# MANUFACTURED EXPORTS FROM THAILAND AND THE JAPANESE MARKET†

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## I. *The Strategic Role of Manufactured Exports*

Manufactured exports are assigned two strategic roles in the economy of Thailand; to support the expansion of industrial production and employment and to contribute to the improvement of over-all trade imbalance.

Manufacturing production expanded rapidly through the 1960s and 1970s so as to occupy 19.2% of Gross Domestic Product and 5.9% of labor employment in 1977.[1] Production initially expanded to meet domestic demand until the early 1970s, when it caught up with domestic demand and the search for markets abroad began. Domestic demand will continue to expand but the percentage of sales abroad is expected to increase in the future.

For a country like Thailand, now in the process of industrialization, a balance of trade deficits is almost inevitable. The import of capital goods and industrial materials occupies 54.4% (in 1977) of total imports. However, exports of manufactured goods pay for only 27.7% of those essential imports. Thus a trade balance deficit will inevitably result, unless it is covered by primary product export with favorable world demand. Thailand's over-all trade imbalance has worsened recently so that it amounted to 15.9 billion baht during the first half of 1979. It is feared that it will deteriorate in the midst of rapid oil price increase, making it more difficult for the imbalance to be covered by capital import.

Against the background of an over-all trade imbalance, a persistent deficit in trade with Japan had led to a demand for Japan to import more from Thailand. Although primary products are still Thailand's leading export, making up 82.7% of total exports, the contribution of manufactures should not be neglected because of its increasing share in total exports, which increased from 10.1% in 1972 to 17.3% in 1977.[2] However, most of Thai manufactured exports are sent to Europe and the United States, not to Japan at present. Being associated with the persistent trade deficit with Japan, the small export share to the Japanese market leads to the criticism that the Japanese market is closed to Thai products. This criticism will be taken up for detailed study in this paper. The characteristics of the Japanese

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[1] Narongchai Akrasanee, *The Thai Economy: Current Development, Future Prospects, and Alternative Strategies for the 1980s*, United Nations Asian and Pacific Development Institute, December 1978. Table 1.

[2] Manufactured export is defined as SITC 5-8 less tin metal. Dr. Narongchai presented alternative estimate for the share 33.5% according to alternative definition of ISIC 3; the difference is that the former excludes, while the latter includes, processed food, beverages and tobacco manufactures.

market as well as Japanese trade policy will be analysed, and its future prospect will be discussed in relation to manufactured exports from Thailand. This paper will be concluded with a discussion of how to slove the persistent imblance between the two countries.

## II. *Manufactured Exports from Thailand*

Table 1 shows the values of major thai manufactured exports; both the total and those of individual markets of developed countries. It lists only items with their total export values exceeding 100 million baht in 1977. Some consist of single BTN six digit items, while others are composed of a number of items grouped together such as fabrics and clothing. Simple processed forms of tin, rubber, agricultural and marine products are excluded. Items of exports values exceeding 100 million baht are excluded if they are predominantly exported to developing countries. Excluded under this category are portland cement (No. 252321; 185 mil. Baht), cotton yarn (No. 550511 629; 160 mil. Baht), man-made fiber (No. 560101 603; 114 mil. Baht), and plates and other shapes of aluminium (No. 760810; 101 mil. Baht). The total sum of the eleven items amounts to 7047 mil. Baht in 1978. Figures for two recent years are shown lest our analysis be biased by annual fluctuation of trade figures.

These eleven items cover about half of the manufactured exports narrowly defined in the previous section. Although it is not an exhaustive list, it represents manufactured exports from Thailand to developed markets fairly well.[3]

