goods and Services acquired by Thailand through the war reparation payments.

Date signed	Types	Value (Thousand Yen)	Receiver
6 th November 1962	Repair of Electricity Suppliers	8,845	Provincial Electricity Authority
	Construction Materials	13,197	Provincial Waterworks Authority
18 th February 1963	Building site survey for the Nam Pung Hydro-electric Dam	15,100	Department of Energy Development and Promotion
22 nd March 1963	Construction Materials	1,796	Department of Energy Development and Promotion
14 th May 1963	Textile Mill	1,677,744	Textile Authority of Thailand
30 th October 1963	Surveillance Boats	257,400	Department of Fisheries
13 th December 1963	Consultations for the Nampung Hydro-electric Dam	43,165	Department of Energy Development and Promotion
2 nd April 1964	Electrical Appliances for the Nampung Hydro-electric Dam	180,000	Department of Energy Development and Promotion
2 nd March 1964	20 Containers	218,358	State Railways of Thailand
15 th October 1964	2 transport vessels	1,093,608	Department of Energy Development and Promotion
23 rd December 1964	Rails and train Components	1,948,486	State Railways of Thailand
16 th March 1965	12 Containers	210,221	State Railways of Thailand

19 th September 1965	7 Diesel Engines	193,730	State Railways of Thailand
19 th June 1967	1 Container	21,665	State Railways of Thailand
21 st July 1967	Services for the Lum Dom Noi Hydro-electric Dam	29,636	Department of Energy Development and Promotion
4 th July 1968	Services for the Lum Dom Noi Hydro-electric Dam	68,459	Department of Energy Development and Promotion
Total		5,981,610	

From: Shigeru Sugitani, "Japan's Economic Assistance to Thailand", p.40

In: Thanida Kumphantong, "The Relations Between Thailand and Japan, 1948-1987", p.47-48

Japan and Foreign Aid

Japan, like all other aid donors have their reasons for giving aid. The exact reasons may never be exactly pointed out or defined, but Japan has always been criticized about the terms and the ulterior motives of her aid giving. According to Potter (1996), "Japan has often been accused of extending aid as a mere extension of overseas investments". And although the reasons for giving aid undoubtedly changes with the world events and political situations of the time, from the beginning of her aid program, Japan had never attempted to hide her motives for aid, which was to develop Japanese industries and foster Japanese prosperity through aid⁴⁹. The war reparations programs although not exactly foreign aid, served the same purpose and modern foreign aid developed from these programs. The reparations programs were unquestionably crucial in Japan's economic recovery from the war, as it opened up foreign markets for Japanese goods, as well as give Japan back her prestige and honor while at the same time providing Japan with locations that were rich in raw materials essential for furthering her growth. The program also paved the way for her foreign aid relationship with a number of countries, and offered models for the forms Japanese foreign aid were going to take in the future⁵⁰.

⁴⁹ Potter, David M. *ibid.* p.4

⁵⁰ Kumphantong, Thanida, *ibid.* p.45

But Brooks and Orr sees the war reparations program as only one of several reasons and foreign policy employed by the Japanese government. They outlined the major reasons for Japanese aid into 4 phases, the first two phases being initiated right after the war to help get Japan back on her feet, namely the war reparations program from the mid-1950s to the early 1970s, and tied aid designed to promote Japanese exports from mid-1950s to early 1970s. The other two phases are aid that are designed to promote interdependence with resource-rich aid recipients, with the aim of fostering resource diplomacy in the 1970s, and basic human needs, LDC aid and sensitivity to the humanitarian needs of countries of strategic importance. But whatever the true reasons behind the Japanese aid may be, it is clear that it corresponds perfectly to Japanese foreign policy which placed a special emphasis on economic matters after the Second World War⁵¹.

Furthermore, aid is one of Japan's few effective tool of implementing her foreign policy. With Japan being forced to renounce from war, and her military limited, bordering on non-existence, foreign aid becomes one of a few ways to exert her power abroad. Japan has also employed foreign aid as a bargaining tool, as well as a tool for security measures. Foreign aid served many purposes for Japan and have undeniably played a crucial role in helping her to become a respected and influential member of the world community, but Japan's rise to the top of the aid donor list is an achievement, probably best described as amazing.

It is an amazing achievement because when Japan first started to participate as an aid donor, in the Colombo Plan around 1954, eventhough on a small scale, she was still an aid recipient herself. But by taking part in such an internationally supported and recognized cooperation scheme, it helped her to regain acceptance into the world community after the war years⁵². The first yen-loan was initiated in 1958, as a part of a World Bank Consortium. Japan finally joined the elite group of aid donor as a founding member of the Development Assistance Committee, the DAC, in 1961, and three years later in 1964, her status in the world community was promoted from an aid recipient to an aid donor, and joined the league of advanced countries⁵³. With the continuing growth of her current account surplus over the ensuring decades, Japan's role as an aid donor and her influence on the world, especially in Asia and Southeast Asia increased steadily. This was evident in her playing an

⁵¹ Potter, David M. *ibid.* p.17

⁵² Yanagihara, Toru and Anne Emig "An Overview of Japan's Foreign Aid" in Islam, Shafiqul, *ibid.* p.37

⁵³ Yanagihara, Toru and Anne Emig, *ibid.* p.39

instrumental role in the establishment of the Asian Development Bank in 1966. The decisions taken during the mid-1960s also reflected not only economic motivations such as trade and investment promotion, but also a response to increased political pressure by the United States and security concerns related to political stability of the region⁵⁴.

The concerns for regional security and stability as well as the awareness of the rapid extensions of Communism ideology into Southeast Asia prompted a shift in Japanese foreign aid, from one based purely on economic considerations to one that concentrated more and more on international security. This era gave rise to a new form of aid; termed “strategic aid” which was given to countries of strategic importance and bordering on area of conflicts, such as in 1979 when Vietnam invaded Cambodia, Japan suspended all her aid to Vietnam and increased her aid volume to Thailand to maintain stability in the region in the face of turmoil. And although strategic aid is given to countries that are politically and militarily important to Japan and Western Alliance, it is by no mean military aid. They may intend to serve the same purposes, but strategic aid is given with the intention to maintain political stability indirectly, by stabilizing the recipient economy. This type of aid then contributes significantly not only to the recipient’s economy, but the regional security too. However, strategic aid is not a prominent type of aid distributed by Japan, as it had been employed for certain period and certain incidents only. The more consistent types of aid distributed by Japan are loans, grants and technical assistance.

Types of Aid

AS the military no longer feature prominently in the Japanese political scene, military aid is not one of Japan’s main type of aid. Instead, the three the three types of aid that Japan regularly distributes to the world are; loans, grants and technical assistance. In the beginning, these aid were almost always tied, which prompted outcry from the recipients, and other aid donors and pressure was put on her to soften up her aid terms. Japan has complied by trying to distribute more untied aid and increasing the volume of her aid, over the years.

⁵⁴ *ibid.* p.40

- **Loans**

Loans have featured prominently in Japanese aid since the inception of the foreign aid programs. Japanese foreign aid loans are in turn divided into four types, comprising of loan aid, project loans, commodity loans and project lending. Project loans have been the most common type of loan given out by Japan, but since the 1980s commodity loans and program loans have increased steadily in their importance and volume. Loans usually result in infrastructure development, and are usually located for energy, transportation, and public utilities developments according to the guidelines of the Oversea Development Assistance, ODA. Loans offer by donors such as Japan are quite cheap in comparisons to loans that can be obtained from commercial banks, and the terms offered by these donors usually often allow for a longer period of repayment at a somewhat lower interest rate. The 1970s saw a large amount of yen-loan given out for the development of infrastructures in the recipient countries. But the success rate of these large yen-loan projects are quite low, and they tend to increase the rich-poor gap and in turn, creating more social problems for the recipient, so Japanese loans have shifted towards support of economic infrastructures and agricultural development instead.

- **Grants**

Grants are, unlike loans, given without expectations of repayments. They are primarily a sign of goodwill and are used to strengthen the relationship of Japan and the recipient. Japanese capital grants are usually used for social infrastructure development in such areas as housing, medicine, research and education, while in some countries they are used for agriculture projects, marine projects and emergency aid. Grant aid is the sole source of funding for building construction in Japan's aid program, and hence is in high demand and are highly soughted by the recipients. Grant aid has also been used for cultural activities to further the Japanese relationship with the recipient on many occasions.

- **Technical Aid**

Technical assistance is the third kind of aid distributed by Japan to the recipients. Experts in a particular field may be sent to a recipient country for a certain period of time in order to educate and update the officers and population of the recipient countries with new technologies, or methods. Although Japan regards technical assistance as one of her strength in the field of foreign aid, it has never truly realized its full potentials. One factor for the hindrance is the language barrier. Japanese is by no mean an easy language to learn, and although efforts have been made to prepare the experts to used English as the medium in order to iron out the problems, it is as yet unresolved. Apart from the language problem, some recipients have complained about the high cost of experts.

Japan, with the employment of the above-mentioned types of aid, has risen to become a prominent player as one of the world most generous aid donor. Her aid has concentrated primarily on Asia and Southeast Asia during the 1970s, and unquestionably had helped the countries in the region to develop economically and socially. Japan is also one of the single biggest aid donor to many of these counties, and this is also true, in the case of Thailand⁵⁵.

Japanese Foreign Aid and Thailand

1966 is generally recognized as the year that the official aid relationship between Japan and Thailand was initiated. After the settlement of the prolonged reparations program in 1966, the Japanese-Thai relationship was prospering, resulting in more Japanese goods flooding into the Thai market, along with the huge amount of investment from Japanese firms, which has ever since been continually on the top of Thailand's foreign direct investors list. And since the relationship between the two countries was quite healthy, Thailand had little hesitation in approaching Japan with an official request for long-term yen loan at the First World Bank Sponsored Consultative Group Meeting, in Tokyo⁵⁶. The loan was to be used for development projects under Thailand's Second National Social and Economic Development Plan.

⁵⁵ Potter, David M. *ibid.* p.8

⁵⁶ *ibid.* p.24

And after some procedural process, Japan pledged to assist Thailand with 21.6 billion yen.

Thailand's National Social and Economic Development Plans.

