THAILAND’S DUAL ECONOMY AND JAPANESE MODEL

Suvinai Pornavalai*

When we consider the problem of Thailand being a NIC in the framework of economic development in one country, the unavoidable theoretical problem is the problem of “dual economy structure”. This structure which has been considered as the characteristic of South East Asian economies is the chronic problem of economic development, that is, the problem of “poverty” in rural sector of South East Asian countries should be considered together with the problem of being a NIC as the both sides of a coin. Because even South East Asian countries have experienced the rapid industrialization since 1960s but, when compare with Asian NICs, South East Asian countries still have a serious problem of poverty in rural area in which can not be solved by the progress of industrialization up to the present.

Until now the decisive differences in economic development between Asian NICs and South East Asian countries are focused on this problem, that is, the industrialization of South East Asian countries showed a similar success like South Korea and Taiwan in the point of good performance of export or the increase of value added in manufacturing industry. However, in the point of labor-absorbing power South East Asian countries are no match for Asian NICs. This means that the industrialization of South East Asian countries do not absorb the surplus labor forces in the rural or traditional area so much, then the poverty of traditional sector still exists. We can consider the differences in industrialization strategy between Asian NICs and South East Asian countries as the important factor for explaining their differences but here we will pay attention to the problem of the impacts in which this differences gave to the future of economic development.

In other words, Is it sure that Thailand can be a NIC without solving of poverty problem or unemployment problem in rural area? and If Thailand try to push on its industrialization pro-

*Faculty of Economics, Thammasat University.
cess by leaving the problem of poverty in rural area just as it is, what kind of the outcomes will be brought about to Thailand’s entire economy? To consider these problems, I think the experiences of Japan which was the model for Asian NICs in many ways are very instructive, then we will consider the problem of “being a NIC” and “dual economy” through the experiences of economic development of Japan.

Firstly, it should be pointed out that there is necessary to classify the model of economic development of Japan since the Meiji Restoration into 2 types of model which differ in essence, that is, the “pre-war type” (戦前型) model and the “post-war type” (戦後型) model. The pre-war type model of industrialization of Japan, here, has 2 characteristics as follows.

(1) In the pre-war period, Japan had pushed on its industrialization by promoting the “Zaibatsu (財閥)” big business (or monopoly capital) which conspired with the government authorities under the sacrifice of peasants who were the majority of Japanese people in that time. The exploitation of Japanese peasants was done through the mechanism of petty or ultra-small farming system (零細農耕体制) which based on semi-feudalistic high rate tenancy.

(2) In the pre-war period, there was the dual economy structure, that is, the co-existence of capitalist big business with pre-modern farming, household industry, ultra-small, small and medium size business existed in Japan. Because of these characteristics, the poverty of pre-war Japanese peasants defined the wage level of urban laborers and became the limitation of domestic market. This vicious cycle of poverty forced Japanese economy to be outward-oriented through export. Nevertheless, the pre-war Japanese economy which could not extricate itself from the limitation of domestic market and/or the vicious cycle or poverty gave up finally its peaceful export-oriented policy and turned to resort to military force or the war of aggression openly. And as the natural result, the colonial empire, the idea of “The Greater East Asia Co-prosperity Sphere” under the leadership of Japanese imperialism, the Second World War and the defeat of Japan happened one after another.

Japan could extricate itself from “the dual structure” which based on the vicious cycle of structural poverty since the end of the war. In other words, Japan can extricate from “the dual structure” through the “post-war type” of industrialization model. The “post-war” type model of Japan, here, has 2 characteristics as follows.

(1) Owing to the three great economic reforms (三大経済改革) of the post-war Japan, that is, land reform, the dissolution of zaibatsu and the liberalization of labor movement, land reform gave the purchasing power to the entire nation and promoted the expansion of domestic market in the demand side. In the supply side on the other hand, the dissolution of zaibatsu encouraged the separation of property and management while the democratization of Japanese management was carried out through the liberalization of labor movement. As a result, the new democratic corporate system or “the humanistic corporate system” was built up in the post-war Japan. Under this new management system and the strong leadership of industrial policy of Japanese government, Japanese firms and Japanese economy greatly expanded since 1950s and became finally a great economic power in 1970s.