The combined share of developed markets in total export values differ among individual items; 30~40% for integrated circuits, made-up textiles, and synthetic fabric, but more than 80% for teak veneer, wood utensils, jute products, and clothing. An average of 61.8% of the eleven items is destined for developed markets, of which 33.3% goes to Europe (OECD members in Europe), 20.4% to the U.S., and 5.3% to Japan. And in 1978 the Japanese and American shares increased while the European share declined. Looking at shares of individual items, Europe and the U.S. have greater shares in many items, with the exception of jute yarn and synthetic fabrics. Japan has 20~35% shares in jute yarn, made-up textiles, and furniture, 3~12% in synthetic fabrics and jute products but only small shares for other items. Exports to Japan increased for many items in 1978 but her basic pattern of small shares remained unchanged. Difference in market size prevents simple comparison. Japan's GDP (478 bil. US$) is slightly less than one third of the U.S. (1526 bil. US$) and Europe (1633 bil. US$) and in terms of total import Japan (47 bil. US$) is about a half of the U.S. (88 bil. US$) and one seventh of Europe (338 bil. US$). However, the latter ratio should be modified if the proximity of Japanese market to Thailand is taken into consideration.

Difference in stage of development between Japan, the U.S. and Europe should be considered. Japan still maintained a large share in the export of light manufactures to the world market in the 1960s but she is now affected by the emerging NICs in the export market abroad as well as in the import market at home. Japan had long been an importer of raw materials and exporter of manufactured goods, and had a small share of manufactured

[3] This list is biased in the sense that only existing exports commodities are included and commodities with new export potential are excluded.

TABLE 1. MANUFACTURED EXPORTS FROM THAILAND TO JAPAN, U.S. AND EUROPE: A LIST OF SELECTED COMMODITIES

(in thousand baht)

| Commodities (Code No.) | Total | to Japan | to U.S. | to Europe |
|---|---|---|---|---|
| 1. Plastic articles 1977 | 260,855 | 5,837 | 91,303 | 76,248 |
| (390101~749) 1978 | 336,459 | 8,942 | 80,571 | 78,577 |
| 2. Teak veneer | 285,346 | 395 | 14,214 | 235,248 |
| (441401) | 259,243 | 910 | 21,455 | 145,900 |
| 3. Household utensils of wood | 309,086 | 4,646 | 73,201 | 206,606 |
| (442409) | 376,687 | 6 | 101,220 | 233,677 |
| 4. Synthetic fabrics | 1,254,500 | 97,500 | 32,300 | 342,400 |
| (510401~499) | 2,185,721 | 118,627 | 88,148 | 419,896 |
| 5. Cotton fabric | 1,244,800 | 35,200 | 159,700 | 584,500 |
| (550711~972) | 1,000,108 | 112,104 | 153,829 | 413,233 |
| 6. Yarn of jute | 146,106 | 52,453 | 5,937 | 64,488 |
| (570600) | 288,387 | 119,932 | 12,845 | 109,204 |
| 7. Twine cordage rope of jute | 161,818 | 20,375 | 81,868 | 26,067 |
| (590412) | 183,315 | 30,638 | 92,811 | 28,224 |
| 8. Clothing | 1,655,000 | 23,400 | 617,900 | 743,000 |
| (600411~610429) | 2,092,965 | 23,757 | 1,190,925 | 796,338 |
| 9. Made-up textiles | 470,675 | 92,564 | 11,644 | 49,875 |
| (62) | 534,372 | 110,168 | 16,611 | 75,351 |
| 10. Integrated circuit | 1,144,927 | 99 | 335,894 | 3,708 |
| (851911) | 2,156,475 | 2 | 734,150 | 11,741 |
| 11. Furniture | 114,127 | 38,226 | 15,926 | 15,381 |
| (940101~409) | 211,603 | 66,419 | 26,413 | 58,134 |
| Total (1~11) 1977 | 7,047,240 | 370,695 | 1,439,887 | 2,347,521 |
| Total (1~11) 1978 | 9,625.335 | 591,505 | 2,518,978 | 2,370,275 |

*Note:* Europe: OECD members in Europe.
*Sources: Foreign Trade Statistics of Thailand*, Ministry of Commerce, 1977 & 1978.

import. Since the early 1970s, however, Japan has been increasing manufactured imports both from developing and developed countries.

