



CHAPTER 3

THAILAND'S OBJECTIVES, BENEFITS, AND ROLES IN GMS ECONOMIC COOPERATION

The economic actual strength of Thailand and China is stronger among subregional countries; therefore, they are playing different roles in cooperation. They are jointly pushing forward and influencing the GMS cooperative process. In the meanwhile, they have undertaken more international responsibility and obligations.

3.1. The Active Attitude and Pushing Forward Roles of Thailand and China in GMS Economic Cooperation

Thailand is in the middle of the Indochinese Peninsula. It borders Myanmar, Laos, and Cambodia and is adjacent to Vietnam. Its Southern tip borders Malaysia. It is near the Gulf of Thailand of the South China Sea in the South. It is close to the Andaman Sea of the Indian Ocean in the west. It is a land corridor and a passage linking to the sea in Southeast Asia. Its geographic position is very important. Thailand is a free capitalist country. It is carrying out free market economy system, the main body of which is private economy. In 1982 Thailand has been listed as the middle-income country in the World Bank statistic tables. It has been reputed as "the Fifth Small Tiger" of Asia. It is a developing country, whose economic level is above middle level. According to the World Bank statistics of 2000, the per capita GDP of Thailand was over US\$2,000, China was over US\$800, Myanmar, Laos, Cambodia and Vietnam was about US\$300 respectively.

As an economically powerful nation on the Indochinese Peninsula and the advocate of Quadrangle, Hexagonal Regional Economic Cooperation, Thailand regarded participation in GMS economic cooperation as the motive force to quicken the economic development of North and Northeast of Thailand. By relying on its own funds, technology and products advantage, Thailand first entered Indochinese neighboring countries' market, which has abundant natural resources and cheap labor force. It has also expanded trade and investment and obtained necessary resources in order to enhance the competitiveness of Thai products in international market. Thailand

will become the center of finance, trade, investment, transportation and tourism of subregional economic cooperation. Its capital Bangkok is not only the political, economic, commercial and cultural center of the Indochinese Peninsula, but also will become the junction of Southeast Asia East-West, North-South Economic Corridor, transportation hub and important port.

Thailand has expressed the most active attitude in GMS and participated in transportation, energy, and tourism etc. main cooperative projects. It has also conducted a lot of highly effective work in other cooperative fields. Thailand maintains important contact with western countries. It is also one of the founder countries of ASEAN and the advocate country of ASEAN Free Trade Area (AFTA). It has important influence in international affairs, especially in regional affairs. Owing to its strategic position in the middle part of the Indochinese Peninsula, Thailand has become the center of subregional economic cooperation and it is playing the role of a key country.

Yunnan province of China is linked with Indochinese Peninsula by mountains and waters. It borders Myanmar, Laos and Vietnam three countries and is close to Thailand. It is the nearest land passage for Southwest China to connect with the world. It is also the window and the forward position for China to face Southeast Asian, South Asian international market. The subregion is located in the junction of China and the Greater ASEAN, which has strategic significance for China to maintain friendly relations with neighboring countries and stabilize neighboring countries' national security. From 1992 onwards, China has participated in different activities of subregional four main kinds of cooperative mechanisms, and comprehensively participated in the development and cooperation of the Mekong River Basin. It has participated in the construction of Singapore-Kunming Railway Line. It has also invested US\$5 million to help to dredge the navigation channel of the Mekong River within the boundary of Laos and Myanmar. It has cooperated with Thailand and Asian Development Bank to assist to build the Kunming-Bangkok Road section within the boundary of Laos. China will provide US\$30 million's assistance funds for the construction of 247 km's road section within Laos, which includes non-interest loans and donations¹. It has expanded investment to support the construction of international passages from Yunnan to Southeast Asia and

South Asia. At the end of 2002, China pledged to provide preferential tariff treatment to Laos, Cambodia and Vietnam three most undeveloped countries. Under the framework of China-ASEAN Free Trade Area, it has provided accorded Laos, Cambodia and Vietnam three non-WTO member countries WTO's most-favored-nation treatment. It has announced to exempt the partial debt or the total debt of Vietnam, Laos, Cambodia and Myanmar etc. six countries in debt. In January 2004 China will reduce the tariff on some ASEAN agricultural products to zero. China has comprehensively participated in subregional economic cooperation in active posture and practical actions. It is influencing and pushing forwards the cooperation progress of GMS, and has played the duty-bound role as a developing big nation.

3.2. Thailand's Economic Advantages and Challenges Faced with

The growth of all the modern capitalism first started from looking for and expanding overseas' market. In the contemporary world, it is a must for any country to look for the market continuously, nurture the market in order to develop its economy. They can achieve economic growth by unceasingly expanding the market. At present those countries with higher economic development level in the world are all countries with higher level of opening up to the world. The reason is that they boast vast domestic and international market. By contrast, those countries with lower level of opening up to the world have lower level of economic development because they only have narrow domestic market. After the WWII, the purpose of developing countries to carry out opening up to the world is to look for the market. It is only by successfully carrying out opening up to the world that a country can find vaster market, which is the key condition to maintain the sustainable development of national economy².

Thailand is one of the first countries, which carried out opening up to the world earlier in Asia. It was early in the middle of the 19th century during the reign of the King Rama IV that the historic process of opening up to the world started. From the WWII to the present time nearly 50 years' process of opening up to the world, Thailand has experienced success and failure, and has accumulated abundant wisdom and market experience.

After the WWII, the three periods of Thailand's opening up to the world have

played the roles of establishing market system, expanding market and promoting transforming economic model. The Thai economy has experienced the recovering period after the war under the support of the U.S.A., the economic taking off period promoted by both domestic and foreign capital and the matured period of marching towards internationalization.

3.2.1. The First Period of Opening up to the World: Nurturing and Developing Market

From the end of the WWII to the 1970's of the 20th century, Thai government has carried out comprehensive and systematic opening up to the world in the aspect of economy. It mainly opened up to U.S.A. and western countries, which has made Thailand establish a set of complete market economic system and successfully enter the developed countries' market.

