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Why Has Thailand Done Better Than the Philippines?

In the early 1960s, the Philippines was regarded as the Asian country most likely to achieve economic "take-off". Thailand with a Gross Domestic Product (GDP) of $4,050 million in 1965 (as compared with the Philippines' $6,010 million), was way behind. Today, Thailand is on its way towards industrialization and will soon become a Newly Industrializing Country (NIC) and can be the next "little tiger" of Asia. Its GDP in 1986 was $41,780 million, exceeding the Philippines' $30,540 million.

In a lecture-discussion sponsored at the Third World Studies Center on February 8, 1989, Research Fellow Goran Lindgren of the Department of Peace and Conflict Research, Department of Economic History, Uppsala University, Sweden, presented his own inquiry on why Thailand has done better than the Philippines.

Besides being members of the Association of Southeast Asian Nations, Thailand and the Philippines are both clear examples of countries which are tied to the world market and which have been following the export-oriented industrialization strategy as the way to development.

While the two countries have similarities, they also have differences. Thailand was never a colony unlike the Philippines which had been a Spanish colony and then an American colony. Rice production for export in Thailand is done by small peasants. The Philippines has a plantation economy with big landowners. Furthermore, Thailand industrialized later than the Philippines.

What is the basis for saying that Thailand has done better than the Philippines? If one would consider the high growth rates for Gross Domestic Product as development goals per se, then Thailand has indeed done better than the Philippines. But if one would differentiate economic growth from economic development (wherein one would look at the satisfaction of the people's basic needs),the question of which country has done better would be more difficult to answer.

To explain why Thailand has done better than the Philippines, a crude account can be made.Thailand finds itself in a better economic status, although it is an exporter of primary products, with exports that are less sensitive to fluctuations in the world market. Definitely, there is a ready market for Thailand's principal exports of rice, rubber, maize and tin, unlike the Philippines' coconut oil, copra, timber, bananas and sugar. Philippine sugar accounts for 8.1% of the country's exports from 1981 to 1983 and has had to face the largest price changes from 1950 to 1984.

One would be able to answer the question why Thailand has done better than the Philippines more definitely by analyzing changes in the most important aspects of economic dependence, direct foreign investments, trade, and historical legacy of the two countries.

The concept of dependence is used when the reciprocity between states is unequal. In a study of the relations between Thailand and the Philippines and the major economic or political powers, such as the United States and Japan, the concept of dependence might be relevant and fruitful. Economic, political and military dependence influence greatly the development strategies to be followed by dependencies.

The governments of less developed countries (LDCs) like Thailand and the Philippines often interpret their underdevelopment as

lack of capital. When President Aquino made a journey to the United States after the EDSA revolution, her message to US investors was very clear: "You are welcome." On the other hand, the then Prime Minister of Thailand, Prem Tinsulanonda in a conference in 1984 assured foreign investors, "My government welcomes foreign investments. We do so in the belief that foreign investment has a very crucial role to play in Thailands's development efforts." Both countries offer incentives such as tax exemptions and cheap labor to attract direct foreign investments. Besides capital formation, the motivations for doing so are technology transfer, employment generation, and industrialization.

But data from the Organization for Economic Cooperation and Development (OECD) indicate that the share of foreign investments in domestic capital formation from 1977 to 1983 is rather small. The share in the Philippines and Thailand was only 1.2% and 1.6% respectively.

As for technology transfer, a study made by Dhirawegin (1986) asserts that the technology transfer done by Japanese firms in Thailand is in the form of technical know-how on machine operations rather than more basic technical knowledge. A study on the technological contracts in Thailand by Wongchanchao and Pongpissanupichit (1987) found that these contracts have often many restricting clauses.

It seems doubtful that transnational corporations (TNCs) are very good job creators. Data from the United Nations Centre on Transnational Corporations (1988) show that TNCs in the Philippines accounted for only 3% of the total number of Filipinos employed in 1982. In Thailand, the percentage was even less than one in 1984. These figures are explained by the fact that TNCs use capital-intensive rather than labor-intensive technologies.

It seems probable that foreign investments have helped in the industrialization of the Philippines and Thailand by increasing the production of manufactures. For the period 1977 to 1982, 37.9% and 75.0% of direct foreign investments could be found in the manufacturing sectors of the Philippines and Thailand respectively (Hill and Johns, 1985).

On the whole, it appears that direct foreign investments are beneficial to a small part of the populations of Thailand and the Philippines. It is not detrimental per se but the crucial point is who gets the benefits and who gets the costs? Evidence tend to support the conclusion that Thailand and the Philippines have not been able to create conditions where the activities of the TNCs have been beneficial to the whole population and not only to small groups.