Japan's small share of Thai exports may be compared with shares of Japan and the U.S. in the exports of Asian NICs in that they have a common pattern of trade with Japan and the U.S. They all import capital goods and industrial materials mainly from Japan and export textiles and other light manufactures mainly to the U.S., resulting in their trade surpluses with the U.S. and deficits with Japan. In 1978 Japanese and American shares in their total exports (mainly composed of manufactures) are respectively 21% and 32% in Korea, 12% and 39% in Taiwan, 8% and 30% in HongKong, and 10% and 16% in Singapore. Those Asian NICs have larger shares of export to Japan relative to those to the U.S. than Thailand. (6.0% and 26.0%)[4]

Japan has only small shares in manufactured exports from Thailand. But it is too hasty to conclude from these figures that the Japanese market is closed to Thai products. We have to look into how Thai products are received in the Japanese market.

[4] *White Papers on Industry and Trade: 1979* (in Japanese), MITI, 1979.

## III. *Thai Products in Japanese Market*

How high is the share of Thai products in the Japanese market? Japan had long been importing few manufactures, especially consumer goods. Since the early 1970s, however, manufactured imports have started to increase due to combined effects of tariff reduction, appreciation of yen, and increasing labor cost. This trend has accelerated recently; the percentage of manufactures in total import increased from 20.3% in 1975 to 26.7% in 1978. Manufactured imports increased both from developing and developed countries. Import-domestic demand ratio differs among commodities; it increased prominently in such commodity groups as processed food, textiles, wood products, and miscellaneous products to about 10% as a whole but much higher for some individual commodities.[5]

Table 2 shows the percentage of Thai products in Japanese imports of commodities listed in Table 1 as well as those of other Asian country products. It includes only CCCN

TABLE 2. THAI PRODUCTS IN JAPANESE MARKET

(in million yen)

| Commodities (CCCN No.) | Total imports of Japan | Imports from Thailand | Imports from other Asian sources |
|---|---|---|---|
| (2.1) Teak veneer 1977 | 10 | 10 | UK (1.1), R. Kor (0.2) |
| (4414220) 1978 | 3.8 | 2.2 | |
| (2.2) Other veneer | 768 | 0 | Phil (183) Malay (490) |
| (4414230) | 1,136 | 0 | Phil (827) Malay (212) |
| (3) Household utensils of wood | 2,695 | 75 | Taiwan (934), R. Kor. (747) Phil (332) |
| (4424000) | 1,481 | 51 | Taiwan (970), Phil (246) |
| (4.1) Synthetic fabric (discont.) | 5,491 | 1,037 | R. Kor (3005) Taiwan (1387) |
| grey (5607153) | 7,573 | 1,157 | R. Kor (3418) Taiwan (2681) |
| (4.2) Yarn of discont. m.m. fiber | 122 | 53 | Taiwan (59) |
| (5605121) | 1,921 | 273 | Taiwan (907), R. Kor (722) |
| (5.1) Cotton poplin: grey | 2,234 | 70 | China (2064), R. Kor (81) |
| (5509413) | 4,702 | 341 | China (4139), R. Kor (134) |
| (5.2) Cotton fabrics: unbleached | 894 | 409 | Taiwan (362), China (86) |
| (5509419) | 1,300 | 687 | R. Kor (211), China (175) Taiwan (159) |
| (5.3) Cotton shirting: printed | 509 | 8 | R. Kor (140) |
| (5509432) | 517 | 11 | Malay (139) Indon (95) R. Kor (83) |
| (5.4) Cotton poplin: printed | 128 | 4 | China (74) Malay (15) R. Kor (11) |
| (5509433) | 111 | 6 | China (47) Malay (22) R. Kor (8) |
| (6.1) Yarn of jute | 1,172 | 925 | Bangla (184) |
| (5706010, 20, 30) | 1,537 | 1,225 | Bangla (258) |
| (6.2) Jute fabric | 360 | 10 | India (350) |
| (5710020) | 419 | 25 | India (372), Bangla (21) |
| (7) Twine cordage rope of jute | 161 | 149 | |
| (5904210) | 316 | 314 | |