At the end of the WWII, the Thai economy was on the edge of collapse. It needed a great deal of starting funds to recover and reestablish economy. To look for foreign aid has become the government's initial task. Therefore, Thailand took a posture of overall opening up to the United States. The American capital has penetrated into the commercial, transportation and construction industry of Thailand. It helped Thailand to design and map out irrigation projects, recover and build railways, transform ports, build roads, and establish electric power projects etc.. The United States' assistance has strengthened bilateral political and economic relations. Under the support of the United State's capital, after two or three years the Thai economy has recovered to the level of pre-war period.

At the beginning of the 1960's Thai government made important adjustment to its economic policy by encouraging domestic private capital and foreign capital to invest in the manufacturing industry, which consequently made Thai economy enter the taking off period. The private capital groups of Thailand can be divided into commercial bankers' group, industrial group and agricultural commercial group three groups. During 1960 to 1974 foreign direct investment in Thailand has reached 12.9 billion Baht and domestic capital was 9.2 billion Baht³. After the 1970's Japan's investment in Thailand has surpassed the United States, which made it become the country with the

most foreign investment.

The first step of Thailand's opening up to the world is to assure the legitimacy of private property through legal forms. Under the assistance and support of the United States, Thailand has established different kinds of financial, investment etc. economic policies, made the free market economy system more perfect, and promoted the growth of the market. The government's function and roles have been made clearer. It only played the role of planning, guiding, macro-adjustment and control. The first period of opening up to the world has made Thailand attract a great deal of investment from the United States, Japan and the west, and nurture domestic market economy system.

3.2.2. The Second Period of Opening up to the World: Expanding Market

From the middle of the 1970's to the end of the 1980's of the 20th century, Thailand opened up to China and other socialist countries as well as to the east Europe and African countries, which has made Thailand obtain a complete international market. Through strengthening cooperation with ASEAN countries, Thailand has entered broader international market within the region.

In the middle of the 1970's, Thailand's market economy system has matured day by day. The development of export industry and foreign exchange earning industry needed to look for broader international market. At the beginning of the 1980's, Prime Minister Prem proposed to implement economic diplomacy⁴, and expand international market. Thailand's opening up has made greater progress. European and Asian markets have been further expanded. In 1985 the number of Thai overseas workers has reached 300,000, 70% of whom were engaged in the construction trade and service trade in the Middle East. They remitted a large amount of foreign exchange back home every year. In the early of the 1970's Thailand strengthened economic cooperation with ASEAN, made use of the group strength to create favorable conditions for the export of Thai commodities.

After 1986 the small and middle capital of Japan, Korea, and Taiwan transferred the manufacturing bases of export industry to foreign countries. The unprecedented foreign investment climax in Thailand formed obvious "Investment Fever". In 1986 the foreign investment was US\$400 million. In 1990 it was US\$2.5 billion, most of which

has been input into the labor-intensive export manufacturing industry. Japan, Korea and Taiwan replaced the European and American countries and became the main investors of Thailand. A great deal of foreign investment has strongly promoted the high-speed development of Thai economy. From 1987 to 1990 the annual average GDP growth rate of Thailand increased 11%⁵.

3.2.3. The Third Period of Opening up to the World: Opening up Market

In the 1990's Thailand took a new step in internationalization and regional cooperation. It has entered the neighboring countries' post-war market earlier than the developed countries and other ASEAN countries. From "to transform the battlefield Indochina to marketplace" to the establishment of ASEAN Free Trade Area, its opening up to the world has entered a matured period. Through the establishment of ASEAN Free Trade Area, it will promote the trade and mutual investment between ASEAN countries, which is favorable to the transforming of Thai economy⁶.

In 1988 Prime Minister Chatchai has proposed the slogan "to transform the battlefield Indochina to marketplace", which marked Thailand's foreign policy has changed from the ideology-oriented in the past to realism. The resumption of Thailand's economic and trade relations with Indochinese three countries means that it has won the priority in occupying the Indochinese market and resources. In the meanwhile, its national defense and security has economic guarantee. The Thai government held that as a new "small dragon" of Asia, Thailand has possessed the capability to lead the economic development of this region. In the 1990's in the "Seventh National Economic and Social Development Plan (1992-1996)", Thai government has clearly proposed to construct the country into the regional financial center of Indochinese Peninsula.

In the 1980's Thai economy increased at a high speed. During the seven years' period from 1985 to 1992, the annual growth rate of its GDP was 8.5%, which was reputed as the "new small dragon" of Asia⁷. Some scholars believe that Thailand has become a Newly Industrialized Country (NIC). After entering the 1990's, the Thai economy was faced with a series of new challenges. A lot of advantages that Thai economy depended on to develop at a high speed were losing gradually. First of all, the

labor force cost was increasing continuously, which made the competitiveness of labor-intensive export commodities become weaken step by step. However, Vietnam and other Asian countries, which are entering industrialization, possess large amount of cheap labor force. Their labor-intensive products are more competitive in international market. In addition, Thailand's advantage in the aspect of attracting foreign capital was giving its place to the Indochinese neighboring countries. Vietnam is becoming a new hot destination of investment. In order to promote the sustainable development of the Thai economy, Thailand needs to seek for new advantage and implement new economic development plan (or strategy). Thai government believed that to establish "Growth Triangle", "Hexagon" Economic Zones in the adjacent area among neighboring countries could provide new advantages for the economic development and prosperity of Thailand.

At the end of the 1980's and at the beginning of the 1990's the Indochinese three countries just went out of the state of the Cold War. They were in a closed state secluded from the world and had few contact with the outside world. The western countries haven't raised blockade on them. Thailand is adjacent to the Indochina. Therefore it became the only gate for Indochinese different countries to contact with the outside world. Bangkok became the transfer station to arrive Indochinese different countries' capitals. The Indochinese three countries are agricultural countries waiting for development. The proportion of manufacturing industry was not more than 10% of GDP. What's more, the equipments were old and backward. The product quality was very low, which can't reach the standard to enter international market and almost all the products were for domestic demand. However, Myanmar and the Indochinese three countries have abundant natural resources and cheap labor force resources. They almost have no foreign exchange reserves. Their foreign debt number is huge and is severely lack of funds. Their culture and education lagged behind and are in short of scientific, technical and management personnel. The infrastructure was backward and insufficient⁸. Thailand's policy on Indochina can make it hold an dominant status in occupying the Indochinese market.