The National Social and Economic Development Plans undertaken by the Thai government since 1961, to forecast and predict the trend and directions that the economy would take in order to allocate resources accordingly for maximum benefits. The plan had from the start, relied heavily on foreign aid such as loans and grants, which comprised a significant portion of the budgeting and were expected to equal or even surpass funding from domestic sources. Ever since the First Plan, the Thai government placed special emphasis on the development of public infrastructures, such as roads, seaports and urban facilities, while at the same time pursuing strategies to decentralize the economy of the nation⁵⁷. Furthermore, the government tried to develop Bangkok into a complete capital, by turning it into an economical, political, cultural and administrative center. And although the government also tried to develop the regions outside Bangkok and the Central Plains, the capital nevertheless received the lion's share of the allocation of funding and resources for the development of the transportation system, irrigation systems and schools. And while Bangkok prospered, other parts of the nation were literally neglected and overlooked, creating a gap between the capital and the rest of the country which in-turn created more problems for the Thai government, such as the excessive labor movement from the country into the Metropolitan area. Outside of Bangkok, the government was concerned only when there were threats to the political stability of the government⁵⁸.

Potter raised the Northeast as an excellent example of a threat to the Thai government. The Northeast region of Thailand was home to about one-third of the Thai population, and even though it had the highest level of poverty in the country, it was practically ignored until there were tension in Indochina. The threat of war prompted the government to shift their policy from one of negligence to one of counterinsurgency, as political stability was linked to regional underdevelopment. With aid from the United States, the government quickly began implementing the "social overhead" programs based largely on and concerned primarily with road building, communications and counterinsurgency measures

⁵⁷ Potter, David M. *ibid.* p.41

⁵⁸ *ibid.* p.43

such as the accelerated rural development plan to secure that area against undesirable effect from the war⁵⁹.

The above paragraph raises an important issue that should now be mentioned. Eventhough Japan has been Thailand's single biggest aid donor for quite a long time, but at one point, the United States held that honor. After the Second World War, the United States became very influential in Thailand as the Europeans nations were still recovering from the effects of the war, and Japan was restrained from all international affairs. But with the United States' gradual withdrawal from the region, Japan was handpicked and encouraged by the United States to take over her place as "guardian" of Southeast Asia. The United States regarded Japan as a suitable replacement because, by then Japan's economy was quite stable as well as possessing advanced technological knowledge and an educated and capable workforce. Japan too, realized that if the United States completely withdraw while she stood by and did nothing, her interest and reputation could suffer, because she had become a world power and a prominent member of the world community. Furthermore, Southeast Asia is an important resource base for the resource-sacred Japan, and by stepping into the void left by the United States' departure, she would practically guarantee herself of the suppliers of her raw materials, essential for further growth, and markets for her exports. So Japan stepped up her role in Southeast Asia, and after offering Thailand the first loan, Japan became more and more important, and finally replaced the United States as Thailand's single biggest donor during the Fourth National Plan⁶⁰.

Japan had offer aid corresponding to the priorities set forth by the Thai government, and understandably Bangkok benefited most from the Japanese aid, which were predominantly capital projects such as highways, bridges and dams. The Northeast were allocated more Japanese aid than any other part of the country, because the development of that region had become important for the stability of the government as well as the stability of Southeast Asia. Hence, rural development aid commenced later when the Thai government began dealing seriously with the problem of rural poverty. Since the present research covers the years 1970-1980, we will concentrate on the Plans that span these 10 years, and since the first official foreign aid from Japan was initiated during the Second Plan, we will overlook the First Plan and go straight to take a brief look at the details of the Second Plan and the Plans thereafter.

⁵⁹ Potter, David M. *ibid.* p.43

⁶⁰ Kumphantong, Thanida, *ibid.* p.49

Thailand's Second National Social and Economic Development Plan 1967 – 1971

Thailand began negotiating with Japan for the First Yen Loan under her Second Development Plan, when Japan pledged to assist Thailand with 21.6 billion yen, or 1,200 million baht. The Export-Import Bank of Japan was to provide 10,800 million yen with an interest rate of 5.75 percent per annum, 15 to 18 years repayment period including a 5 years grace period. The other half of the fund was to come from the Overseas Economic Cooperation Fund, the OECF, with an interest rate of 4.5 percent per annum, 20 years repayment period and 5 years grace period⁶¹. The distributions of the loan are shown in the list below;

Export-Import Bank Loan:

- | | |
|--|-------------------|
| • Extension of telephone network in Bangkok and Thonburi area. | 4,511 million yen |
| • Coastal transportation routes. | 982 million yen |
| • Improvements for state railways. | 2,836 million yen |
| • Extensions of telephone network. | 792 million yen |

OECF Loan:

- | | |
|--|-------------------|
| • Lum Dom Noi Hydroelectric Dam Project. | 1,342 million yen |
| • Nam Prom Hydroelectric Dam Project. | 3,135 million yen |
| • Lum Dom Noi Hydroelectric Dam Project 1. | 822 million yen |
| • Lum Dom Noi Hydroelectric Dam Project 2. | 329 million yen |
| • Ta Chang bridge Project. | 1,278 million yen |
| • Queen Sirikit Hydroelectric Dam Project. | 782 million yen |
| • Expansion and Electrification 1. | 1,152 million yen |
| • Expansion and Electrification 2. | 470 million yen |
| • Kang Krachan Hydroelectric Dam. | 470 million yen |

⁶¹ Teerawongseeree, Tawee, *ibid.* p.210

As is evident from the above list, the Second Plan saw the Thai government placing special emphasis on heavy infrastructure development, with the power sector particularly receiving a lot of attention. Transportation and communications, public utilities and agriculture were also high on the government's priority list and received the biggest shares of the 52.52 million baht development budget. Japanese aid were distributed according to the priorities set by the Thai government, with a large portion of it going to the power sector⁶².

Potter (1992) points out two reasons for the sectoral concentrations of Japanese aid in this plan. The first is that in order to avoid undesirable consequences and wasting valuable resources, both government probably saw it best that Japan stuck to familiar ground. During the Reparation payment program, Japan had experiences in the survey of construction sites and the actual construction of hydroelectric dam in the region, so it was sensible to expand on that success. The second reason is that the Thai government lacked the ability to manage the projects successfully. The government had no clear idea as to how to distribute the fund effectively, causing a gap to emerge when the differences between the metropolitan Bangkok and the rest of the country was so obvious that the government was no longer able to hide it under a carpet. Potter suggests that in the Second Plan, emphasis were placed on the development of heavy infrastructure at the expense of rural development, resulting in 2.2 billion yen from the First Yen Loan being unused due to poor assessment and implementation by the Thai government⁶³.

Concerns and complaints by the Northeast about the rapidly growing gap between the poor agricultural Northeast and the industrializing Central regions, coupled with threats to the country's security from the war in Indochina prompted the government to shift their policy to that of alleviating the regional disparities. During this period of concerns, the Northeast received aid projects with strategic motives, such as social services for the region to keep the northeastern population content and protecting against the possibility of their support shifting towards Communism. The projects concerning these issues were financed predominantly by the United States, prior to their withdrawal from the region.

Despite the government's inability to develop both infrastructure and rural development simultaneously, a number of important projects were initiated during the Second Plan. Four projects in the first two phases of the loan package, funded by the Export-Import Bank of Japan,

⁶² Potter, David M. *ibid.* p.44

⁶³ *ibid.* p.46

were committed for the telephone network expansion in the Bangkok metropolitan area, improvement of ports and coastal navigation routes, and expansion of the state railways. Two grants in 1970 and 1971 funded the Thai-Laos Microwave Project. Loans for two hydroelectric power project in the Northeast, both for the construction of dams, were designed not only to provide electricity, but irrigation and flood control as well⁶⁴.

The Third National Social and Economic Development Plan 1972 – 1976

The Third Plan's budget continued the emphasis on infrastructure and public services development. A surprising change from the Second Plan was that Education was allotted the largest portion of the total development budget. Transportation and communications, urban and rural development, agriculture and power were still high on the government's priority list. Foreign aid was again expected to feature prominently in the infrastructure development. Almost two-thirds of the 74 billion yen committed by Japan to the Second Yen Loan, was allotted to power development and transportation and communications. The Plan emphasized the improvement of power supply and distribution and electrification. The power development funded by the Japanese loans either provided additional to existing facilities or constructed new facilities in anticipation of future demands. The focus of the Third Plan was now on the North and Northeast regions, with the Northeast receiving particular attention on transportation, agriculture and social services⁶⁵.

Thailand's Third Plan corresponded with the Second and Third Yen Loan agreed upon between April 1973 and March 1977. Japan pledged a total of 64,000 million yen, or 4,820 million baht, for the Second Yen Loan, with 12,000 million yen to be provided by the Export-Import Bank of Japan, with an interest rate of 5 percent per annum, 20 years repayment period and 7 years grace period. Another loan of 10,000 million yen was also set aside by the Export-Import Bank of Japan, for the Thai companies, with an interest rate of 5.25 percent, 20 years repayment period, and 7 years grace period. The OECF was to provide one loan worth 34,000 million yen with a 3.25 percent interest rate, 25 years repayment period and 7 years grace period. Another loan worth 8,000 million yen was also to be made available from the OECF for Thailand's Bank of Agriculture and Agricultural Cooperatives, BAAC, at 3.75 – 4.25

⁶⁴ Potter, David M. *ibid.* p.46

⁶⁵ *ibid.* p.47

percent interest rate, 20 years repayment period and 7 years grace period. As part of the deal for the loans, the Thai government promised free competition for both Thai and Japanese companies in Thailand, and agreed to use part of the loan to finance Japanese experts working in Thailand as part of the projects under this plan. Furthermore, both governments agreed to meet and discuss issues to iron out any possible problems and work towards smoother running of the projects⁶⁶. There were increasing criticism from Thai academics that the terms of Japanese aid tied Thailand too much and caused great disadvantages for Thailand, since Japan had clauses requiring Thailand to buy only Japanese goods to use in the projects. This caused discontent because Thailand could get the same types of goods at a much cheaper rate in the international market. The issue prompted the Thai government to requests that amendments be made to the Loan Agreements. As a result, Thailand was allowed to buy goods from other suppliers, but consents were required from both government and Thailand had to report all activities to Japan. As for the interest rates issues, the remaining 23,000 million yen of the Export-Import Bank Loan were to have a new interest rate of 4 percent, and the remaining 17,000 million yen of the OECF loan were to have a new interest rate of 2.75 percent as of 16th September 1974⁶⁷.