[5] *White Papers: 1979*, MITI, *ibid.*

TABLE 2 —CONTINUED

| Commodities (CCCN No.) | Total imports of Japan | Import from Thailand | Imports from other Asian sources |
|---|---|---|---|
| (8.1) Women suits of cotton | 1977 482 | 1.6 | HK (68.0) India (3.6) S.P. (3.3) |
| (6102216 & 256) | 1978 628 | 13.4 | S.P. (72.6) India (47.2) HK (33.0) |
| (8.2) Women dress of cotton | 1,562 | 46 | China (288) HK (243) India (225) Phil (117) R. Kor (116) |
| (6102222 & 262) | 2,047 | 73 | India (559) China (296) Phil (155) R. Kor (151) HK (90) |
| (8.3) Skirt of cotton | 1,643 | 74 | HK (516) India (294) China (219) |
| (6102226 & 266) | 2,113 | 71 | India (854) China (302) |
| (8.4) Blouse of cotton | 2,688 | 40 | India (891) R. Kor (403) HK (239) Taiwan (212) |
| (6102231 & 271) | 2,276 | 54 | India (1317) R. Kor (583) Taiwan (295) |
| (8.5) Corsets | 1,491 | 133 | Taiwan (479) R. Kor (363) Phil (157) |
| (6109190 & 290) | 1,321 | 112 | R. Kor (373) Taiwan (261) HK (247) Phil (123) |
| (8.6) Brassieres | 5,798 | 175 | R. Kor (3273) Taiwan (1058) HK (506) Phil (424) |
| (610910 & 210) | 6,030 | 194 | R. Kor (3521) Taiwan (1323) HK (280) Phil (278) |
| (10) Integrated circuit | 14,680 | — | R. Kor (3244) Phil (1217) |
| (8521298) | 16,410 | — | R. Kor (3359) Phil (1695) |
| 1977 Total | 42,880 | 3,220 | |
| 1978 Total | 51,842 | 4,610 | |

*Note:* H.K.: Hong Kong, S.P.: Singapore, Phil: Philippine, R. Kor: Republic of Korea, Indon: Indonesia, Malay: Malaysia, Bangla: Bangladesh.

*Sources:* Ministry of Finance, *Monthly Statistics of Japan's Foreign Trade.* Dec. 1977 and Dec. 1978.

7 digit items with more than 2% Thai shares. Number attached to the head of commodity names correspond to those in Table 1. 19 items in Table 2 do not, of course, cover wholly the corresponding commodity sample in Table 1 but in other CCCN 7 digit items, Thailand has no or negligible shares.

Import value increased in many items both from Thailand and other sources from 1977 to 1978. Other sources consist mainly of Asian NICs, India, China, and other ASEAN countries but they also include France, Italy, and the U.S. in some textile products.

Thailand has predominant shares of 80~100% in such speciality products as teak veneer and jute products. It has 50% share in unbreached cotton fabric, about 20% share in synthetic fabric (grey), and about 10% shares in some clothing items. However its share fall short of 5% in a limited number of other items. For example, only four of twenty-two CCCN-7-digit items in men's outergarment (CCCN 61.01) record small Thai share.

Republic of Korea and Taiwan have large shares in those import items with small Thai shares as well as many other imports mainly from developing countries. Their manufactured exports are well diversified. Hong Kong, India, and China follow Korea and Taiwan in their diversified export structure and larger shares. Other ASEAN countries, the Phillipines

and Malaysia, maintain larger shares than Thailand in several items listed in Table 2.

To conclude our findings, Thailand holds large shares in speciality products and simply processed fabrics but much smaller shares in a limited number of other items in the Japanese market and she has to compete with these Asian neighbours for larger shares.

Before we conclude on the performance of Thai products in the Japanese market we will look into two institutional factors affecting imports of manufactures to the Japanese market. One is trade policy by the Japanese government and the other is the channel of exports to the Japanese market, which will be analysed in the following two sections.

## IV. *Japan's Policy Toward Manufactured Imports*

Are there any trade barriers preventing imports of Thai manufactures to the Japanese market? There are none especially unfavourable for Thai manufactured products. Import quotas on manufactures had been abolished by the early 1970s. Tariffs on manufactures have been reduced substancially since the late 1960s through Kennedy Round tariff reductions and unilateral tariff reductions in 1972 and 1978. Tokyo Round tariff reductions will lower them further on an average of 20% by 1986. Tariffs on manufactures were 20~40% in 1965 but they will be reduced to 3~6% in the 1980s. Tariffs will no longer be a "barrier to trade" relative to wide fluctuations of exchange rates and import prices.