From the beginning of 1988, the Indochinese Peninsula has entered "the Golden

Period” of economic development. Laos and Vietnam were on the way to reform, open up to the outside world and establish market economy. In 1989 the Burmese government also announced to implement market economy and omnibearingly opening up to the outside world. Cambodia was also attracting foreign capital. The Indochinese three countries have become the investment hot spot of international capital. The Thai government believed that after Vietnam withdrew its troops from Cambodia, the Indochinese Peninsula would enter a new stage of peace, stability and development. In the aspect of occupying this market, Thailand has absolute geographic advantage⁹. As the economic power on the Peninsula, Thailand should lose no chance to make use of its funds, technology and product advantage, help Indochina to recover its economy and on this basis to promote the economic development of Thailand. Therefore, prior to other ASEAN countries, Thailand was the first to lift all kinds of trade ban on three countries, and encourage domestic private enterprises to invest in Indochinese countries. In 1989 Thailand’s investment and projects in Laos ranked top of all the foreign investment. In 1994 Thailand’s investment in Vietnam was 45 in total with the value of US\$280 million, which ranked 12th among foreign investment. In the 1990’s Thailand’s investment in Myanmar was about US\$120 million, and most projects were hotel industry. The Phnom Penh regime has also established the Special Economic Zones to attract Thai businessmen to invest. The Indochina has become the main objective of Thailand’s investment abroad, because Indochina has large amount of cheap labor force, undeveloped natural resources and vast market. Thailand has also made use of the geographic advantage of being adjacent to Indochinese three countries, and made effort to develop border trade and border tourism with the three countries¹⁰.

At the end of the 1980’s, the Indochinese three countries, which were in a very isolated state in diplomacy, have expressed unprecedented enthusiasm to improve trade and economic relations with Thailand. They invited the Thai bankers to establish branches in their countries one after another. The Thai commodities were available everywhere in Indochinese market. At the beginning of the 1990’s, the Thai currency was commonly accepted and circulated by the Indochinese Peninsula. The Laotian businessmen prefer depositing Thai currency to Kip and U.S. dollars. The economic

and trade relations between Thailand and Indochinese three countries have experienced a golden period. At that time, the Prime Minister Chatchai proudly announced “Thailand is the gold gate to enter Indochina”¹¹.

The emphasis of Thailand’s Indochinese policy is to strengthen energy cooperation with three countries, accelerate development and utilization of Indochinese resources, and satisfy the domestic energy demand. It is because in the past several decades Thailand has been carrying out the economic development strategy of high-energy consumption. Many natural resources are depleting. The abundant natural resources of Indochinese neighboring countries can fully make up for the resources insufficiency of Thailand. Therefore, the purpose of Thailand’s Indochinese policy is to carry out “energy diplomacy”. Besides, the trade protectionism of developed countries is becoming more and more serious, while the main export market of Thailand concentrated in the United States and the European Union. To advance towards the Indochinese market is a part of Thailand’s export market diversification. In order to open the four countries’ market, Thailand has invested a lot to build roads, bridges, hotels and large-scale international airports in the Thai-Burmese, Thai-Cambodian border areas. Thailand is carrying out effective cooperation with the four countries in trade, finance, tourism and transportation etc. aspects. Thailand’s Railway Transportation Department proposed a railway plan, which costs US\$200 million, in order to construct the Indochinese railway transportation network system to link Thai railways with Phnom Penh, Rangoon, and Ho Chi Minh City. The Thai government has also put forward huge Mekong River development plan to comprehensively develop the resources of Indochina and Myanmar. In 1990’s the capital, technology and experience of Thailand, and the resources, human power and undeveloped fields of the four countries, started to combine with each other unprecedentedly. In addition to the big inflow of foreign capital, in the 20th century the Southeast Asia is the area with the fastest economic growth in the world economy, which became another strong motive force source of the Asian Pacific area.

In 1991 the Anand government has proposed the plan to establish ASEAN Free Trade Area (AFTA). In January 1992 the plan has been accepted in the Fourth ASEAN

Summit Conference. According to the plan, in 15 years ASEAN Free Trade Area will be built. Because the resources-intensive and labor-intensive industries of Thailand are gradually losing their competitiveness, the trend to transfer the old industry and establish new industry is becoming one of the important features of Thailand's economic development. The growth of ASEAN Free Trade Area will certainly lead to more effective allocation of resources, and it will be favorable to the development of advantageous industries of Thailand.

In the recent years, Thailand's Indochinese plan is in a difficult situation. There are the following reasons. First, the long-term antagonistic state of the Cold War made the misunderstanding and distrust between Thailand and Indochina unable to be eradicated in a short time. It takes a long time to establish real mutual confident and mutual understanding new-typed relations. Secondly, to rely on the economic actual strength of Thailand can't realize economic integration with the Indochinese three countries. With the adjustment of the three countries diplomatic policies and the fastening of reform and opening up to the outside world, the developed countries and "the Four Small Dragons" have fastened their steps to march towards Indochinese market. The geographic advantage that made Thailand occupy the Indochinese market is gradually losing. The main trade partners of Vietnam are Singapore and Japan, and foreign investment is mainly from Taiwan. What's more, the fast rising of Vietnam made Thailand's ambitious strategy to attempt to become the economic center of Peninsula and the leading wild goose faced with big challenges¹². Therefore, the Thai government initiated and actively participated in GMS six countries' economic cooperation in order to look for broader regional cooperation space and scope for Thailand's future economic development.

3.3. Thailand's Industrialization Process and Government's Promoting Role

In the contemporary world, all the developed countries are highly industrialized countries. In order to achieve modernization, the developing countries must go along the way of industrialization. They should emphasize the development of manufacturing industry, transfer labor force and other resources from agriculture to manufacturing industry, and then transfer manufacturing industry to service trade, which is the

inevitable trend of the industrialization development.