However, 64,000 million yen was not sufficient for the development projects under the Third Plan, so the Thai government requested a further 16,840 million yen, or 1,060 million baht. All of the Third Yen Loan package was to be financed by the OECF, and were divided into two parts, the first was a 9,550 million yen loan at a 4 percent interest rate, 20 years repayment period and 7 years grace period. The second part of the package was a 7,290 million yen loan, at 2.75 percent interest rate, 25 years repayment period and 7 years grace period⁶⁸.

But the Thai government was not satisfied with the terms of the Second and Third Yen Loans, eventhough they were lower than the First Yen Loan. The terms of the Second OECF Loan had an interest rate that was 1.25 percent lower than its predecessor and the Export-Import Bank portion was 0.5 percent lower. The repayment periods were extended to 25 and 20 years respectively, and the grace periods were extended to 7 years from 5. But the issue that caused the most discontent among the Thais was the fact that the Loans were tied. The Thai government requested that the Loans be untied, and after a year of lengthy negotiations, Japan agreed to untie some parts of the loan packages and

⁶⁶ Teerawongseree, Tawee, *ibid.* p.211

⁶⁷ *ibid.* p.212

⁶⁸ *ibid.* p.213

not others. In late 1973, a general untying clause was added to the original Exchange of Notes on the Loan Package. During Japanese Prime Minister Tanaka's goodwill visit to Thailand in 1974, he promised to speed up the utilization of loans and reduce the interest rate on half the amount of the project loans. Accordingly, the interest rate on 17 billion yen of the OECF funding was reduced to 2.75 percent, and the rate on the 6 billion yen Export-Import Bank loan was reduced to 4 percent⁶⁹.

But the Thai public was still discontent. Their main concerns were about the large influx of Japanese goods into the Thai markets, Thailand's ever-growing trade account balance deficit against Japan, and the resentments about the commercial motives of Japanese economic cooperation projects and their unhidden concerns for profits. The perception of Japanese businessmen as being cultural insensitive and the image of Japan as an "economic animal" only made matters worst⁷⁰. The pressure finally erupted in 1972, in the form of a ten-day University students' boycott of Japanese goods at Department Stores in 1972 in Bangkok. The Thai students' movement was echoed all over Asia, and Tanaka's trip to Thailand and Southeast Asia was greeted with riots and demonstrations⁷¹. The incident was an important turning point in Japan and Southeast Asian countries' relations and since then, Japan had undertaken damage control measures to cool down the situation and repair her tarnished image.

The Fourth National Social and Economic Development Plan 1977 – 1981

Some important changes took place during this plan period. In 1977, Thailand and Japan began annual bilateral talks aimed at setting each year's aid packages. Japanese aid not only increased in volume during this period, and thereafter, but also became more uniform in terms of the timing of the packages. The changes in the relationship occurred for two main reasons. The first is that Japan had openly acknowledged that Southeast Asia was an important region in Japan's foreign policy. A new dimension of Japanese foreign aid under this plan is that the aid were untied, and the process of granting aid was a lot faster than it had been in the past, owing largely to the Fukuda doctrine. The second reason is the important events such as the Vietnamese invasion of Cambodia in early

⁶⁹ Potter, David M. *ibid.* p.50

⁷⁰ Lovisuth, Priyarat "Japan's Policy on Economic Assistance to Thailand", p.29

⁷¹ Potter, David M. *ibid.* p.50

1979⁷². The resulting instability in Indochina and subsequent American military withdrawal from Thailand also greatly affected the aid relationship. The Thai government had to deal with huge influx of refugees fleeing from the horror of war in Indochina, while simultaneously re-examining its rural development strategies⁷³.

Under the Fourth Plan, development projects followed that of the Third Plan, but on a much larger scale. Education, again, was the main area of concern for the government, receiving around 40 percent of the total development budget. Infrastructure development, agriculture, transportation and communications, health and power were once again high on the priority list. Foreign aid went mainly into the infrastructure development and power sector, with the largest portion of Japanese loan aid being allotted to the power sector, accounting for about two-thirds of that sector's total budget. The Fourth Plan continued the stated policy of developing urban centers outside of Bangkok, in order to relieve migration into the capital. The government also tried to slow the growth of Bangkok by moving major public facilities such as international seaports, outside of the metropolitan area. However, Bangkok was still assigned development projects, including urban transport system development, increased coordination of public utilities, incorporation of new areas, and administrative reforms. But with most of the large infrastructure development projects moving towards completion, the government found itself concentrating on works to existing projects to increase the benefits from them. As such, the government gave less emphasis to new large infrastructure development and more to extending facilities to rural inhabitants⁷⁴.

By the end of the Fourth Plan, Japan had become Thailand's single largest aid donor. Between 1978 and 1981, Thailand received a total of 688 million US Dollars in assistance from Japan, making her the second largest recipient after Indonesia, accounting for about 9 percent of total Japanese ODA⁷⁵. Despite the large amount of aid, Japan generally stuck to the plans and goals as stated by the Thai government. During this period, for example, the power sector's importance declined as most of the important projects had been completed, accordingly, Japanese loan to the power sector also declined.

But the development of Bangkok was still an important issue for the government, hence a significant portion of Japanese aid went into

⁷² Potter, David M. *ibid.* p.52

⁷³ *ibid.* p.53

⁷⁴ *ibid.* p.53

⁷⁵ *ibid.* p.53

Bangkok's transportation and communication sector. The projects funded were largely for bridge and road extension and constructions, telephone network expansion, and basically activities that would strengthen the capital's transport and communication system. Two of the eleven loans received during this period were used for constructions of new facilities at the Bangkok International Airport. Japan also played a key role in the construction of feeder roads and provincial highway construction and expansion of communication network throughout the country⁷⁶.

Japan's commitment to assist Thailand's development outside the capital can be seen in the emergence of aid for rural development. Japan committed three loans specifically to this area, one to the New Village Development Program in 1974, one loan for the Tambon (districts) electrification in 1979, and another loan for village electrification in 1981. Agriculture also received more aid than it had ever before. For the first time, agriculture projects, especially in irrigation, were carried out genuinely, and not just by-products of power sector projects anymore. Japan committed two further loans to small-scale irrigation involving the construction of over 2000 small irrigation projects in the area. It also gave loans for the construction of electric irrigation pumps and engineering services for an irrigation development project near Bangkok. Moreover, it made loans for fisheries promotion in the Gulf Of Thailand and inland swamps, and for seed multiplication centers, and also gave grant aid for agricultural centers, 2 projects were funded through Kasetsart University and grants were made to the Songkhla Coastal Cultivation Center and the Rice Species Storage Centers. Since 1977, Japan supplied grant aid for food production increases in the forms of fertilizers and agricultural machinery. Technical aid projects during this period included aid for natural rubber production improvement, irrigated agriculture development and technical aid to coastal cultivation centers⁷⁷.

Toward the end of the Forth Plan, strategic components were added to Japanese aid programs. The Japanese government under the Ohira cabinet classified Thailand as one of the very first countries that "border areas of conflict" due to the Third Indochina War in 1979⁷⁸. Japan hence stated that a country in such a situation as Thailand was worthy of greater attention and increased aid. Since then, Japanese grant programs included several commitments to refugee aid each year. The establishment of Japanese Medical Center under JICA supervision was also an important achievement by the Japanese government. Well construction projects to

⁷⁶ Potter, David M. *ibid.* p.53

⁷⁷ *ibid.* p.54

⁷⁸ *ibid.* p.54

assist the refugees were initiated by the Japanese governments during this period, and these well construction projects later were extended to assist the Thais displaced by the refugees as well⁷⁹.

Japan's New Village Development Program is also another important achievement for the Japanese government's aid program. The program's objectives were to provide facilities to the rural poor to increase productivity and income, and to improve the physical environment of specific villages and to mobilize and support community self-help efforts. Villages, selected for the program were to be situated in the North and Northeast, poor, remote, lacking government's infrastructure services and sensitive to political and security management. These programs were unquestionably important for the Thai government also, as evident by her openly accepting the significance of the continuation of these programs. The programs were also aimed to help Thais displaced by refugees, which was a growing concern at the time, as the migration from Indochina into Thailand's poorest region had phenomenal effect on the country and the region's security and stability⁸⁰.

Japanese Aid Agency

Japan distributes all of her aid packages through one of the many domestic and international agencies that exist for this particular purpose.

Domestic Agencies

- The Export-Import Bank of Japan
- The Overseas Economic Cooperation Fund, OECF
- Japan International Cooperation Agency, JICA
- Institute of Developing Economics
- The Japan Foundation
- The Institute For the Development of Agriculture Cooperation on Asia, IDACA
- OISCA Industrial Development Body, OISCA
- Association for Overseas Technical Scholarship
- Overseas Fishery Cooperation Foundation, OFCF
- Japan Overseas Development Cooperation
- Japan Consulting Institute

⁷⁹ Potter, David M. *ibid.* p.55

⁸⁰ *ibid.* p.56

International Agencies

- Economic and Social Commission for Asia and the Pacific, ESCAP
- Development Aid Committee, DAC
- Asia Production Organization, APO
- The Association of Southeast Asian Nations, ASEAN
- Asian Development Bank, ADB
- The Southeast Asia Fishery Development Center, SEAFDEC
- Asian Institute of Technology, AIT
- The Ministerial Conference for Economic Development of Southeast Asia
- The Colombo Plan for Cooperative Economic Development in Southeast Asia

The main agencies that handle Japanese aid to Thailand are;

The OECF: Established in 1961, it began providing loans to developing countries since 1966. It is a development finance institution providing governments, governmental institutions, and other eligible organizations in developing countries with ODA loans for their economic and social development and stability. The OECF has since become the core financial institution for Japan's ODA, dealing with virtually all Japanese's bilateral ODA loans⁸¹.

JICA: JICA was created in 1974, in an attempt by the Japanese government to rationalize the aid process. It does not have ministerial status, and deals with the implementation of grant aid, technical aid and loans not handled by the OECF. Although it is technically a non-governmental entity, it is supervised directly by the Ministry of Foreign Affairs. JICA took over the functions of the Overseas Technical Cooperation Agency, OTCA, and the Japanese Emigration Services, JEMIS, and is also responsible for the administration of Japanese Overseas Cooperation Volunteers, JOCV. It also trains Japanese experts for overseas technical cooperation, conduct training programs for foreign participants, and conduct development surveys for technical cooperation⁸².

