1 Double-Digit Growth

1.1 Introduction

The years 1987 to 1990 stand out as a most remarkable period in Thai economic history. In these four years, the growth rate was at or above 10 per cent per year: double-digit growth. This made Thailand the fastest growing economy of the world at that time (World Bank 1991a). It also made Thailand one of the first developing countries to decisively and successfully recover from the debt crisis and the economic recession of the first half of the 1980s.

Even a superficial inspection of economic statistics is sufficient to reveal the main characteristics of the growth boom. The first of these is the unprecedented growth of inflows of direct private foreign investment (DFI). DFI inflows had always been relatively low in Thailand. Gross DFI inflows averaged around 0.6 per cent of GDP in the period 1970–86, and then increased to 2.1 per cent of GDP in the years 1987–90.

A second striking fact is the enormous increase in the private investment ratio. Private investment, as a percentage of GDP, had fluctuated in the 1970s and early 1980s around a level of 18 per cent, without showing a clear trend. By 1990 the ratio had almost doubled, to 34 per cent. Most of the foreign investment and a large part of the local investment were directed towards export activities. The export/GDP ratio increased from around 25 per cent in 1985–86 to 38 per cent by the early 1990s. However, the import ratio increased even more and the current-account deficit, which had fallen to about zero as a percentage of GDP in 1986–87, increased sharply in 1990–91, remaining high thereafter, at close to 6 per cent of GDP.

It will be argued in this study that exceptional growth is only possible in Thailand when external conditions are favourable and, in par-
ticular, when external finance is available to help finance high levels of investment. An earlier growth boom, around 1976–78, was also associated with a sharp rise in capital inflows. This dependence on external finance to generate high growth makes Thailand’s experience different from those of earlier Asian miracles like Japan and, in later years, Hong Kong, Singapore, South Korea, and Taiwan.  

The role of international finance in Thailand’s economic development is the central theme of this book. Over the last two decades, Thailand’s relationship to the international financial markets has radically changed. Three main dimensions of this change can be identified. In the 1960s and early 1970s, capital flows to Thailand were relatively small and consisted mainly of aid and modest levels of direct foreign investment. A first change came in the mid-1970s, when international financial markets were awash with liquidity after the first oil shock. This increased the access of developing countries to international commercial borrowing. Thailand, like many other countries, seized this opportunity, and borrowing by the public sector increased sharply. The debt crisis of the early 1980s, however, closed this access for most developing countries. A second radical change came in the late 1980s, when the re-alignment of the major world currencies (particularly the yen and the US dollar) and a worldwide process of industrial restructuring, or globalization, led to a sharp upsurge in DFI flows. The growing integration of financial markets led to a sharp rise in flows of foreign portfolio investment. Thailand became one of the ‘emerging markets’ on which these flows of direct and portfolio investment concentrated. One might say that these sudden changes on the supply side of international financial markets came as ‘external shocks’ to Thailand, shocks to which the country had to adjust. In both periods, this adjustment was initially reflected in increased levels of investment and growth. International finance not only affected the rate of growth, but also the entire pattern of development. Sectoral balances shifted, for instance between public and private sector, between traded and non-traded activities, between manufacturing and the primary sector. Accompanying these shifts were significant changes in the income distribution, patterns of trade, and so on. All these shifts are explored in detail in the following chapters.