The process of Thailand's industrialization was under the government's planning and guidance. The government has played the roles of guiding, interfering and promoting in the process of industrialization. After the WWII, the industrial sector structure coordination of Thailand has experienced different stages. In the 1960's of the 20th century it emphasized the development of "import substitute industry". In the 1970's the emphasis was on the development of export industry. In the 1980's the emphasis was on the development of heavy chemical industry. In the 1990's the emphasis was on the development of high science and technology, high-added value industry. As a result, Thailand's industrialization started in the 1960's, developed in the 1970's, unprecedentedly prospered in the 1980's, and advanced towards internationalization in the 1990's. The industrial economy has entered a matured period.

In the 1950's. Before the WWII, the Southeast Asia belonged to the most underdeveloped poverty regions in the world. Historically speaking, Thailand has always been a backward agricultural country. In the 1950's before the industrialization, the manufacturing industry of Thailand were rice mills run by overseas Chinese and sawmills etc. small-scaled family-typed half mechanic workshops with poor equipment and low technology level. All the export products were almost agricultural, forest and mineral products, among which rice and rubber occupied seven tenth of the total export value. The imported industrial consumer goods occupied eight tenth of the total import value.

In the 1954 the Thai government promulgated "the Regulations and Rules to Encourage Industrial Development" and carried out industrial development strategy with the national capital as the main body, which marked the beginning of Thailand's industrialization process.

In the 1960's. The government promulgated "the Law to Encourage Industrial Investment". It carried out domestically demanded consumer goods industrial development strategy with privatization as the center and private capital investment as the main body. The revised law of 1962 provided favors to foreign investors, stimulated

both the domestic and foreign private capital to invest in the manufacturing industry, and ensured the growth of domestically needed consumer goods industry for the purpose of substituting import. From the 1960's onwards, Thailand really went along the development path of industrialization, which was the initial period of Thailand's industrialization. In the 1960's the Southeast Asia has become one of the regions whose economic development was the fastest in the world. The annual average growth rate reached 6.4%.

However, the economic growth model of the 1960's was resources-intensive typed growth model, which was to actively export lots of agricultural, forest and mineral prime products and to import machinery and equipment by using the foreign exchange earned. It belonged to the resources rough cut of low technology level, which was import-oriented economic development model. Its active meaning lies in the following facts:

First, it has satisfied Thai people's most basic consuming demand, which was very necessary to strengthen political power and reassure the public.

Secondly, the manufacturing industry has been developed. The workshop-typed manufacturing industry has been transformed to manufactured goods for daily use (drinks, clothes, shoes etc) industrial system with complete categories.

Thirdly, it has transformed the situation of heavily depending on the imported consumer goods and has achieved import structure adjustment.

In the 1970's. The government carried out export-oriented industrial development strategy, decisively transformed the resources-intensive-typed growth model to the labor-intensive-typed growth model, which has made Thai economy keep nearly 20 years' fast growth. The reasons to orient export are as follows:

First, the domestically needed industry of the 1960's has changed from the "morning sun" to the "setting sun". The force of international competition must be used to stimulate technology improvement and the renewing of products.

Secondly, the development of substitute industrial products was limited by the domestic market whose capacity was saturated. The productive capability expansion of manufacturing industry would certainly advance towards the international market.

Thirdly, at the end of the 1960's, the developed countries made industrial structure adjustment on a global scale. Through investment abroad, they have transformed some labor-intensive industry with middle or low technology level to Thailand and other Southeast Asian countries, where the political power was stable and economic growth was fast. They left some market to the developing countries. Thailand grasped international opportunities, adjusted policy and strategy, introduced a lot of foreign investment and foreign technology, which have changed the import-oriented economy to export-oriented economy and made Thailand's manufacturing industry march towards international market, upgrade and reform in competition. At this moment, two third foreign capital has entered the manufacturing industry. Their main body was private investment from Japan and they have adopted the means of joint venture, which has made Thailand obtain much advanced technology, advanced administrative experience and the experience to be engaged in international marketing and opportunities of personnel training.

In the 1980's. The government adjusted industrial structure, emphasized to develop capital-intensive, technology-intensive heavy chemical industry. It introduced a great deal of foreign capital to develop oil and gas of the Gulf of Thailand. At the same time, it has planned and established new industrial areas in the east seaboard, the main body of which is heavy chemical industry. The policy put priority on the development of export-oriented, labor-intensive industry, which has made manufacturing industry of Thailand develop unprecedentedly and become the key force of economic growth in the middle of the 1980's. In 1985 the manufacturing industry accounted for 20% of the GDP. The proportion of agriculture has declined to 17%. The proportion of the third industry, the main body of which were tourism and financial industry has increased to 35%. Foreign trade increased in a straight line. The economy has entered a period of **fast growth**. From 1960's the Thai economy has been developing at an annual speed of 5-7%. In 1988 the economic growth rate reached 10.3%, in 1989 it was 10.5%, which ranked top in the world¹³. After several decades' development, the link between Thai economy and the international market has been greatly strengthened. The development of export-oriented economy has set a foundation for entering the matured period. In the

1980's Southeast Asia has become an important international market, which has drawn the whole world's attention. Its economic growth rate ranked among the highest in the world.

In the 1990's. The Thai government transformed the labor-intensive growth model to science and technology-intensive growth model, and gave priority to the development of high-technology industry. At this time, the transnational companies invested more in infrastructure (heavy chemical and engineering industry), which was the characteristics of foreign capital that has entered this country. It was favorable to the construction and growth of new industry.

First of all, in the east seaboard, the Thai government has established oil and chemical industrial bases. It has developed computer industry in Bangkok-centered industrial area.

Next, it has established a number of high-tech industrial gardens and industrial centers, increased the funds for scientific research and expanded personnel training.

Thirdly, the government replaced the slogan of export-oriented with internationalization. By the end of the 1980's, it has further loosen the limitation on foreign investment, especially provided preferential conditions to the direct investment on high-tech industrial gardens. A lot of the labor-intensive industries of "the Four Small Dragons" have also transferred to Thailand. In the meanwhile, the government encouraged big enterprise groups that grew during the 1970's to 1980's and had competitiveness to invest abroad to develop overseas transnational companies, which marked Thai industry has entered a matured period.