(2) The income of Japanese peasants increased uninterruptedly in the process of high level of economic growth and pushed up the income of urban workers. As a result, the rise of wage cost stimulated technological innovation of Japanese firms and changed the structure of Japanese economy to be a strong economic structure which can absorb the rise of wage cost
through the rise of productivity. Therefore, the remarkable development of Japanese economy in the post-war period showed us clearly the possibility of the “post-war type” of industrialization model or the way of economic development without the exploitation and oppression of the masses. As compared with this type, we also can learn from the experiences of Japan that the “pre-war type” model is dangerous for developing countries and brings about ceaselessly social tension and instability. Hence Thailand, in its pursuit to become a NIC, should aim at the post-war type of industrialization model of Japan or else Thailand would not be able to extricate itself from the vicious cycle of poverty in rural area which is the cause of “dual economy” of Thailand.

Next, we will proceed to discuss the problem of the economic mechanism of “dual structure” and “being a NIC”. The framework for analyzing this problem is well known as the dual economy development model 二重経済発展モデル. According to this model, we assume that a society is composed of two sectors which are heterogeneous, that is, traditional sector and modern sector and the special features of this model are assumed as follows.

(1) The modern sector can develop through the labor supply of traditional sector.

(2) The unskilled labor can receive much more rewards in the same quantity and quality of job from modern sector than traditional sector.

(3) In the present level of wage, the unskilled labors are supplied to the modern sector much more than this sector can employ. Hence, the economic development of one country can be considered as a process that the modern sector which has high productivity and continues the reproduction on a progressive scale is built under the economic situation that the traditional sector which has low productivity and suffers from the surplus labor is predominant. And the modern sector increases gradually its weight in entire economy while absorbing the surplus labor from traditional sector. Therefore “becoming a NIC” can not mean nothing but means that one country which proceeds the process of economic development in the above way is entering to the new aspect of economic development or “the turning point”, that is, the phenomena of the extinction of the surplus labor in traditional sector through the job-absorption of modern sector, and then the modernization of agricultural sector and the up-grading of industrial structure are promoted. We can illustrate the economic mechanism of the modernization of traditional sector in relating to the development of modern sector or the economic mechanism of “becoming a NIC” with a figure as follows.
According to the above figure, if there are some causes that make the continuous expansion of modern sector possible, for example the rush of Japanese and Asian NICs direct investment into Thailand for a certain period, the labor forces of traditional sector will be transferred to modern sector in proportion to the job-absorbing power of modern sector. When the surplus labors in traditional sector are absorbed uninterruptedly to the point that there is no longer surplus labor anymore, the wage in traditional sector will begin to rise. On the other hand, due to the expansion of modern sector, the traditional sector can buy the agricultural in-put goods such as fertilizer, agricultural chemicals, agricultural machinery, irrigation facilities etc., at a relatively low price while the wage in traditional sector is rising continuously. Because of the relative decline in the price of agricultural in-put goods, then the relative price between labor and agricultural in-put goods (the relative price of productive factors) changes. This change will lead to the change in proportion of factor combination (factor substitution), that is, the form of production that uses the agricultural in-put goods which is relatively cheap intensively while uses the labor which is relatively costly economically. Hence this change in factor substitution will bring about the technological progress and transform the low-productive agriculture which used the surplus labor into the high-pro-
ductive agriculture which uses the agricultural in-put goods intensively. In this way the traditional sector is modernized gradually and the rise in productivity due to the modernization of agriculture will bring about the rise in wage and raises the level of welfare of society. Therefore, we can consider the mechanism of modernization of traditional sector (mechanism I) in terms of causal relation as follows.