However, tariffs on textiles will remain unchanged under Tokyo Round tariff reductions. Although they are not particularly high in comparison with those in Europe and the U.S. as shown in Table 3, efforts should be made by developed countries to reduce these remaining tariff barriers.

TABLE 3. COMPARISON OF TARIFF BARRIERS AMONG DEVELOPED MARKETS. (%)

| | Textiles | | | IC | | |
|---|---|---|---|---|---|---|
| | Present | | after TR | Present | | after TR |
| Japan | 11 | ⟶ | 11 | 12 | ⟶ | 4.2 |
| U.S. | 23 | ⟶ | 18 | 6 | ⟶ | 4.2 |
| E.C. | 14 | ⟶ | 11 | 17 | ⟶ | 17 |

*Source:* *Nihon Keizai Shinbun*, July 25th, 1979.

Since 1971, manufactured imports from developing countries have benefited from the General Preference Scheme, under which tariffs are exempted or halved within certain quotas specified at the beginning of the year (April). Table 4 shows the administration of GPS on selected commodities of Table 1. It is checked either daily or monthly (designated by d & m in column (3)) as to whether import under GPS fills quota (figure in column (4)) and GPS import is stopped when it exceeds the quota (date in column (5)). GPS imports are admitted in general on the "first come, first served" principle but in some items (designated by 1/2 in column (3)) a half quota is set as the maximum for one country. In some other items (designated by TQ in column (3)) the quota is allocated among importers in advance to make sure that quotas are not exceeded by GPS imports.

Beyond quotas, MFN tariffs are imposed on imports even from GPS benefiary countries. As shown in Table 4, GPS has been used up recently in such commodities as textiles. GPS

TABLE 4. JAPAN POLICY TOWARD MANUFACTURED IMPORT: SELECTED COMMODITIES 1978.

(% & million yen)

| Commodities (CCCN No.) | (1) Tariffs MFN | (2) Tariffs GPS | (3) Administration of GPS | (4) GPS quota | (5) Imports under GPS | (6) Total Import from GPS beneficiaries |
|---|---|---|---|---|---|---|
| (2) Veneers (4414-2) (teak) | 15 (0) | 7.5 (0) | m, 1/2 | 864 | 1,037 | 1,057 |
| (5) Synthetic fabrics (5607) | 10~20 | 5~10 | m, TQ, 1/2 | 1,108 | 1,076 | 7,625 |
| (6) Cotton fabrics (55.09) | 7~17.5 | 3.5~8.25 | m, TQ, 1/2 | 5,414 | 2,852 | 7,876 |
| (7) Jute yarn (57.06) | 10 | 5 | m, 1/2 | 623 | 614 | 1,505 |
| (8) Cordage Ropes of Jute (5904) | 10 | 0 | d | 107 | 116 (21 Apr.) | 702 |
| (9.1) Men's outergarment (cotton) (61.01) | 17.5 | 8.75 | d | 1,247 | 1,303 (27 May.) | 28,206 |
| (9.2) Women's outergarment (cotton) (61.02) | 17.5 | 8.75 | d | 1,577 | 1,612 (16 May.) | 16,288 |
| (9.3) Corset brassieres (61.10) | 14 | 0 | m | 229 | 218 (1 Aug.) | 2,810 |
| (10) Integrated circuits (8521-2) | 15 | 0 | m, 1/2 | 13,158 | 9,380 | 9,304 |

*Sources:* *Current Import System of Japan: 1979* and *Offcial Gazette*, Apr. 28, 1979.

contributed to the recent increase in manufactured imports from developing countries. Expansion of GPS quota and its more flexible administration are needed to promote further imports of manufactures from developing countries.

Neither tariffs, quota nor GPS administration unfavourably affect manufactured imports from Thailand. The increase of manufactured exports from Thailand to Europe and the U.S. benefited partly from import quotas imposed on NICs' products in these markets. A similar argument can be made for the introduction of import quotas on NICs' products to Japan so as to increase export from Thailand. It will help in the short run but has to compete with fellow ASEAN exporters. It will, however, lead to increased protection in Japan and will not contribute to export growth of Thai manufactures in the long run.