In 1990 the economic growth rate of Thailand has reached 10%. In 1992 it was 7.5% and in 1995 8.8%. In 1998 the per capita GDP amounted to US\$2,450¹⁴. After many years' growth, the comprehensive national power of Thailand has obviously been strengthened. The people's living standard has been greatly enhanced. Thailand has become a developing country whose economy is above middle level. Thai government has played important role in the process of industrialization. It is the decision-maker and planner of industrialization. The industrial development strategy made out by the government is suitable, systematic, complete and easy to be operated.

The government's interference is successful and effective. The strategy of opening up to the world is correct and its economic development strategy is scientific.

The successful experience of Thailand's economic development can be summarized as follows:

It is necessary to adjust and reform economic structure continuously in order to make the whole industrial structure form reasonable proportion. It is a must to actively introduce foreign capital, carry out market economy and free economic system, the main body of which is private economy. The government only plays the role of adjustment, coordination and interference¹⁵.

3.4. The Problems in Thailand's Development and Development Opportunities in GMS Cooperation

In the 1990's of the 20th century, there was hidden danger of the bubble economy behind the economic miracles of Thailand and Southeast Asia. In order to raise the domestic economic growth rate, the developing countries have attracted a great deal of foreign capital, excessively developed real estate industry etc. bubble economy, and neglected the danger and harm it might bring about. In 1996 Thailand spent one third of its foreign investment in developing real estate industry etc.. At the end of the 1990's the bubble economy has reached its climax. After the breaking of the bubble, the Southeast Asian countries have paid heavy cost for it. It also resulted in the big turmoil in the political and economic aspects.

In 1997 the financial crisis, which swept over Southeast Asia, has made Thai economy suffer a heavy loss. Thai Baht devaluated 50% within four months. Fifty-eight banks and financial companies were closed down. From 1997 to the end of 1999 30,000 middle and small enterprises went bankrupt. 2.8 million people lost their jobs. The unemployment rate was as high as 5.7%. The crisis has made the number of the rich people decrease 60% suddenly. People's living standard went backwards 10 years. About one million people lived under the poverty line. The investment, production and consumption shrank. Thailand sank to severe economic decline¹⁶. In order to get out of the crisis, the Thai government has adopted a series of financial and economic reform strategies. From 1999 the Thai economy began to recover. Thai Baht stabilized and

foreign capital flew in again. The financial crisis has made Asian countries realize that a single country cannot defend financial crisis. Loose cooperation and relying on foreign aid were not long-term alternatives. It is a must to quicken the step of cooperation. The financial crisis became a turning point for Southeast Asian cooperation.

The important features of Southeast Asian market economy are the coexistence of developed urban economy, modern economy and undeveloped rural economy, ethnic economy in the mountainous area and natural economy. The town and countryside dual economic structure mainly exists in developing countries. Because of the one-sided objective to quicken industrialization, it resulted in the whole agriculture and agricultural economic development lagged behind. Therefore, the city and countryside reveal different social forms.

From the 1960's to the 1980's of the 20th century, there existed the tendency of emphasizing central areas and neglected frontier economy, emphasizing cities, towns and neglecting the rural area in Thailand's economic development. In the aspect of economic development level, personal income, culture and education etc., there was big gap between the economically developed central cities, new coastal industrial area and vast countryside and remote areas. The economy of its capital Bangkok was highly marketized, internationalized. However, the North and Northeast mountainous areas were still backward rural areas. The ethnic economy urgently needed to be developed. Many aspects' imbalance has caught the government's attention.

According to Professor Zhu Zhenming, the Director of the Southeast Asian Research Institute of Yunnan Province, and Professor Medhi Krongkaew of Thammasat University, behind prosperity of Thai economy, there were also some hidden problems. The education and the personnel training lagged behind the need of economic development. The shortage of middle and high-level engineering technicians has limited the upgrade of industrial structure. The technology of manufacturing industry was mainly dependent on import. The ability to invent and create was weak. The export products structure was mainly labor-intensive products, lack of high-added value and high-technology products. After the 1990's the export increase was mainly dependent on the increase of amount, while the competitiveness has not been

strengthened. The government has also realized one-sidedness and unscientificness of the western development economics, which purely emphasize the development of industry, and neglect agriculture and rural construction, excessively pursue economic growth rate, neglected development quality. If developing along this way, it will certainly cause many aspects' imbalance of regional economic development. It should emphasize the development of domestic market to cooperate with export. The development of industry should cooperate with raising social welfare, narrowing the gap between the rich and the poor, the difference between the urban and the rural areas, between workers and the farmers.

In the Seventh National Economic and Social Development Plan, the Thai government especially stressed to quicken the development of regional and frontier economy, to increase the income of the poor people, to improve the backward situation of transportation and other public facilities. In the Eighth National Economic and Social Development Plan (1996-2000), the development objectives of the Thai government are:

First, the future economic growth rate of Thailand will be stabilized at an average level of 8%.

Secondly, to narrow the income gap between the workers in Bangkok and in other regions, disperse income and solve poverty problems.

Thirdly, to raise Thailand's technology level, increase the training of scientists, engineers, technician and researchers.

Fourthly, to maintain the stability of the national politics and the coordinated, sustainable and stable economic growth.

Thai government regarded GMS economic cooperation as an opportunity for Thailand's future economic development. It will play an important role in the economic development of Thailand. It will form unique economic circle among the neighboring countries, promote the cooperation between the bordering provinces of different countries. It will also prompt Thailand to play the role of economic center of Southeast Asia. From 1990 the government has started to reform financial and foreign trade system, carried out international financial service, invested in airport, harbor, road,

telecommunication etc. infrastructure on a large scale in order to make Thailand become the navigation, transportation center, financial center etc. regional economic center of Southeast Asia.

In the Seven Years' Road Development Plan (1993-1999), the government would invest US\$1.2 billion to transform the four main highways, which extend from Bangkok to the North, Northeast, East coastal line and South, to four-lane roads according to the international standard. The Northeast would be constructed into the economic center connecting Indochina. In the first half period of the 1990's the government has invested US\$29 billion on the construction of infrastructure. It has invested US\$4.4 billion to build the subway network in Bangkok area in order to alleviate the problem of traffic jam in Bangkok where the industry congregates. It has invested US\$2.4 billion to extend the Bangkok airport. It has also invested US\$3.9 billion to improve the telecommunication facility of the country. By relying on geographic advantage, agricultural advantage and favorable policy, the Thai economy will certainly grow sustainably.