⁸¹ OECF, *ibid.* p.2

⁸² Potter, David M. *ibid.* p.11

Japanese Investment

As a result of the National Social and Economic Development Plans successfully undertaken by the Thai government, Thailand developed rapidly, and along the way had acquired an atmosphere and stability that was tempting to foreign investors. Thailand's laissez-faire business approach, with little red tape to potential investors⁸³, and favorable laws passed by the government as well as the much-improved infrastructure and transportation and communication systems were all important in encouraging foreign investments. And not surprisingly, Japanese investors were the main source of foreign investment in Thailand, at one point accounting for about one-third of Thailand's total foreign direct investment. Japanese funds covered a wide range of business and industries, and caused more concerns for the Thais. Japanese investment rose at rocket speed, from 1960 to 1974, Japanese investors invested around 1,323,000 million baht or 43 percent of the total foreign investment in Thailand⁸⁴. Automobile industry, chemical industry and electrical appliances industry were particularly popular and attracted the largest portion of Japanese investment⁸⁵.

There are many reasons why investors decide to invest in certain countries, but the main reasons for Japanese investment in Thailand as seen by Teerawongsaree are;

- To protect and further develop the (Thai) market,
- The relatively cheap labor cost in Thailand,
- Potential Profits,
- Thailand's laissez-faire economy,
- Protecting their own environment from pollution by moving factories abroad.

Others, such as former Japanese Ambassador to Bangkok, Mr. Hisahiko Ozaki thought that the factors that made Thailand appealing to Japanese investors were that both countries had monarchies with close ties, both share the same religion, Buddhism and both have never been at war⁸⁶. Another reason may be that Japanese investors feel quite safe

⁸³ Tasker, Rodney, "Wedded To Success" in "Far Eastern Economic Reviews" May 1990
p.49-51

⁸⁴ Teerawongsaree, Tawee, *ibid.* p.222

⁸⁵ *ibid.* p.222

⁸⁶ Tasker, Rodney, *ibid.*

investing in Thailand because most of the development in Thailand, both big infrastructure projects and smaller rural development projects were driven, carried out, or handled by the Japanese government at one point or another, so at least the investors could expect the Thais to treat them with respect. And although labor is cheaper in China, the Philippines, or Indonesia, Tasker (1990) suggested that Thai labor was industrious and were quick in learning new skills⁸⁷. Furthermore, the Thais had no hostility towards Japan, while most of the other countries in Southeast Asia did, due to the brutal treatments they suffered at the hands of the Imperial Army during the Second World War⁸⁸.

But whatever the real reasons behind Japanese investment in Thailand may be, concerns about Japanese presence in Thailand were growing as rapidly as the amount of Japanese funds in Thailand. It is quite understandable that such large amount of foreign capital, coupled with the ever-growing and seemingly unsolvable issue of the trade account balance deficit could caused paranoia among the Thais, some even going as far as branding the Japanese activities in Thailand as the "Yellow Peril". Other suspected that Japanese firms were buying up large tract of land, illegally⁸⁹. And eventhough both countries had been working hard to try and find solutions to the trade account balance deficit, and tackle other concerns, the problems refused to go away and kept coming back to haunt the leaders of both countries.

Japanese Joint Ventures

Another area that caused discontent among the Thais was the Japanese joint venture and their management style. Many Japanese firms entered Thailand in the form of joint venture following an economic facelift masterminded and driven by the foreign-educated Thai bureaucrats⁹⁰. That year, the government abandoned the nationalistic and closed market policy and shifted towards the free-market economy and encouraged industrialization by passing laws that encouraged investment in the industrial sector. The government also raised the import tariff rate on certain goods to protect some Thai industries. Chinese merchants, who were mostly in the import industry were affected the most by the government's new policy. Two choices became available to them, the first was to cut down import volume and move into other businesses, the

⁸⁷ Tasker, Rodney, *ibid.*

⁸⁸ *ibid*

⁸⁹ *ibid*

⁹⁰ Handley, Paul, "Talking Back" in "Far Eastern Economic Reviews", May 1990 p.54-55

second choice was to shift their interests and investment from commercial to the industrial sector. But the Chinese merchants faced two main difficulties in taking the second option. The first obstacle was that most of them did not have any production technology knowledge at all. The second obstacle was capital because purchasing new machinery and building new up-to-date factories would incur astronomical costs. Joint venture offered a solution to the Chinese merchants' problems. The combination of the Chinese's knowledge of the domestic market and the capital and technology of the Japanese was a perfect match. During this period, joint venture became a popular choice for Japanese firms looking to enter the Thai market, and it is undeniable that these joint venture efforts were one of the driving forces behind Thailand's economic transformation and success story. Some of the earliest joint venture efforts are shown on the following page.



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table 5.2
Earliest Joint Venture Efforts

Group Name	Business	Former Business	Joint Venture Deal With...
Saha Union	Textile, Clothing	Importer	Union Yoshida Industries 1961
Zew	Electrical Appliances	Importer	National Thai 1961
Siam Motors	Automobile	Importer	Siam Motors and Nissan 1962
SPI	Consumer Goods	Importer	Lion Bangkok 1962
Pothirut-tanangkul	Textile	Importer	Thai Blanket Industries 1963
Cathey Trusts	Chemical Products, Textile, Finance	Bank	Thai Asahi Glass 1963
Boonsoong	Mines	Mines, Exporter	Isuzu Motors 1966
Metro	Fertilizer	Importer	Thai Central Chemical 1973
Kamolsukosol	Automobile, Hotels	Importer	Sukosol and Mazda Motor Industries 1974

From; Suehiro, Akira, "The Structure of Capital Accumulation of Thai Business Groups"(in Japanese). *Ajia Keizai* Vol.25, No 10
In; Kumphantong, Thanida p.71

But the Japanese-Thai joint venture efforts a lot of criticism from the Thais, for eventhough the firms were based in Thailand, with Thais holding the majority of the shares in the company in most cases, the decision making power remained firmly in the hands of the Japanese. Usually, joint venture efforts started off with the Japanese partner holding the majority of the shares, and gradually handling the shares and control

of the company over to the Thai partner. And since the Japanese partner holds the majority of the shares and held the decision making power, problems could arise, as the Japanese would work out policies that would give them the most benefits.

Table 5.3
Japanese Held Shares in Joint Venture Companies
in Thailand.

Industry	1967	1968	1969	1970	1971	1972
Textile	76 %	76%	72%	68%	67%	56%
Automobile	78%	73%	71%	70%	71%	71%
Metal	56%	62%	62%	62%	60%	55%
Food	90%	91%	91%	88%	88%	73%
Others	65%	60%	60%	58%	55%	50%
Total	74%	73%	71%	68%	67%	65%

From; Japanese Chamber of Commerce
In; Kumphantong, Thanida p.79

Thai partners also complained that Japan rarely transfer technology or train staffs, most Thai-Japanese joint ventures did not have Thais in senior positions or in upper management at all. Some, like Mitsui, who have been in Thailand since around 1906, maintained Japanese nationals to run their trading desks. Some Thai partners have stated that the Japanese partner bring very outdated technology and supplies technicians who are neither capable of managing the plant nor training Thai technicians, with the sole purposes of reporting back to Japan only. And since the Japanese brought outdated technology it is an impossible task for the Thais to progress, let alone catch up. Japanese partners do not encourage their Thai counterpart to be innovative either, for example when the Thai partner developed a piece of equipment themselves for marketing in Thailand, the Thais are allowed to use the company brand

only if they paid loyalties to the Japanese parent company. Training may be provided in some cases, but are usually for only short periods, limited in scope and purpose, while some even charge the Thai partner for the training expense. There are however, rare cases where the Thai partner gained technology and management controls but this was achieved only by the virtue of their sizes. This determination to master technology and retain control is off-putting to many potential partners⁹¹.

The Japanese though, say that the Thais are impatient and the reason behind the low level of technological transfer is due to the very little absorptive capacity of the Thais for the most recent production technology. Furthermore, technology is researched and hence expensive to acquire, so it would be crazy to just give it away. Moreover, they do not like training Thai staffs because there was a growing trend of Thais leaving the company after training. These reasons are sensible enough and many Thais do in fact agree with them and admit that Thais need Japanese joint venture, and despite the criticisms, these joint ventures have offered jobs to a large section of the Thai population. The Japanese partners also cover the company with their capital in case anything should go wrong. And although the criticisms and complaints may be justified, many have to admit the success Japanese corporate and their management styles are having over their Western counterparts⁹².

The Trade Account Balance Deficit Issue

It is undeniable that trade is an important component of the relationship between two countries, and this is also true for Japan and Thailand. The trade history between the two countries can be trace back over hundreds and hundreds of years, with many things happening throughout their history that changed and shaped the way the Japan and Thailand deal with each other. Trade has developed with the passage of time, from china, animal hides, scented woods, swords and armors of the earliest period to rice, silk, elephant trunks, cooper and tea leaves to jewellery, machinery and computer components. Throughout the earliest period of trade, right up to the Second World War, the trade account balance deficit was not too bad, and Thailand even had the luxury of enjoying trade balance surplus over Japan in some years⁹³. However, since the resumption of trade ties between Thailand and Japan after the Second World War, the trade imbalance had been the trademark of

⁹¹ Handley, Paul, *ibid.*

⁹² *ibid.*

⁹³ Teerawongsaree, Tawee, *ibid.* p.256-258

Japanese-Thai trade relationship, and the Japanese trade relationship with most South East Asian and Third World countries as well, and it had been growing quite rapidly despite efforts from both the Thai and Japanese government to tackle it.

One view of the trade imbalance can be found in Teerawongsaree's work⁹⁴. He suggested that the problem owed much to the different economic paths that the two governments had chosen. He sees Thailand as a small developing country whose main commodities and exports were agricultural products and primary products. On the contrary, Japan was a rapidly industrializing country, whose commercial goods were cheaper than other suppliers for Thailand, due to the geographical closeness of the two countries which help reduced the transportation costs. Japanese goods were also highly popular among the Thai consumers, resulting in Thai importers importing more goods from Japan than any other country, further aggravating the trade imbalance problem. And while Japan had needs for agricultural products for consumption and development into exportable secondary products, Japan did not purchase all, or even most, of her goods from Thailand. Japan explained that since she was a small country extremely vulnerable to external shocks, she did not want to rely too heavily on any one supplier. Furthermore, Japan wanted to maintain her markets, which she had access to, the world over, so Thailand was by no means the main trading partner of Japan. Moreover, Japan promoted her exports vigorously while placing strict import measures on all incoming imports, making it close to impossible for her trade partners, Thailand included to export to her market. Japan also held high stakes in the transportation and insurance sectors, and with an army of highly skilled and competitive, bordering on aggressive, businessmen, her expansion into the world market was that much easier.