The change in relative price of factors in traditional sector → factor substitution and technological progress → the change in factor productivity (labor and land) → the rise of the level of welfare. This mechanism is the economic mechanism in the case that this country succeeded to become a NIC or succeed in modernizing the traditional sector. However, if this country failed to become a NIC or failed in modernization of traditional sector, the mechanism of “poverty in rural area” (mechanism II) will probably replace the mechanism of modernization of traditional sector (mechanism I). The mechanism of “poverty in rural area” can be considered as follows. Due to the strong population pressure and the limitation of extensive expansion of farm land, the fractionation of farm land occurred. The peasants who can not keep their living because of this fractionation must become the tenant farmers and lost their land finally, that is, there is the dissolution of peasantry to downward or to be “the landless stratum” occurred. This landless strata is the wage laborer and the accumulation of this strata will strengthen the pressure of supply in labor market. And because of this pressure, the level of wage will be reduced or be kept down. Then the poorest strata of peasantry is piled up. The causal relation of this mechanism of “poverty in rural area” can be illustrated as follows. The constraint of land and the population pressure → the fractionation of land → the distribution of land/the transfiguration in the custom of community → the dissolution of peasantry → the accumulation of landless strata → absolute poverty.

Until now it is clear that the mechanism of “poverty in rural area” worked in agricultural sector and in the development of dual economy of Thailand. For example, the land productivity of Thai agriculture is very low. The crop of unhulled rice of Thailand in 1984 was 1,979 ton/ha, which is not only lower than the crop of Japan that was 6,414 ton/ha, South Korea 6,474 ton/ha, U.S.A. 5,520 ton/ha etc. but also is lower than the crop of other developing countries such as Bangladesh that was 2,048 ton/ha, Burma 3,098 ton/ha, Indonesia 3,886 ton/ha, India 2,126 ton/ha etc. Moreover, the average rate of increase of labor forces in Thailand was 2.8% annually in 1970s which was higher than 1.2% that was the average rate of increase of advanced countries. This ratio has the power to double the labor forces of Thailand within less than 20 years. By the way, the rural population of Thailand from 1961 to 1982 increased 19 million men but there were only 1 million of rural people who migrated to Bangkok, the capital, or even though we include the rural people who migrated to other cities, it will have only 4 million of people who flowed out from rural area. And the rest of 15 million rural people went to the forest and cultivated it, that is, they went to the forest for extensive expansion of the farm land. As the result, the area of paddy field in Thailand expanded from 37.13 million rai in 1960 into 73.56 million rai in 1980. However, there is a limit in Thailand’s forest and it is impossible to solve the problem of population pressure permanently by the extensive expansion of the farm land. In fact, the extensive expansion of the farm land has reached its limit already in 1980s. Therefore, as long as the rate of increase of rural population is still in the high level under the situation of the existence of massive surplus labor forces which is accumulated in the traditional sector, it is not an easy thing to extinguish this surplus labor forces through only the expansion
of the modern sector of Thailand until now. According to the estimation of Professor Tsujii in 1982, the population of underemployment and unemployment in Thailand is 8.9 million but the ratio that industrial sector can employ annually is only 3%.

The problem of “poverty in rural area” that Thailand is facing now is certainly very difficult task. However we should not be pessimistic about the future of Thai economy. Because even though Thailand has still difficult problem of poverty in rural area but the dynamism of industrial sector of Thailand since 1985 is remarkable too.

Therefore, the focal point of economic development of Thailand in the present stage should be placed on how can this dynamism of modern sector have a good effect on the poorest strata of traditional sector. The good mid-long term prospect of international environment ought to work favorably for solving this problem. And from the viewpoint of NICs-style of development (especially South Korean and Taiwanese style), the situation of dual economy of Thailand should be considered as the transitional stage in which Thai economy try to transform from the stagnant stage of the dominance of traditional sector to the mature stage of the rise of modern sector. For this reason, the fact that the dissolution of “dual structure” is the most important task of Thailand means that, now, this country is entering into the dynamic stage of economic development. And it is not probably correct to discuss the problem of poverty in rural area for giving the negative evaluation to the capitalistic development of Thailand. The better way should be the right positioning of the problem of “dual structure” in the mid-long term prospect of Thailand’s development and managing this problem skillfully to pave the way for the new stage of economic development. For that, the success or failure of industrialization policy or industrial policy is doubtlessly the most important point for solving the problem of “dual structure”.