3.5. The Objectives and Benefits of Thailand in GMS Cooperation

In the early of the 1990's of the 20th century, the Thai government actively advocated six countries' cooperation to develop the Lancang-Mekong River and riparian areas and establish Six-Sided Economic Development Area or Hexagonal Economic Development Area, which has been responded by the government of other five countries and supported by the Asian Development Bank. To advocate the development of Hexagonal Economic Area was the need of Thailand's domestic economic development, and the need to keep national political stability, economic coordination, and sustainable development. The Thai government held that regional economic cooperation in the world is the inevitable trend of economic globalization. To establish Hexagonal Economic Areas in the North and Northeast of Thailand will push forward the economic development of member countries, especially the development and prosperity of member countries' frontier economy. In addition, it can enhance the international competitiveness of member countries' products. The Asian Development Bank encouraged and supported six countries' economic cooperation and provided

US\$4 million's free aid on the feasibility study of GMS economic cooperation¹⁷. The Asian Development Bank held that it is a low-risk high-benefit development area. The Thai government predicated that through joint development, this region would become an economic, tourism, trade and investment prosperous area.

The Thai government regarded participating in GMS economic cooperation as an important opportunity for Thailand's future economic development, an opportunity to expand trade and investment, obtain necessary resources and enhance the international competitiveness of Thai products, a motive force to quicken the development of frontier economy, and an important measure to promote the sustainable growth of Thai economy. To participate in GMS economic cooperation will play an important role in Thailand's future economic development. It will also prompt Thailand to play the role of Southeast Asian economic center. Therefore, Thailand has expressed the most active attitude in cooperation. It has participated subregional transportation, energy, and tourism etc. main cooperative projects. It has also conducted a lot of highly effective work in other cooperative areas.

The Thai government is accelerating the construction of Kunming-Bangkok Road, which has been listed as the priority project of GMS economic cooperation. It has also been listed in the Ninth National Economic and Social Development Plan (2002-2006). The Mekong River Bridge from Nong Khai to Vientiane is 1,774 meters in total length. The construction of the new Nong Khai railway station has been completed. The Thai-Laotian railway enters Laos by going across the Mekong River Bridge. The construction of Mekong River riparian ports such as Chiang Saen and Chiang Khong ports is under way. Thailand planned to combine promoting the development of its Northeast with Thailand, China, Laos and Myanmar's quadrangle economic development. It has listed the "Golden Quadrangle" Development Plan in the fiscal budget and in the Seventh Five Year Plan. It has also set up a national committee to administer and coordinate the implementation of four countries' cooperation plan. In order to encourage foreign businessmen to invest high-technology industry and non-polluted industry in the North Thailand, at the end of the 1990, the government classified three categories of investment areas. The North Thailand has been listed in

3rd category of the encouragement investment, which enjoys favorable conditions. It will be exempt from 8 years' business tax and then it will only have to pay half of the tax in the following five years. The foreign businessmen can hold 100% shares. The supporting policies of the government have made some industries to transfer to the North. The Thai government believed that GMS economic cooperation would make Chiang Mai become the subregional transportation hub. Chiang Rai of Thailand boasts geographic advantage to carry out multi-national trade. It is one of the biggest areas with government's favorable policies. The North Thailand will become the center of human resources development, bank and financial center. As the leading role of small regional cooperation of Thai side, the commercial, as well as trade and tourism cities, Chiang Mai and Chiang Rai will become the expanding base to face the market of Myanmar, Laos and west of China.

Professor Medhi Krongkaew, who is the Director of Institute of East Asian Studies of Thammasat University, believes that cooperation to develop GMS economic area will make six countries benefit from it. And China will benefit most from it. China can change its poor and backward Southwest frontier to economically prosperous areas. It can export products to Southeast Asia and South Asia. It can help transport the products to different places in the world through the Gulf of Thailand and the Andaman Sea. It can also attract more foreign investors to invest in Southwest China.

The benefit that Thailand can get can be analyzed as follows: First, it can accelerate the economic development of its North and Northeast. Secondly, it can become the center of many aspects of this region according to the Seventh National Economic and Social Development Plan.

- A. Thailand can become the financial center to mobilize and distribute funds in this region because it can bring funds and technology to enter this economic area.
- B. Thailand will become the trade and investment center of this region. Because the countries that participated in the cooperation opened up to each other, Thailand will obtain a new vast market, which will push forward more foreign investors to invest in Thailand. It can not only benefit in the construction aspect,

but also in the regional trade aspect.

- C. Thailand will become the center of foreign assistance. After the end of the Cold War, the United States has cancelled the boycott on Vietnamese economy. There were a lot of foreign funds to assist Indochina to recover economy. Only the assistance of Japan has reached 50 billion Baht¹⁸. All of this kind of foreign assistance needs Thailand as the base of assistance.
- D. Thailand will become the energy center. China planned to build hydropower stations on the Lancang River and export electricity to Thailand. Laos has also invested 50 billion Baht to build power stations in order to export electricity to Thailand. Myanmar will export natural gas to Thailand. Vietnam will export coal to Thailand. Different countries have regarded Thailand as the biggest buyer of energy. Thailand can process the energy and then reexport. It will become the indirect energy center.

Professor Medhi Krongkaew also believe that Thailand can obtain mineral, timber, agricultural products etc. raw materials, as well as the primary products processing investment spots. Thailand can make use of the raw materials and cheap labor force of the neighboring countries to process the primary products, which can directly be sold to the third country or transported back to Thailand for finely processing and then reexport. Because of the cheap raw materials and labor force, the production cost can be reduced and the competitiveness of products in the international market can be raised.