## V. *Market Channels of Exports*

It is often contended that the small share of Thailand's manufactures in the Japanese market has resulted from unestablished channels through which Thai products are exported to Japan. According to this type of criticism, export to Japan is dominated by Japanese general trading companies (GTCs) and it is difficult for outsiders to penetrate the Japanese

market. This factor, though important, cannot be easily substantiated by statistical data.

Firstly how much manufactured exports from Thailand are handled by Japanese GTCs in Bangkok? The Japanese Chamber of Commerce (JCC) in Bangkok conducted a survey concerning the amount of exports of Thai products handled by member companies. Table 5 summarizes the result concerning only manufactured exports for 1977.

TABLE 5. MANUFACTURED EXPORTS FROM THAILAND HANDLED BY JAPANESE COMPANIES.

(in thousand US $)

| | To Japan (1) | To the Third Market (2) |
|---|---|---|
| (A) Trading companies | | |
| (a) own business | 1,977 | 1,495 |
| (b) indent business | 48,325 | 93,072 |
| (B) Manufactures | | |
| (c) via Japanese trading companies | 2,287 | 35,105 |
| (d) others | 6,798 | 50,696 |
| Total (=a+b+d) | 57,100 | 145,263 |

*Note:* Since (c) is included in (a) or (b), it is excluded from the total.
*Source:* Y. Morita "Japanese Contribution of Manufactured Exports from Thailand," *Report*, JCC in Bangkok, May 1978.

The sum of (1) and (2), 202,363 thousand US$ represents manufactured exports from Thailand handled by Japanese companies in Thailand. Dr. Narongchai estimated manufactured exports from Thailand to be 14426 and 30013 mil. baht, narrowly and broadly defined respectively for 1977.[6] Manufactures in Table 5 include processed agricultural and marine products which are transformed from their original materials (such as sugar made from sugar cane) and it seems to be closer to manufactures broadly defined. Dividing the total sum (1)+(2) of Table 5 by manufactured exports broadly defined (after changed into US$) we obtain 13% as the share of manufactured exports handled by Japanese companies in Thailand.[7] If the Japanese share estimated from our sample in Table 1, 5.4%, is applied to this total manufactured exports in order to estimate total manufactured exports to Japan, we obtain 70% as the share of Thai manufactured exports to Japan handled by Japanese companies in Bangkok. This is only a tentative estimation based both on rough estimates of the Japanese share and on possible inconsistency in definition of manufactures. But we may well assume that a majority of Thai manufactured exports to Japan are handled by Japanese companies in Thailand.

Secondly, however, it is well known that severe competition has continued among Japanese GTCs, so it is probable that they realize whatever profitable trade opportunity they can find in Thailand. Japan's imports of manufactures (mainly textiles and other light manufactures) have increased recently, as mentioned in previous sections. It has been accompanied by changes in channels of import and domestic distribution. The distribution system in the Japanese market has long been characterized by "long and narrow" channels

[6] Calculated from table 1 of Narongchai Akrasanee, *ibid.*

[7] It will be 17% if we include primary products. This, however, is subject to underestimation, since big items such as lubber and tin are directly exported to Japanese customers and are excluded from the caluclation.

and high distribution cost resulting from small-scale retailers and multi-layered wholesalers. This complicated distribution channel has tended to prevent European-American exporters from penetrating the Japanese market.

Recently, however, such large-scaled retailers as department stores or big super markets have grown so as to by-pass existing channels and import directly from abroad. 32% of imported consumption goods purchased by department store and 20% of those by big super markets are imported directly and these figures are expected to increase in future.[8] These changes provide "broad and short" channels, thereby reducing distribution cost and promoting competition, and more chances for foreign exporters to penetrate the Japanese market if they are competitive enough. Asian NICs have already taken advantage of this change in expanding the shares of their products in Japanese market.