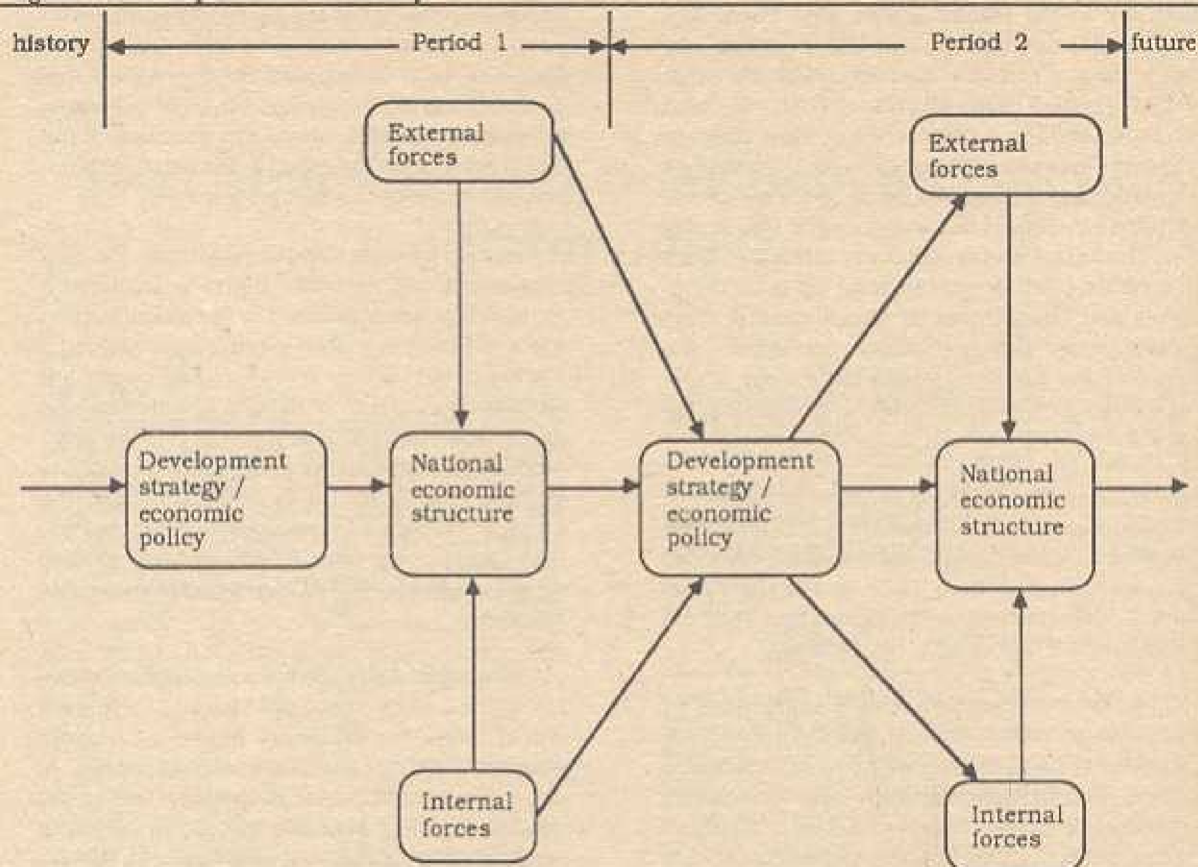
Turning towards trade dependence, the conclusion is that both countries have acquired a more independent position in the global trading system. Both have been steadily approaching a trading pattern where manufactured goods are increasing as share of exports and diminishing as share of imports. The share of primary commodities in Thai exports decreased from 92.6% in 1966 to only 63.1% in 1984. Similarly, the share of primary commodities in Philippine exports went down from 82.5% in 1966 to only 43.4% in 1984 (UNCTAD Commodity Yearbook, 1986).

Now, what would be the role of history in the formulation of development strategy? Figure 1 would show the historical nature of present economic policy and the interdependence of international and national factors. The policy options that are available today are largely a result of what happened a long time ago. History also determines which groups are powerful today; the same groups which would have a hand in the formulation of economic policy.

Although Thailand, unlike the Philippines, was never a colony, this did not make much difference economically. Thailand was transformed into a market for Western manufactured goods and a producer of agricultural exports, just like all other colonies. Both Thailand and the Philippines are producers of primary commodities for a capitalist world market.

Going back to the question of why Thailand has done better than the Philippines, what do other observers say? Hewison (1985) proposed four reasons for Thailand's better economic performance compared to the Philippines: (1) industrialization was largely built on domestic capitalists with a large stake in the industrial future; (2) a history of high growth rates despite increased oil prices; (3) a relatively small debt burden as a consequence of conservative borrowing policies; and (4) political stability. Economists from the University of the Philippines concluded that "the major explanation (for

Figure 1 The Importance of History



the poor performance of the Philippines) must lie in the character of economic policies and of policy-making by the leadership" (de Dios, 1984). Hawes (1987) wrote that the Philippine state was largely used to keep Marcos in power and not primarily to develop the Philippine economy. Furthermore, the Philippines, in contrast to Thailand, has large borrowings from abroad. This resulted in the Philippine financial system "(being) subjected to the most humiliating scrutiny by the IMF and World Bank employees" (David, 1987). More loans also made the Philippines more vulnerable to outside pressures.

What has changed after Marcos? Hawes (1987) says that the basic structure of the Philippine economy has not changed. There were four class segments that dominated the economy during the time of Marcos: state capitalists, crony capitalists, producers for the domestic market and producers for the international market. Of these, only the cronies have lost power.

For both Thailand and the Philippines, the economic policy has not changed much. The poor are still poor, if not relatively worse, and the elites are still the ones in power.