As for the export of Thai agricultural products, the officials of Ministry of Commerce of Thailand hoped to expand export to China continuously. The statistics of Ministry of Commerce of China shows that since 1996 it has been 6 years that trade deficit on China. What's more the deficit is increasing every year. In the first half of this year, the Sino-Thai bilateral trade volume was US\$5.70 billion, among which China's export was US\$1.72 billion and import was US\$3.98 billion. The trade deficit reached US\$2.26, an increase of 117.6% than the previous year. According to the statistics of Thai customs, in the first half of this year, the bilateral trade volume of vegetables and fruits was US\$111 million. China's trade deficit of vegetables and fruits was US\$73.73 million. China mainly imported cassava, durian, mango, papaya, mangosteen and

banana etc. tropical fruits from Thailand. And China mainly exported green Chinese onion, garlic, carrot, apple and pear etc. temperate zone fruits to Thailand. From October 1st, 2003, the Sino-Thai vegetables and fruits import and export tariff will be reduced to zero. By then, the export amount of Thai agricultural products will be further increased.

In terms of the benefits of Myanmar and Laos, according to the report of Asian Development Bank, they can benefit from continuous business activities and serve as the transfer posts. Vietnam and Cambodia not only can benefit from tourism, trade and investment, but also from the agricultural aspect. In short, an economic, tourism, trade and investment prosperous economic area will emerge in the Mekong River Basin. The six countries' economic cooperation will certainly make great achievement¹⁹.

3.6. The New Development of Sino-Thai Relations

The common objectives and benefits, identical diplomatic policy is the political foundation of Sino-Thai cooperation and the motive force of world economic cooperation.

3.6.1. The Sino-Thai Relations in History and at the Present

Although Thailand and China the two countries share no common boundary, the geography is adjacent, culture is similar, and blood relationship is close. According to the academic research of both Chinese and Thai scholars, the Dai ethnic group in Yunnan Province and the Zhuang ethnic group in Guangxi Zhuang Autonomous Region of China have historical and blood relations with the Thai People. Nowadays the Chinese Thai accounts for 12% of the total population of Thailand, the total number of whom is about 6 million. The wide practice of Thai-Chinese intermarriage, which can be seen up in the royal family and down to the common people, has set a solid foundation for the integration of the two groups of people. The Lancang-Mekong River flows southward and links the two countries together. The Thai and Chinese people have the same or similar traditional customs, life styles, thought and ideas. During 2,000 years contact, both countries have established the historical relationship "The Chinese and the Thais are brothers."

Thailand and China both countries have neither historically unsolved problem nor

interest conflict in reality. After the two countries' government established formal diplomatic relations in 1975, they have cooperated with each other to solve two problems successfully: first, the nationality problem of overseas Chinese in Thailand; and second, the relations between the Communist Party of Thailand (CPT) and the Communist Party of China. Since then, China has stopped its support to CPT and hopes Thailand to remain stability and prosperity. Therefore, they can keep long-term stable good political relations. After the restoration of diplomatic relations for more than 20 years, the two countries' cooperation has yielded fruitful results in many areas, which not only has brought benefits to people of both countries, but also made contribution to the prosperity, stability and development of Asia. The two countries have cooperate with each other, supported each other in safeguarding peace, stability of Southeast Asia and regional security. They have remained good-neighborliness and treated each other equally. In other problems, they compromised with each other and are confident with each other. Although the two countries are different in politics, economy and social systems, they can be reputed as the good example of friendly cooperation between different social systems' countries. For example, since China and Thailand established diplomatic relations in 1975, Chinese presidents and high-ranking officials have visited Thailand regularly. In the meanwhile, the Prime Ministers of Thailand and the members of Royal families have visited China, too. According to the statistics of Ministry of Foreign Affairs of Thailand, there are several hundred Chinese delegations visiting Thailand each year, which involves political, economic, military, diplomatic and cultural various areas. The volume of bilateral trade between Thailand and China has kept rising in the past decades. According to the Ministry of Commerce of China, in 1975 the bilateral trade volume was only US\$24.62 million. Since then, the signing of bilateral trade agreements in 1978 has provided a sound foundation for the development of Sino-Thai bilateral trade. In 2002 the bilateral trade volume increased to US\$8.56 billion, an increase of 21.4% than the previous year, among which China's export volume was US\$2.96 billion and import volume US\$5.60 billion. By 2002 Chinese enterprises have owned about 230 joint ventures or enterprises in Thailand, and the total Chinese investment in Thailand reached US\$223 million. In the

meanwhile, Thai investment in China has kept going, too. By 2002 the Chinese government has approved over 3,000 projects invested by Thai enterprises. Agreements on these projects involved US\$5 billion. Thai investment in China includes feed production, breeding, food processing, motorcycle, paper, construction material production and electric power. In the recent 10 years, the bilateral tourism is becoming a new cooperative area. Before the 1990's, tourism between the two countries was mainly Thai tourists visiting China. After entering the 1990's Thailand has become the priority destination country for Chinese tourists. In 1993 the both countries' government signed the Agreement of China and Thailand Tourism Cooperation, which has greatly promoted bilateral tourism cooperation. In 2000 the total number of Chinese tourists visiting Thailand was over 800,000, which made China become one of the largest tourist source countries. In the educational sector, in 1996 the Ministry of Culture of China and the Ministry of Education of Thailand have signed the Memorandum of Understanding and Cooperation on Sino-Thai Cultural Exchange. In the recent years, the number of Chinese students who come to Thailand to study on their own expenses is in increasing every year. In addition, studying Chinese language is becoming popular in Bangkok and other cities in Thailand. Now the Thai and Chinese people have expanded their exchanges in the fields of arts, religion and social sciences through various kinds of channels.

The 1997 Asian financial crisis made Thailand and China two countries' relations become closer. Although China has suffered huge loss in the aspect of export, the Chinese government is willing to undertake the duty-bound responsibilities and obligations as a big nation. From the beginning China has announced that Renminbi will not devaluate, which avoided the further worsening of Thailand and other Southeast Asian countries' situation. Although China is faced with the difficulty of short of construction funds, China still has provided US\$1 billion loans to Thailand and helped Thailand to pass through the difficulties. It was the first time for China to provide such a huge amount of loans to foreign countries, which shows that China has paid highly attention to develop Sino-Thai relations and the sincerity of both sides to stand together in times of need.