Lovisuth (1984), agreed with the above point⁹⁵, and added that Japan encouraged Thailand to further develop her exports in order to get more profit from them by improving the quality of her products. But in order to be able to do so, Thailand would need advanced technology and machinery to increase production efficiency, productivity and quality of her products. And where else would these required technology and machinery come from, if not Japan? On the surface, the encouragement seemed well intended, but the fact was, however, it became a vicious trap for Thailand. These machinery did not come cheaply, even though in most cases, it seemed Japan had offered them to Thailand at a "special discounts" rate already. But no matter how high the Thai products

⁹⁴ *ibid.* p.216

⁹⁵ Lovisuth, Priyarat, p.91

became, or how much more Thailand could export, the Thai products still met with strict import restriction in Japan. The naked truth is that no matter how much more Thai exports could penetrate into the Japanese market, the profit could never offset the colossal costs of importing machinery from Japan. Hence, the trade account balance deficit was an issue that refused to go away, and it seems Thailand had no chance, and still has none, at all at balancing the trade imbalance between the two countries.

Thai Students' Anti-Japanese Movements.

The discontent, concerns and paranoia of the Thais about the Japanese presence in the country, the large amount of foreign investment, the trade account balance deficit and the increasing Japanese influence on the Thai economy culminated in the form of a student protest against Japanese goods in Bangkok. The movement was started by a group of students who found the "Anti-Japanese goods" club at Kasetsart University in 1971. The club printed and distributed leaflets asking fellow students and Thais to stop buying goods made in and imported from Japan. The movement had the full backing of professors, academics, and while some politicians also jumped on the bandwagon, others were cautious and warned against violence as to avoid harming the Thai-Japanese relationship⁹⁶.

The students held talks, discussions, rally, debates and exhibitions pointing out Japanese role in the deterioration of the Thai economy all over Bangkok⁹⁷. Articles attacking Japanese investors and businessmen and their suspicious ulterior motives in Thailand were published and publicized. The movement gained momentum when more politicians and public figures began agreeing and praising the students, but the movement was becoming more and more violent resulting in the bombing of a Japanese-owned kick boxing gym, and a number of bomb threats being made⁹⁸.

The movement reached its peak when the students staged the "No Japanese Goods Week", on the 20th to the 30th November 1972, when they disclaimed Japanese goods, burned effigies of Japanese goods and persuaded the Thai people to buy Thai made goods instead. During the "No Japanese Goods Week", talks and exhibitions also took place alarming the Thai society about the negative influence that Japan was

⁹⁶ Teerawongsaree, Tawee, *ibid.* 218

⁹⁷ Kumphantong, Thanida *ibid.* p.86

⁹⁸ *ibid.* p.87

having on the Thai economy. They also handed in a “10 Points Demand” to the government, with some of the most important demands being for a restriction on foreigners coming into Thailand to work, in order to protect the Thais from competition, and also a demand for the prohibition of expansion of existing foreign-owned department stores or construction of new ones, which the government had agreed to look at⁹⁹.

After the “No Japanese Goods Week”, the movement died down a little, but the flame rekindled again at the announcement of Japanese Prime Minister Tanaka’s proposed goodwill visit to Southeast Asia and Thailand in 1974. The students handed a letter of protest against the visit to the Japanese embassy in Bangkok. They also contacted and corresponded with students all over Asia to echo their discontent, and asked their counterparts to stage anti-Japanese movement in their respective countries too. And when Prime Minister Tanaka arrived in Thailand on the 9th of January 1974, he was greeted with riots and protests from the students all the way from the airport to the hotel where he was staying. He arranged a meeting with the Thai students to hear their concerns and promised to improve things as quickly as he could.

The Japanese government was very concerned about the situation and movements in Asia, and sent a team of experts to the Asian countries during the “No Japanese Goods Week” in Thailand, Indonesia, Hong Kong, Singapore, Malaysia and the Philippines to observe the situation and report back to Japan¹⁰⁰. The findings of the team admitted that the movements were justified because some Japanese had behaved irresponsibly. The team pointed out seven main problems that caused concerns and discontent in Thailand and Asia¹⁰¹;

- Some Japanese businessmen were culturally insensitive.
- Many Japanese traders were too involved in the
- In the joint venture efforts, the Japanese partners received excessive profits.
- Japan tried to force too many goods, some of which were not required by the Thais, on the Thai market and consumers.
- Japanese joint ventures and firms did not open up management opportunities to the Thais at all.
- Japan exploited Thailand’s weakness to influence the Thai economy.

⁹⁹ *ibid.* p.89

¹⁰⁰ *ibid.* p.91

¹⁰¹ Kumphantong, Thanida *ibid.* p.93

- Japanese businessmen did not attempt to understand or learn the cultures and customs of the countries they were doing business in.

And although the movements in Thailand or other parts of Asia were nonviolent, and rather short-lived, and may not have too much significance in the domestic arena, it opened up the Japanese eyes to the fact that they were not very popular in the region that was most crucial for their development. Hence, ever since 1974, the Japanese government had been trying hard to control the damages to their image and rebuild and improve relationships with the Southeast Asian countries.

Japanese Aid since 1974

Following the Thai students' Anti-Japanese movement, Japan started to realize the negative image that she had obtained over the years, and a major facelift was initiated. The Japanese government undertook the task in a discreet manner and started by increasing her economic assistance to Thailand, as a sign of compassion, and also to show economic profits were not her main concerns. Furthermore, Japanese aid since the movement was designed to vigorously promote cultural awareness and understanding between the two countries.

The Japan Foundation

The Japan Foundation in Bangkok was founded in 1974, two years after its establishment in Japan in 1972. The Foundation's main objectives were to promote cultural understanding and encourage better relations with her neighbors. These objectives were reflected in the Foundation's operation in Thailand too, and it was to be achieved in a number of ways such as inviting foreign speakers to speak in Japan, as well as sending Japanese speakers to speak abroad, encouraging the teaching and learning of Japanese in other countries, as well as offering help in financial form for cultural events such as exhibitions, and performances. The Japan Foundation was also actively involved in Research projects to further enhance her position and standing in the world. The Foundation also offers exchange programs that bring foreign academics, researchers and students to Japan, as well as sending their own cultural experts to foreign countries to promote Japanese arts such as flower arranging, tea ceremony and Japanese traditional music¹⁰². And through

¹⁰² Kampantong, Thanida, *ibid.* p.98

these activities, Japan hoped to get rid of her old reputation as an economic animal, and promoted herself as a sensitive member of the world community.

Ship For Southeast Asian Youth Program

And to expand her base of support, Japan tried to spread her circle of influence over the youth of Asia, the very group that had started the anti-Japanese movements the region. The Program was established in 1974, and initially included Indonesia, Malaysia, the Philippines, Singapore and Thailand as the founding members, and later was extended to include Brunei.

The Ship was to bring together 35 young people from each country, including Japan who covered most of the cost of the program, on a voyage that would visit the ports of each of the member countries, with Japan being the final destination. During the trip, the young people have a chance to exchange ideas and point of views on issues such as social, political and economic, as well as being involved in a number of activities that were intended to promote regional understanding and unity, and providing valuable experiences for the future. The program was quite successful, and it was effective in weakening the criticisms from these young people.

Friendship Program for the 21st Century

This program was also aimed at the younger generation that would ultimately become their countries' leaders. The objective of the program is quite similar to that of the "Ship for Southeast Asian Youth Program", as it was designed to promote understanding between the young people, as well as give them a chance to express and exchange their point of views. The program had been in existence since 1984, and required that the participants are between 18-30 in age, which was later altered to 18-35, and up until 1991, about 1,050 Thai youths had taken part in the program¹⁰³.

From the commitment and effort that Japan had put into the youth programs, it is clear that they value the young people opinion and placed a priority in promoting an understanding between the Japanese cultures and the rich and divers culture of the rest of Asia. It is also clear that by promoting an understanding between the young people, it was an effort to

¹⁰³ Kampantong, Thanida, *ibid.* p.106

avoid a similar incident as the Anti-Japanese movement that swept through all of Asia, which was set into motion by these young minds.

And apart from the efforts of the Japan Foundation, the Ship for Southeast Asian Youth Program, and the Friendship Program for the 21st Century, Japan also increased her loans, grants and technical assistance, as well as relaxing the terms and conditions for the financial loans, to her partners. Technical aid, which had always been the benchmark of Japanese aid also received a boost in importance, and was dispatched at a level that had never been seen before. Through these efforts, Japan was admittedly quite successful in dislodging her past reputation, and reestablishing a better relationship with the rest of Asia. She was also able to contribute soundly to creating unity amongst the Asian countries, as well as taking a leading role in the regional issues, a trend which have continued right up to the present.

Final Analysis

Thailand and Japan had had a long relationship, which at many times came under a lot of pressure, but the relationship had always prevailed. The Thai-Japanese relations improved and strengthen under the tense events of the Second World War, to a level that had never been seen before, nor ever again. The relationship suffered a setback after the end of the war, but has since recovered well, and over the last decade, Japan has risen to become one of Thailand's main trading partner. During the war, Thailand was "pressured" into siding with Japan, and declaring war on the United States and Great Britain. As the tides of war turned, at one point, Japan was forced to obtain a loan from the Thai government, when her assets were frozen by the United States. And this loan paved the way for Japanese foreign aid activities in Thailand, because after Japan came out of the war as the loser, she was decreed by the world community to initiate a war reparation program to repay for damages caused by Japanese military activities to the affected countries, and Thailand was one of them. After lengthy negotiation, the reparation program in Thailand was finally concluded in the form of goods and services instead, and it was after the settlement of the reparation program that Japanese aid began to play a prominent role in Thailand's development.

Japanese foreign aid to Thailand, and other countries were mostly financial in nature, in a way reflecting Japan's interests and concerns in the economic field. Foreign aid, however, was more than just a sign of good faith from Japan, as for Japan, it was a lot more than that. After the Second World War, Japan's image was at an all time low, and the world community, especially those countries that had suffered under Japanese

military occupation, were suspicious towards Japan. She was practically ostracized from the world community, but foreign aid gave her a chance to both regain her status in the world, and make up with the countries that she had mistreated during the war. Foreign aid became one of Japan's few effective tool of implementing her foreign policy. With Japan being forced to renounce from war, and her military limited, bordering on non-existence, foreign aid becomes one of only a few ways to exert her power abroad.

