

Discussion Paper

“ Happy Landing with Productivity Boom ”

First Draft : October 9, 1996.
Current Draft : November 1, 1996.

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Comment welcome.

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‘Happy Landing with Productivity Boom’⁸

[Nov. 1, 1996]

‘Our nation will rise or fall depending mainly on the education of each individual Thai. The education and Training of today will determine the nation’s tomorrow.’

His Majesty King Bhumibol Adulyadej the Great

‘Near-death-experience’ is sometimes good for our soul. It makes us appreciate more on how good or how lucky our lives have been. Like in one’s life, one can do much soul searching in economic practices after severe hard landing. There is no debate on how hard Thai current political economy is landing after a decade of unprecedented boom. But there are plenty of intellectual debates on how Thai government policy can maneuver the current economy to the ‘good’ old days again, if possible at all. The Pessimists believe the easiest way to solve Thai large current account deficit and high inflation is to devalue or readjust its fixed basket currency to be competitive in the global marketplace. The optimists opt to use old-fashioned and painful official measures of maintaining high real interest rate to cut the local demand, providing subsidies or assistance to promote export and increasing tariff or quota to reduce non-essential import goods. Perhaps, the truth may lie between the two. Still, I envision there is one fine long term solution to oblige Thai political economic structural changes into knowledge based world by simply improving our productivity.

At the basic level, Thai residents should not spend more than it earns. Between now and then currency realignment may be fine to make Thai goods cheaper to the rest of the world (ROW) and make ROW goods more expensive to Thai residents. But it is not a permanent solution to our intensifying trade deficit. Though the exchange rate play a crucial role in the international trade, at deeper level what really

⁸ My special thanks are for Senator Dr. Olarn Chaipravat’s original insights. The discussion paper is prepared for forthcoming Sasin Alumni Newsletter by Pongsak Hoontrakul who is a MBA graduate (1985) at Sasin Graduate School, Chulalongkorn University and is currently a doctoral candidate at Joint Doctoral Program in Business Administration (JDBA) by Chulalongkorn University, Thammasat University and National Institute of Development Administration. All remaining errors are solely mine. All rights reserved. Correspondence Address : Pongsak Hoontrakul, the JDBA Office : Faculty of Commerce and Accountancy, Thammasat University, 2 Phrachan Road, Bangkok 10200, Thailand. Tel (662)225-2114 Fax (662) 225-2109 Email : pongsak@ksc5.th.com

matter is the capital flow to finance Thai's national development. The fast growth of Thai debt should not be perceived as a problem because most of the borrowing is done by the private sector for capital investment. Yet, the alarming signal is the eroding confidence among the foreign investors and lenders as evidenced by the present slow-motion financial crash. This has done more damage than the fast-forward fall in stock prices in the past since nothing Bank of Thailand can do to convince foreigners to keep on supplying cash for our growth. The main question to be posed is how to provide sound macroeconomics policy to ensure public confidence on Thai future prosperity.

To ensure Thai future prosperity is not merely problems of low export growth, sluggish stock market, high ratio of short term loan, large current account deficit and high inflation rate. Because these are not the root of our problems, they are simply the symptoms of our nation poor economic health. The issue that affects the standard of living of majority Thai people is almost always PRODUCTIVITY in the long run. If one try to solve the current economic problems by raising real interest rate to cut Thai consumption, by subsidizing or assisting Thai exporters to promote ROW demand and by imposing import restriction (e.g. surcharge, quotas, etc.) to reduce Thai import appetite, one would get a combination of local recession and temporary relief on inflation pressure and current account deficit. Though creditability of Bank of Thailand would be restored, these very same problems may occur again if our productivity do not advance in the future.

Many think that productivity is important because it helps us to be competitive in the global market place. This is wrong. The rate of productivity growth is critical because it determines the trend in our living standards. In principle, if our rate of productivity rises by 3%, our real income will grow about 3% regardless of the ROW rate of productivity. If the main source of national economic growth is not by the growth of productivity, but at the expense of increasing inequity in income distribution, then vicious circle of poverty and social chaos may be imminent. If the government officers, politicians as well as civil servants, view aids to the poor as charity, their political base is nothing more than public generosity. The officers can do much for the nation and for under privilege people by easily helping them to be more

productive. This is a real social engineering policy for income distribution to any serious patriot officers.

How can we improve our productivity ? Increases in productivity come about from increased efficiency on the part of capital and/or labor. The strategic key is to build various infrastructures on different levels as follows :

1. People : are the most important factor for Thailand's national development. First, Thailand can produce more if we can put larger population to work, if possible. But, the labor problem in Thailand is not on demand side, but on supply side. Highly skilled and professional workers are in demand, while many unskilled workers can not find good jobs. Perhaps, in short run, foreign quality workers are needed to ease the skilled labor shortage, while allowing unskilled foreign labor to work here may prolong the decline of our labor intensive industrial life. Alternatively, instead of just giving tax holidays for investors in preference industrial zones, the Board of Investment may additionally provide more incentives or assistants to the company and workers for training and education program to be more productive. Once the investors decide to relocate their plants in the future, our nation may still benefit from higher quality of left behind workers. Second, Thailand can be more productive if we can ask our people to produce more. In long run, to improve the national education standard to all social classes is the key to improve productivity. With appropriate knowledge and competency level, especially in science, technology and management, our people or human resource can ensure our prosperity, but on the condition that the underprivileged class can also enjoy the enhanced access to the quality education.

2. Firm : at the basic level transforms input to output. Only the heat of competition will make the firm fit - lean and mean. Eradicating monopolistic structures in economic sectors (e.g. telecommunication, financial services, etc.) is directly increasing social welfare because monopolistic firm is inherently less efficient. Encouraging the merger and acquisition can play a constructive role by removing inefficient management or achieving economies of scale because the market for corporate control is constantly at work. Employing more technology advance may enable more output to be produced for equal amount of input - capital and labor and

would enhance the quality of the product. Yet this generally requires capital, managerial as well as technical skill, a trained labor force and entrepreneurial skill which are generally scarce for Thailand.

3. Government : First, it is the long term capital for long term commitment. Long term commitment for physical infrastructures, human resource and technology require long term commitment in finance. Only public sectors in current Thai setting can offer financial solution for long term commitment. Apart from building physical infrastructure to meet public need and for market access, tax incentive for technology advance enhancement for the firm and governmental grants for joint researches between the universities and the private sectors must be proceeded. Second, it is the productive investment. Unlike Mexico and USA, Thailand has a high rate of saving. Putting more emphasized on long term saving may be a virtue, but the real issue is to switch or to reduce consumptive and nonproductive expenditure into productive investment. Deregulation and privatization would be the effective means to end non-productive investment. Third, it is the government in itself must be productive. The government can help by providing quality services to improve national productivity by simply reducing frictions in market places (e.g. 'red tapes', coherent tariff reduction, etc.). Finally, monetary policy, fiscal policy, international trade, industrial and human resources development must be clear, systematic and coherent.

In conclusion, increasing productivity among all classes of people may be the only thing that matter in the long run to ensure our nation prosperity. The government policy can accelerate productivity growth without great political risk, from encouraging high educational standard to support a few industry research consortia. One should look for productivity boom, not inflationary boom in future Thai economy.

Further Reading :

Krugman, Paul [1994] 'The Age of Diminished Expectation', the MIT press.

Thurow, Lester [1996] 'The Future of Capitalism', the MIT press.