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3.6.2. In the 21st century Thailand and China are faced with common opportunities and challenges. Both countries' cooperation to mutual benefits will have more meaning.

In the 21st century, different countries regard it as a basic national policy to strengthen the comprehensive national strength on the basis of economy. The emphasis of international competition has shifted to the contest of comprehensive national strength, which is based on economy, science and technology. As the key content of bilateral relations, the economic relations are becoming more and more conspicuous. The new development of Sino-Thai relations complies with the historic trend.

In the past several decades, both Thailand and China were engaged in the domestic modernization construction. Both countries have comparatively fast economic growth rate in the world. The industrialization levels continue going up with advanced manufacturing industry and increasing product export. In participating in Quadrangle Economic Cooperation and six countries' GMS economic cooperation, both countries are faced with common development opportunities and cooperative opportunities. Both countries regard participating in subregional cooperation as the motive force to enhance international competitiveness of domestic products and the opportunities to expand bilateral cooperation in transportation, energy, investment, trade and tourism etc.. Both countries are developing countries. They are inevitably faced with the threat of trade protectionism and trade sanction of developed countries, as well as the obstacles and difficulties of GMS cooperation. These difficulties are not only challenges but also outside motive forces to make the cooperation closer.

At present, China's economy is continuously growing, which promotes the adjustment and upgrading of industrial structure. Therefore it needs to attract more foreign capital to change industrial structure in order to adjust to the diversified market demand. In the meanwhile, China has to expand the scale and scope of foreign trade in order to satisfy the rising consumption and production level. However, Thailand's manufacturing industry is faced with the shortage of raw materials and is limited by the rising cost of labor-intensive industries caused by rising salary. It will certainly expand overseas investment in order to transfer some industries to the production base abroad.

China is Thailand's nearest huge market. The future economic relations must emphasize Thailand's investment to China. The development of investment will give impetus to the expanding and development of trade.

The Sino-Thai economic and trade relations have experienced the following period: the initial period from 1974 to 1980, the stagnant period from 1981 to 1984, the recovery and rapid development period from 1991 to 1999. (See Table 3.1) Nowadays the main problems, which exist in Sino-Thai economic and trade relations, are as follows: First, the trade scale is not big because the trade potential of both countries has not been fully exploited. Secondly, both countries' production structure is same, which led to intense competition in international market. Because both are developing countries based on agricultural economy, their export products are resources' products and labor-intensive products. Their export markets are U.S.A., Japan, Europe, and Asian four small dragon countries and regions. Consequently, many export products compete intensively in international market. Besides, both countries compete with each other in attracting foreign capital and introducing technology. However, the Chinese government's policy is that the cooperation is in the first place and competition is in the second place. The competition will become new motive force of bilateral economic development.

China has 1.3 billion consumers. Although the supply of domestic market exceeds the demand, China needs to import large amount of resources from foreign countries. Therefore, China is a big market for the export of ASEAN commodities, especially Thai commodities.

Table 3.1 China's Foreign Trade Volume with Thailand from 1974 to 1999

Unit: US\$10,000

YEAR	TOTAL VOLUME	EXPORT	IMPORT	BALANCE
1974	339	301	38	+263
1975	2462	1067	1395	-328
1976	10563	4805	5758	-953
1977	6156	4265	1869	+2374
1978	14407	7048	7359	-311
1979	29528	21193	8335	+12858
1980	45110	31153	13957	+27196
1981	37953	20630	17323	+3307
1982	46862	15800	31062	-15262
1983	24439	17393	11046	+6374
1984	33849	19506	14343	+5163
1985	26534	10277	16257	-5980
1986	32296	11618	20678	-9060
1987	55364	24900	30464	-5564
1988	82051	39399	42652	-3253
1989	88408	40647	47761	-7114
1990	119375	82345	37030	+45315
1991	126947	84781	42166	+42615
1992	131935	89481	42454	+47027
1993	135192	72046	60146	+14900
1994	232932	139588	93344	+46244
1995	336251	175174	161077	+14097
1996	314525	125495	189029	-63534
1997	351476	150030	201445	-51416
1998	356087	114807	241280	-126473
1999	421618	143570	278048	-134478

Source: Ministry of Foreign Trade and Economic Cooperation, China, 1999.

Notes

¹ Yigan Li, et al. The Cooperative Development between Southwest China and Lancang-Mekong Subregion (Kunming: Yunnan Nationalities Press, 2001), pp. 10-15.

² Wenliang Wang and Yake Yu, eds., Contemporary Thai Economy (Kunming: Yunnan University Press), p.46.

³ *Ibid.*, pp.95-220.

⁴ Economic diplomacy means the economic factors are playing stronger roles in international relations. Any country when coordinating domestic and foreign policies play the solving of economic problems in the first place. The policy selection is more practical. The economic relations between different relations are strengthened and the competition is more intense.

⁵ See Note 2, pp.250-360.

⁶ *Ibid.*, pp.49-55.

⁷ *Ibid.*, pp.10-20.

⁸ Jianguo Xu, "The Development of Southeast Asian Economy and Market Characteristics", China's Relations with Southeast Asian Countries (Kunming: Yunnan People's Press, 1993), pp.203-204.

⁹ Yunhua Cao, The Regional Cooperation of Southeast Asia ,(Guangzhou: Huanan Polytechnic University), pp.65-67.

¹⁰ See Note 2, pp.395-396.

¹¹ See Note 9.

¹² *Ibid.*, pp.76-77.

¹³ See Note 2, pp.33-47.

¹⁴ *Ibid.*, p.61.

¹⁵ *Ibid.*, pp.42-45.

¹⁶ Jiefen Ding, "The Edification of Thailand's Financial Storm to China," The Sino-Thai Relations in the Process of Modernization (Beijing: World Knowledge Press), pp.12-13.

¹⁷ According to Asian Development Bank statistics.

¹⁸ See Note 2, p.193

¹⁹ Shaoxue Yang and Rui Yang, "The Hexagonal Economic Development Area Has a Bright Prospect," The Sino-Thai Relations in the Process of Modernization (Beijing: World Knowledge Press) pp.2-6.