Japanese aid in Thailand were mostly given in accordance to Thailand's requirements, to meet the demand for growth and development goals stated in Thailand's Social and Economic Development Plans. Japan became even more influential in Thailand's development after the departure of the United States from the region following the end of the Vietnam War, when she was encouraged and hand picked by the Americans to come in and fill the void. Japan's aid projects during 1970 to 1980, or under the National Social and Economic Development Plans 2 – 4, were reflective of Thailand's concerns for economic growth and development. And as a results of the extensive Japanese activities in Thailand in helping to initiate some major infrastructure projects, the development of the Thai economy was experiencing growth as anticipated. Furthermore, the Japanese involvement also encouraged more Japanese businessmen and company to invest in Thailand, partly because of the security created by the Japanese involvement, and partly because of the favorable government policies to foreign direct investment. Japan also played a positive role in helping improve the quality of the Thai exports, which led to increases in the value of export to Japan. And undoubtedly both the infrastructure development and the ensuring foreign investment from Japan played instrumental roles in helping to prepare, and led the way for Thailand's impressive economic success of the 1980s.

But the road had not always been paved with roses, as the relationship also had its problem. The influx of Japanese investment, and the management styles of the Japanese companies, coupled with the Japanese's economic aggressiveness that earned them the name "economic animal", and the ever increasing trade account balance deficit problem, caused a lot of distress among the Thai students and academics. The unhappiness resulted in the Anti-Japanese movement that was echoed all over Asia. The movement was a rude awakening for Japan, after which Japan's foreign aid underwent a massive transformation, when more and more emphasis were placed on cultural understanding, while Japanese economic interests received less and less attention.

Japan's foreign aid in Thailand and the Southeast Asian countries seemed to be motivated by her economic interest as well, because the fact

mains that Japan is a small country, geographically, that have to rely heavily on the countries in Southeast Asia for the raw materials that she needs, which are crucial to her industries. Thus by giving aid, Japan is also ensuring that she retains her influence on the Southeast Asian economies, and secures the supplies of raw materials. Furthermore, Japan cannot deny her role as the regional leader, and hence can not walk away from her obligations to the other countries of the region. This was reflected most recently when Japan stepped in to lend a helping hand to the Southeast Asian countries with the “Miyazawa” financial assistance package when the region was hit hard by the financial crisis. The foreign relationship between Thailand and Japan had been one that benefited and served both countries well over the years. And as the world is moving more and more towards globalization and regionalism, it is quite certain that Japan’s interest in Thailand and the Southeast Asian countries will remain a priority and thus, the foreign aid component will continue to be an integral part in her relationship with the rest of Asia for years to come.



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Chapter VI

Comparative Analysis **&** **Conclusions**

Thailand's economic performance in the 1980s and 1990s were truly impressive, and were accompanied with the optimism that she was on the road of becoming the next NIC – the newly industrialized countries - and be rubbing shoulders with the likes of Hong Kong, South Korea, Singapore and Taiwan, who were already the leading actors in the “Asian Miracle”. Over the decade prior to the beginning of the double-digit growth rates, Thailand was still a relatively humble economy, who relied heavily on a handful of cash crops, such as rice and rubber, but during the years from the early 1970s to the mid-1980s had transformed into a fast industrializing country, that was relying more and more on her manufacturing sector. The transition was a normal procedure that all the industrialized country go through, but the speed and smoothness of the transition varies from country to country, and in Thailand's case, it seemed the process went very well indeed. Certainly, undertakings such as the formation of the National Social and Economic Development Plans, and favorable and more relaxed government policies towards foreign direct investment were instrumental in the transition process, but they could not have been enough to have achieved that level of success totally on their own. Is it a coincidence that the 10 years between 1970 and 1980 saw a comprehensive foreign aid activity in Thailand? Could it be that the foreign aid received during this period contributed to the economic growth and transition as well?

The question is not an easy one to answer but surely foreign aid must have had a hand in Thailand's economic growth. It is undeniable that foreign aid have supplied the country with some major works that were in one way or another contributed, directly or indirectly, to the overall growth and development of the country. Thailand is by no mean a big aid recipient, and is not heavily reliant on foreign aid and foreign charity, but the foreign aid that Thailand had received during the 1970s were more political than humanitarian. Thailand is fortunate enough not to be in the same shoe as many developing countries, especially those in Africa who rely heavily on foreign aid year in and year out, not because they want to, but because they need to, and the aid that are given to those

part of the world are mostly humanitarian aid. And as the fish need water, a recipient need a donor, hence no matter how big or small an aid recipient Thailand is, she too need a donor. And who else would be better donors than the two most powerful nations in the world, the United States and Japan.

As the two most influential nations in the world, unsurprisingly, both the United States and Japan are also the biggest donors in the world, and thus both were also big donors for Thailand. In a way, it can be said that Thailand is an aid recipient not by choice, but rather by consequence. Thailand had never struggled as bad as the countries in Africa, her people never had to endure starvation, never had to suffer from prolonged effects of flood or earthquakes, nor languish under the strife or civil war or protracted internal conflicts. But rather, Thailand is an aid recipient because of her strategic location right at the heart of Southeast Asia. Throughout her history, Thailand had been drawing attentions from all parties, who realize the benefit that would ensure if they could take hold of her, or at least have her support. Great Britain and France had their eyes on her, but did not touch her, as Thailand was utilized as a buffer state between the British-held Burma, and the France-controlled Vietnam. During the Second World War, both the Allies and Japan sought to gain control of Thailand, as anyone who occupy Thailand, had unrestrained access to almost all of Southeast Asia, be it Burma, Vietnam, Laos, Malaysia and even Singapore. Then, during the Vietnam War, Thailand was an especially important ally for the United States to have, as the Southeast Asia region underwent extensive pressure from the Communist expansion into the region, and Thailand was quite literally, the last piece of the “Dominoes Theory” puzzle, for if Thailand fell to Communism, then the United States’ cause in Southeast Asian would have been lost with her. So it is clear that foreign aid in Thailand initially started not as much on recipient needs principle, but on the donor interest instead.

The American and Japan Foreign Aid to Thailand – Comparative Analysis

As all the foreign aid donors have different reasons for giving aid, so too the United States and Japan have their own reasons for giving aid to Thailand. And apart from the different in reasons, the forms of their foreign aid also reflect their interest in the recipient too. For the United States, foreign aid to Thailand was most lively in the years leading up to, and during the Vietnam War, around 1969 to late 1975. After the end of the War, the United States foreign aid to Thailand was almost as good as non-existence, but the period after the War ushered in Japan as the dominant donor, as she was encouraged by the United States to come in

and fill the void, as well as step up her role in the region. And since the United States' main concerns during the early 1970s was the Vietnam War, the spread of Communism and upholding her ideology of Capitalism, and the regional security, military assistance was understandably the main form of foreign aid that the United States offered Thailand. And although the United States gave technical aid, as well as loans and grants, they were miniscule behind the shadow of military aid. American technical aid were mainly concerned with infrastructures that connect strategic locations such as from a naval base to an airbase, or from the central plain to the Northeast, an area that was under a lot of pressure from the threat of Communist insurgency, as it was the country's poorest region. Furthermore, to contain the threat, technical aid were concentrated in the North, and Northeast area, and were aimed at increasing the country's centralized governance and educating the rural people, as well as extending a message to them that the government will look after them. Education was also an important instrument of the American foreign aid projects, as it ensured that the American can influence the people thinking away from Communism. Furthermore, military aid in the form of arms and weapons also received a lot of attention, as it was given to ensure that Thailand would be able to protect herself from possible insurgence from the borders. Moreover, the improvement and upgrading of military facilities were also high on the American priority list, in order to prepare Thailand so that she could handle American technology, and cater to the American military needs, in time of war. Thai military personnel also received extensive technical training which would further enhance the quality of the Thai military, and increase its capability in handling American troops and technology. American technical aid also sought to improve the quality of life for the Thai by providing extensive healthcare, and research that led to improved rice grain quality which directly helped the trade account balance, since rice was the country's main export. All the investment in Thailand paid off, as during the Vietnam War, the United States used Thailand as her headquarter in launching air strikes against Vietnam, and at the peak of the war, 600 American warplanes and 45,000 men were stationed in Thailand. But the seemingly close relationship between the United States and Thailand that had developed over the war years was more like a mirage, for as soon as the war ended, the only thing left from the relationship was the legacy. Following the withdrawal of the American troops, they had encouraged Japan to come in and fill the void, and that Japan did.

And since Japan came into the picture when the Vietnam War had ended, her foreign aid to Thailand was totally different from the United States', and it reflected the change in the interest of Thailand as well.

After the war, Thailand seemed to have shifted her focus to that of development. And Japan, as an established economic powerhouse, was probably the best source that Thailand could turn to. Japanese aid were mostly given in accordance to the development needs specified by Thailand in the National Social and Economic Development Plans. The aid was mostly used to strengthen the Thai infrastructure such as transportation and communication, important areas that have great potential to stimulate growth. And under the Plans, with the loans and grants from Japan, a number of major infrastructure projects that would have a great bearing on the future of Thai economics were successfully completed. Japanese aid was designed to meet the Thai needs, and that in a way, helped Thailand to develop in the way that she wanted. Japanese aid, coupled with favorable government policies and stable economic situation encourage the Japanese businessmen to increasingly come and invest in Thailand. This led to an influx of Japanese capital, and Japanese companies that started to come to Thailand as Joint ventures, which also helped in the Thai economic growth process. Japanese technical aid, which is the benchmark of her foreign aid also played a very constructive role in further enhancing the capability of the Thai workforce through various training and observation exchange programs.

Unquestionably, both the American and Japanese foreign aid played a very big role in the growth and development process of the Thai economy, and the transition from an agricultural economy to an industrialize one. But to measure the exact contributions, or the exact impact of the foreign aid is a task that is close to impossible. One thing that can be said for sure is that it is doubtful whether the development of the Thai economy, and the transition would have been as smooth as they were had it not been for the foreign aid. Certainly a lot lies with Thailand's effort, but without the resources, no matter how hard she tried, she would always fall short. Let's look at it in another way, if Thailand was a flower, then the United States is the soil, and Japan is the water. Too much soil or low quality soil, i.e. tied-aid, would harm the flower, and too much water, i.e. too much investment, would have the same effect. It takes the right combination and condition for the flower to blossom, and blossom Thailand did, as evident from her double-digit economic growth of the 1980s and 1990s. Thailand might have benefited from the fact that the American aid and Japanese aid were different in nature and came at different times. American aid had already laid quite a solid foundation, in the form of infrastructure constructed under military assistance, and Japan came in to further work and enhance on that foundation with economic aid. Thailand is fortunate, to say the least, but the efforts of the donors alone are not enough to change anything, the recipient must be sincere in their effort to achieve development too, so

Thailand's success story is not only a tribute to her serious efforts, but that of the United States and Japan too.