The importance of export channels should never be neglected in realizing trade potentials. Export channels of Thai manufactures to Japan have not been fully established in the sense that Thai products have gained only small shares in the Japanese market. This is partly because Japanese manufactures are trading companies originally established their joint ventures in response to incentives provided by governments for import substitution in the domestic market and they have not completed the changes to export abroad. More efforts should be made, both on governmental and private sides, to establish export channels of Thai products abroad in addition to the improvement of the competitiveness of Thai products. BOI's recent promotion of Thai general trading companies cannot be overemphasized in this respect.[9] One important feature of the promotion scheme seems to be closer ties between trading companies and domestic manufactures, which will lead to finding new exportable commodities overlooked so far by their foreign competitors.[10] It is expected that the growth of Thai trading companies will contribute to improvement of competitiveness of Thai products through their experience of selling abroad and the increase of export of diversified products.

## VI. *Solution of Trade Imbalance*

Trade between two countries needs not be balanced at any cost and there is no effective mechanism to accomplish it in our market economics. A country has a deficit with some trade partners and a surplus with others depending on the trade patterns based on her comparative advantage. Japan persistently incurs deficits with resource exporting countries, which is offset by her surplus with others. A global balance, and not a bilateral balance, matters in the world of harmonious international specialization.

However, if one country should suffer from a big over-all deficit and the other accumulates

[8] *White Papers on Industry and Trade: 1979*, MITI, (in Japanese) Vol. I, pp. 254-266.
*Outline of Japanese Distribution Structures: 1973-74*, The Distribution Economics Institute of Japan.

[9] *Bangkok Post*, October 3, 1978, and Y. Asao, "Thai General Trading Companies," JCC in Bangkok, *Report*, May-June, 1979. (in Japanese).

[10] This is exactly what a Thai GTC is undertaking in its efforts of expanding its business. See Interview Report with Mr. Prida Sananikorn, Vice President of Siam Cement Trading Co., *Bangkok Post*, August 26th 1979. The contribution made by Japanese trading companies in the process of Japan's transformation from primary product exporter to manufactured good exporters was discussed in I. Yamazawa and H. Kohama, "Trading Companies and the Expansion of Japan's Foreign Trade," *Japan's Historical Development Experience and the Contemporary Developing Countries: Issues for Comparative Analysis*, IDCJ, October 1978.

an over-all surplus, the claim for bilateral balance tends to surpass the orthodox theory of global balance. This is particularly the case today when non-oil producing countries as a whole incur a huge deficit.

Nevertheless it suggests the remedy as well. It is difficult to solve trade imbalance between two countries unless we are engaged in barter trade under state trading. We cannot increase imports from one trade partner by preventing market mechanisms without unfavourably affecting other partners. Japan is requested by several partners to reduce bilateral imbalance with them.

The orthodox solution is import increase by the surplus country combined with export expansion by the deficit country along the theory of global balance. Japan's increase of imports will partly lead to a direct increase of export from Thailand but mainly encourages exports from other partners. This, in turn, induces Thai exports to replace other partners' products both in their domestic markets or the fourth country markets, if Thai products are competitive enough to take advantage of the demand increase. When Thailand's global deficit is reduced to such an extent that it is financed by automomous capital inflow, and remaining trade imbalance between Japan and Thailand will not cause any conflict between the two partners.

In order to increase manufactured imports to Japan, more effort should be made not so much in trade policy as in the adjustment of industrial structure to accommodate more foreign products. The structural adjustment has already proceeded in some industries without serious damages to domestic manufactures. Japan is 'maturing' but not yet as 'matured' as Europe and the U.S. In that sense it is certainly good for the Japanese economy as a whole to restrain domestic claims for protection and encourage intra-industry specialization with other Asian countries over wider range of manufactures.

Thailand has to compete with Asian NICs, other ASEAN members and China for greater export to the Japanese market by taking advantage of her import expansion. Since Asian NICs have already stumbled over rising labour cost and started to transform their industries with more emphasis on heavy manufactures, the competition in the area of existing manufactured exports will continue between China and SAEAN members.

Diversification of export commodities as well as cost reduction and quality improvement is needed to strengthen international competitiveness of Thai manufacturing industries. More export incentives may well be given by the government to the efforts in this direction. Heavy export incentive is not without problems of resource allocation and equity consideration. But it will accelerate manufactured export from Thailand and its international competitiveness itself will be further strengthened in the process of export expansion.