Objectives and Forms of Aid

As mentioned earlier, time and time again, the objectives and forms of the United States and Japanese aid in Thailand were totally different, and they reflect the interest that the two countries have in Thailand. The United States were solely interested in the security concerns of the region, and with Communist expansion into Southeast Asia, and the threat of the "dominoes Theory" on the brink or being realized, Thailand was the last ray of hope in Southeast Asia, as she was the only one vocally opposing Communism. So the United States adopted Thailand as an ally in her fight with Communism, and offered her ally all the necessary assistance that would ensure her continued support, and ensure that she survived any possible act of aggression. Thus, with the United States' main objective in Thailand being security concerns, her foreign aid took the form of military assistance. It seemed also that the United States' concern in Thailand was only a temporary and short-term one, for once the Vietnam War ended and Communism activities in Southeast Asia pretty much suppressed, the United States withdrew her troops and her foreign aid to Thailand also declined sharply, further mirroring the extent of her interest in Thailand. Ever since the end of the Vietnam War, the United States still retain a warm relationship with Thailand, but her foreign aid had never again reached the level it was during the war, and her concerns for the regional security had also withered with the fall of Communist Russia, and the weakening stance of China, as well as the increasing leadership roles that Japan and China are playing in the region.

As for Japan, the objective of her foreign aid to Thailand seemed to have gradually changed over the 10 years between 1970 to 1980. One of the most important fact that have to be recognized is that Thailand was only one of a few countries in Southeast Asia that did not have a negative sentiment towards Japan, at least not as much as those countries that were suffered Japan's mistreatments. Hence, Thailand was a good place to start the rebuilding of her reputation and regain the others' faith. Japan's entry into foreign aid in Thailand came courtesy of the war reparation program, and she was later encouraged to play an even bigger role by the departing Americans. She was picked because by then Japan's economy had recovered from the effect of the war, and had been stable and strong for a number of years already. Also, the United States presence had overshadowed and limited any Japanese foreign activities, so once the United States withdrew, Japan was the only one left. In Thailand, her

foreign aid were mostly economic, reflecting not as much her interests as the interest of Thailand in wanting to develop and grow economically. Japanese aid helped complete important heavy infrastructures, transportation and communication, as well as strengthening the manufacturing and industrial sectors with the investment that followed, once Japanese influence had been recognized in Thailand. But as the influx of Japanese capital and companies started to raise concerns among the Thai students and academics, coupled with the trade account balance deficit that had been growing every year, the Thai – Japanese relations was coming to a break point. Tension erupted in the form of an Anti-Japanese movement, which was echoed all over Asia. Japan acted quickly and discreetly to address the concerns and distress, most prominently by decreasing the importance of their economic aid – the area that they received the most criticism for – and increasing cultural aid, and technical aid instead. Japan worked very hard after the Anti-Japanese movement to rebuild relationship with Asia, and realized that the problem occurred as a result of misunderstanding and ignorance of the Asian cultures by Japanese businessmen too, so Japan shifted her foreign aid to more cultural in nature, to promote understanding and educating the rest of Asia about Japanese cultures, as well as encouraging unity among the Asian countries.

Japan's interest in Asia seemed one of long-term, and one reason for this is the fact that Japan relies quite heavily on the raw material of the region to fuel and provide for her growing industries. Without the raw materials, her industries are as good as dead, as she does not have enough natural resources on her own. So foreign aid was used as an economic tool to ensure the support of the Southeast Asian countries, and hence the raw materials for her industries, and indirectly, it also secure her export markets. Furthermore, as a regional powerhouse, she could never walk away or ignore the Southeast Asian countries, so it was better to have them as allies than enemies, and since Japan's foreign policy is rather restricted, foreign aid had been used effectively as a foreign policy tool instead.

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The negative side of Foreign Aid

Although it seems that foreign aid have contributed enormously in Thailand's development over the crucial years of the 1970s, the picture was not always rosy. Like all recipients of foreign aid, there were side effects and unexpected or undesirable effects of foreign aid as well. One of the most obvious issues was the fact that the U.S. chose some of Thailand's port cities as the Rest and Recreation Center. It might have been regarded as providing income for the people of Pattaya, but it had a deteriorating effect on the Thai culture and society, as it created a social problem such as prostitution, and orphans, because the children were born by accident. Furthermore, American culture was readily embraced by the Thais during the period, with American songs, idols and ideologies being revered by the Thai youths. Japanese aid too also had its negative side, some loans by Japan, for example the O.E.C.F. loans were soft loans, that practically tied Thailand to import goods from Japan, which at times were unnecessary and the prices were higher than the world market prices. Japanese culture too were embraced by the Thais, as Japanese cartoons hit the Thai televisions and had the children glued to them, the Japanese youth's fashion sense was also imported and copied by the Thai youths, and even today, the effect is still apparent.

It is undeniable that foreign aid had been an instrumental component in Thailand's development and coming of age in the world, helping her to record regular annual growth rate of about 8 per cent per for many years, which was among the world's highest. But a blind eyes should not, and must not, be turn on the negative effect of foreign aid on the Thai economy and society. Thailand is one of the lucky ones, with the side effect of foreign aid being offset by the Thailand's strength in other departments. Other recipients may not be as lucky as Thailand, especially if their social foundation is weak, their political system unstable, and they lack the support of the people. Foreign aid have also been criticized for the fact that some donors may use their power to influence the recipient to do certain tasks that are not in the best interest of the recipient, or the donors may use foreign aid to interfere into the recipient's domestic affairs, and since foreign aid may be concentrated on a particular industry, this may in fact hinder the growth of other industries. Hence, foreign aid should never be regarded as a remedy for the problems that the developing countries are having, because foreign aid comes with a cost, and if the recipient is not ready or strong enough to handle the consequences of aid, then the outcome could be fatal, and the recipient may find themselves in a worst off position than when they had started off in.

Final Analysis

The foreign aid from the U.S. and Japan had benefited Thailand, there is no question about that, even if the donors had ulterior motives for giving aid. So the question is whose foreign aid benefited Thailand more, the American's or the Japanese? There are no clear cut answer to the question, as it depends on the point of view and perception of the person analyzing the information. But personally, I believe that both the American and the Japanese aid benefited Thailand in their own ways, and that without one or the other, the whole picture would have changed, and Thailand's whole development and growth process would undoubtedly have been different too. The American infrastructure development helped paved the way for future development, as the roads and highways became used for transportation of goods, as well as connecting important destinations and cutting valuable travelling time. The knowledge that the American training gave to the Thai personals were also valuable in improving the Thai labor force, and introducing new technology which later could be use for other purposes beside military. Japanese entry into the screen was also important in that it enhanced the development process that have been paved by the American before them. Japanese aid also made further improvement on infrastructure development as well as communication and transportation, which were all very important for the Thai export industry. These development were also important in transforming Thailand into a capable country that was well equipped with new technology which encouraged foreign investors to come and invest in Thailand. But foreign aid alone could not have done the trick, as efforts were also needed from the recipient side, and Thailand did make an effort, by introducing open market economic policies, and concentrating on industries that had potential for growth. All these input resulted in Thailand's economic success of the 1980s, and obviously the exclusion of any of the component would have yielded a different result.

Personally, I think that foreign aid tends to benefit the donors more than the recipients, and are mostly driven by the donors' interests rather than the recipients' needs. Giving aid unquestionably gives the donor country a good public image in the world, as a good and caring citizen of the world community, despite the fact that most donors give aid with ulterior motives in mind. Some may want to retain their influence over a recipient country, some may want to retain the recipients' markets for exports, the reason for giving aid varies from donors to donors, and it can not be generalized. But what must be admitted is that as the world moves towards regionalism and globalization, foreign aid will continue to feature prominently, and even more so in the future. The rich, developed countries will stick together to form economic blocs, leaving the poor

developing countries to continue their own struggle. This trend will create a bigger gap in the world community, and the level of development among the world nations will widen. So foreign aid will become one of the few elements left that can fill, and bridge the gap. The developed countries will have to keep giving aid to the poor countries, and the developing countries will continue to rely on foreign aid, the vicious cycle will keep rolling. There may never be a real change that can be made to the process, but we can make the most of what we have.



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Limitation of Studies

The measurement of the impact of foreign aid was a most difficult and almost impossible task. There are no exact numbers or concrete evidence to show the impact of foreign aid on a certain sector, and most of the time, the judgement lies with the way of thinking, and examination of the outcome from the aid projects or programs. The calculation of the impact of foreign aid was certainly the main limitation to this study.

Further Studies

For further studies, if an econometric models which could perhaps measure the impact of foreign aid on a particular sector, can be created and calculated, it could be vary valuable. Furthermore, an employment of such models will give a more concrete result about the value of each projects, which could be a significant factor that can help a recipient country measure and weight the pros and cons of a particular aid project. Benefits may also be received from expanding the scope years to observe the shift in the growth path of particular industries that have received foreign aid, and determine whether the growth had been induced and encourage by foreign aid or not.

Furthermore, recently more attention had been given to “environmental aid”, which is a recent phenomena, if further studies could show the value of environmental aid and compare it with the value of economic aid, and their impact on the recipient economy, it would be very useful too. Observation of the shift in the structure of foreign aid over the past few decades would also be very interesting, as it seem that the form of aid had changed from political and military aid over the 1970s, to economic aid over the 1980s, to environmental aid of the present.

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

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จุฬาลงกรณ์มหาวิทยาลัย





APPENDIX

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Table A.1
Thai Foreign Trade

Unit : Million Baht

Year	Trade Value	Export		Import		Balance	
		Value	Growth (%)	Value	Growth (%)	Value	Growth (%)
1987	634,062.1	299,853.1	28.5	334,209.0	38.5	(34,355.9)	330.8
1988	916,684.1	403,569.8	34.6	513,114.3	53.5	(109,544.5)	218.9
1989	1,178,993.8	516,315.0	27.9	662,678.8	29.1	(146,363.8)	33.6
1990	1,442,794.1	589,812.6	14.2	852,981.5	28.7	(263,168.9)	79.8
1991	1,684,856.8	725,448.8	23.0	959,408.0	12.5	(233,959.2)	(11.1)
1992	1,857,888.0	824,643.3	13.7	1,033,244.7	7.7	(208,601.4)	(10.8)
1993	2,111,709.0	940,862.6	14.1	1,170,846.6	13.3	(229,984.0)	10.3
1994	2,506,862.0	1,137,601.6	20.9	1,369,260.4	16.9	(231,658.8)	0.7
1995	3,169,901.4	1,406,310.1	23.6	1,763,591.3	28.8	(357,281.2)	54.2
1996	3,243,864.5	1,411,039.3	0.3	1,832,825.2	3.9	(421,785.9)	18.1
1997 (Jan-Apr)	1,080,810.5	478,492.9	3.5	602,317.7	(4.2)	(123,824.8)	(25.5)

Source : Department of Business Economics, Ministry of Commerce

Table A.2

Japanese Trade with Thailand, 1888-1941

unit : million yen

Year	Export	Import	Balance	Year	Export	Import	Balance
1888	16	36	-20	1915	778	2808	-2030
1889	11	28	-17	1916	2111	2949	-838
1890	21	226	-205	1917	2208	4353	-2145
1891	1	28	-27	1918	6077	5371	706
1892	4	4	0	1919	3395	29937	-26542
1893	6	54	-48	1920	4201	3245	956
1894	3	619	-616	1921	2652	11258	-8606
1895	8	143	-135	1922	5599	22855	-17256
1896	10	203	-193	1923	3843	12062	-8219
1897	22	1191	-1169	1924	4181	18482	-14301
1898	42	4175	-4133	1925	7820	23735	-15915
1899	27	757	-730	1926	9271	14358	-5087
1900	36	585	-549	1927	11146	22260	-11114
1901	32	1195	-1163	1928	5763	19067	-13304
1902	56	1696	-1640	1929	10633	20812	-10179
1903	74	3726	-3652	1930	9477	18843	-9366
1904	159	5786	-5627	1931	4722	6792	-2070
1905	109	4587	-4478	1932	8581	11198	-2617
1906	235	3191	-2956	1933	18124	12256	5868
1907	338	2739	-2401	1934	18048	1540	16508
1908	2309	2688	-379	1935	40258	5458	34800
1909	481	2595	-2114	1936	43028	8757	34271
1910	533	2635	-2102	1937	49383	13571	35812
1911	497	2321	-1824	1938	39269	4951	34318
1912	1337	3537	-2200	1939	26024	5536	20488
1913	1035	5793	-4758	1940	49346	52963	-3617
1914	563	4174	-3611	1941	65649	182903	-117254

Source : Swan (1986)

Table A.3
Japanese Cultural Grant Aid to Thailand
(Selected Years)

Project	Date of Signature	Value	
		Us\$	Baht
(1978)			
1. The Supply of exhibits to the Science Museum (The Ministry of Education)	March 30, 1978	148,500	2,970,000
2. The Development Project of Kasetsart University	October 4, 1978	6,435,000	128,700,000
3. The Supply of Educational audio visual and printing equipment to chulalongkorn University	December 14, 1978	198,000	3,960,000
(1979)			
1. The Restoration and Preservation of Sukhothai Cultural Assets	September 14, 1979	247,500	4,950,000
2. The Establishment of the Youth Welfare Center	July 23, 1979	4,950,000	99,000,000
(1980)			
1. The Establishment of the Youth Welfare Center	July 21, 1980	8,075,000	161,500,000
(1981)			
1. The improvement of scientific and Technological research equipment at the Chulalongkorn University	January 15, 1981	1,825.9	39,600
2. The Supply of gymnastic equipment Bangsaen Marine Science Center	June 8, 1981	10,493.1	227,700
3. The Radio Correspondence Project	November 5, 1981	2,304.1	50,000
(1982)			
1. Japanese Studies Audio Visual center	February 11, 1982	152.2	3,500
2. Vocational Training and Development Center	February 11, 1982	2,521.7	58,000
3. The improvement of scientific and technological research equipment and agricultural machinery at Kasetsart University	May 14, 1982	2,173.9	50,000

Table A.4
U.S. Counter Insurgency Projects

<i>Projects</i>	<i>Years</i>	<i>AID Contribution</i>	<i>Counterpart Fund</i>	<i>Total</i>
			<i>(\$ equiv.)</i>	
		<i>(\$ million)</i>		
Counterinsurgency Operations				
Civil Police Administration ^a	1957-76	77.2	41.4	118.6
Village Radio	1966-70	2.1	0.6	2.7
Village Security Forces	1966-71	0.3	*	0.3
CSOC operations ^b	1967-73	0.1	—	0.1
Volunteer Defense Corps	1955-59	0.1	0.9	1.0
50-KV Transmitter	1966-71	0.3	*	0.3
Border Patrol Police	1962-72	6.7	1.6	23.2
SUBTOTAL		86.8	44.5	131.3
Counterinsurgency Development Activities				
Accelerated Rural				
Development (ARD)	1964-77	63.6	11.7	75.3
Mobile Development Units				
(MDUs)	1964-76	5.7	0.8	6.5
Mobile Medical Teams	1968-71	0.6	*	0.6
Security Road Program	1963-65	5.1	5.0	10.1
SUBTOTAL		75.0	17.5	92.5
TOTAL		\$161.8	62.0	223.8

^aIncluded ordinary police activities prior to and not connected with the insurgency.

^bCommunist Suppression Operations Command.

* Less than \$5,000.

Table A.5

U.S. Military Assistance to Thailand 1950-1988

<i>Fiscal Year</i>	<i>Grants (MAP)</i>	<i>Credit Financing</i>	<i>Other</i>	<i>Total</i>
(\$ million)				
1950	9.7	—	—	9.7
1951	44.8	—	1.9	46.7
1952	31.4	—	0.2	31.6
1953	16.9	—	7.4	24.3
1954	40.6	—	1.9	42.5
1955	42.1	—	3.5	45.6
1956	40.1	—	5.5	45.6
1957	10.0	—	6.2	16.2
1958	2.4	—	11.9	14.3
1959	12.4	—	4.0	16.4
1960	34.0	—	6.4	40.4
1961	52.7	—	8.2	60.9
1962	64.0	—	14.4	78.4
1963	47.8	—	16.7	64.5
1964	28.3	—	7.7	36.0
1965	22.3	—	8.2	30.4
1966	41.7	—	9.8	51.6
1967	59.8	—	9.8	69.6
1968	80.2	—	9.6	89.8
1969	81.7	—	14.7	96.4
1970	87.5	—	22.5	110.0
1971	73.7	—	25.0	98.7
1972	95.9	—	26.1	122.1
1973	40.6	—	22.2	62.8
1974	29.2	—	6.2	35.4
1975	27.6	8.0	6.1	41.7
1976	17.6	36.7	49.6	103.9
1977	16.0	30.0	1.2	47.3
1978	8.0	29.5	1.1	38.6
1979	1.2	30.0	0.9	32.1
1980	0.6	36.0	0.8	37.3
1981	0.4	53.4	0.8	54.6
1982	4.5	74.7	1.5	80.7
1983	18.5	76.0	1.7	96.2
1984	5.0	94.0	2.2	101.2
1985	5.0	95.0	2.3	102.3
1986	4.8	80.5	2.2	87.5
1987	50.0	—	2.5	52.5
1988	50.0	10.0	2.5	62.5
TOTALS	\$1,299.1	653.8	325.4	2,278.3

source: USAID, *U.S. Overseas Loans and Grants*.

NOTE: Military Assistance Program (MAP) grants financed war material, construction (separate from OICC base construction program described in the text), transport, JUSMAG administration, etc. Credits were for RTG procurement of U.S. military equipment. Other includes costs of training Thai military officers in the United States and acquisition of U.S. military surplus property items. Figures for surplus equipment values prior to 1971 overstated the value substantially. See Caldwell, *American Economic Aid to Thailand*, p. 172, fn. c. Historical data on U.S. military aid appears to suffer from inconsistencies and occasional revision. Data through 1963 were recorded on an annual delivery basis; from 1964, on a program basis. Apart from the differences that delivery versus program would make on the valuation of any one year's military aid, there have been major differences in the recorded cumulative values over long periods. Thus Caldwell shows \$977.8 million of military aid for 1951-1971 based on several official sources, including an earlier edition of the annual source used for this table, which shows \$1,119.6 million, a difference of \$141.8 million, or 15 percent, of Caldwell's figure.



Table A.6

Thai-U.S. Balance of Trade 1969-81
(US\$ Million)

Year	Volume of Trade	Export ^{1/}	Import	Balance
1969	297.95	106.07	191.88	- 85.81
1970	293.34	97.11	196.23	- 99.12
1971	297.01	110.76	186.25	- 75.49
1972	376.12	138.99	237.13	- 98.14
1973	448.92	159.54	289.38	-129.84
1974	615.80	193.00	422.80	-229.80
1975	713.07	245.27	467.80	-222.53
1976	776.65	300.39	476.26	-175.87
1977	907.57	341.80	565.77	-223.97
1978	1,179.96	452.24	727.72	-275.48
1979	1,710.99	598.89	1,112.10	-513.21
1980*	2,392.22	828.74	1,563.48	-734.75
1981* (Jan-June)	1,085.79	424.10	661.69	-237.59

Source: Department of Customs, Thailand, 1981

Note: * Preliminary Data
1/ Include Re-Export.

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Biography

Charkrienorrathip Sevikul was born on June 13, 1976 in Vientiane, Laos, where his diplomat father was serving his post. Germany was the next destination where he spent two years in Bonn. That was followed by four years in Ankara, Turkey – which he regards as his second home - during which he picked up the Turkish language from the friendly Turkish people. Seven years were spent in New Zealand where he attended high school at Nelson College in Nelson, before moving to Wellington to study at Victoria University of Wellington. He graduated with Bachelor of Art degrees in Political Sciences and Japanese. Upon graduation, he returned to Thailand, where he applied for a Master of Arts degree in International Economics and Finance at Chulalongkorn University.

Mr. Sevikul is currently working as a correspondent for TV Asahi (Channel 10 of Japan) Bangkok Bureau.



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