

GOVERNMENT OF THAILAND



THE SECOND NATIONAL ECONOMIC AND  
SOCIAL DEVELOPMENT PLAN  
(1967-1971)



THE NATIONAL ECONOMIC DEVELOPMENT BOARD  
OFFICE OF THE PRIME MINISTER  
BANGKOK, THAILAND

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## INTRODUCTORY REMARKS

Ever since taking up my appointment as the Prime Minister of His Majesty's Government, I have steadfastly upheld the conviction that the economic and social development of the country through sound and definite plans and projects shall form a keystone policy of this Government. In my capacity as Chairman of the National Economic Development Board, the economic and social development planning activities have always received my keen interest. Indeed, I am very pleased to learn from the Evaluation Report of the First Economic Development Plan (1961-1966) that Thailand had achieved a most satisfactory economic growth during the Plan period. The Gross Domestic Product had increased at an annual average of 7.2 per cent; that is at 43 per cent during the six years of the Plan period compared to the Plan target of 33 per cent. This is a good omen for the future of our country. However, such achievement should not be taken to mean the lessening of effort on the part of the Government towards further development. On the contrary, the Government is determined to continue every effort to accelerate the development to achieve even better results than the past. The Second National Economic and Social Development Plan (1967-1971) represents this determination. If the economy of the country can grow at the rate envisaged in the Second Plan, it will undoubtedly be an outstanding achievement which has not been recorded so far.

In addition to accelerating the development in different sectors of our economy, the Second Plan lays emphasis on economic and social activities which were either not incorporated or clearly specified in the First Plan. Among other things, such activities include the attempt to distribute equitably the benefits of development throughout the country, particularly to reach isolated and less developed areas. Efforts in this direction can be observed from the fact that approximately 75 to 80 per cent of the entire development budget represents investment expenditures for various projects designed specifically to yield direct benefit to the rural communities. Moreover, there are such special measures as, for instance, regional development projects, accelerated rural development projects and projects for providing assistance to the farmers. The basic objective of these projects is to accelerate improvement in the standard of living of the people in these areas.

Another important aim is to foster cooperation between the public and private sectors in developmental efforts. Based upon Thailand's policy of free enterprise, the Government desires to encourage full participation of the private sector in the process of economic development. Towards this end, the Government will be guided by the principle of social justice and will support all activities of the private sector which contribute to our country's development provided that such activities do not imply taking unfair advantage or trespassing upon the rights of others. The Government support will be administered through appropriate regulations and the provision of services, facilities and other measures. The role of the Government in so far as it relates directly to economic activities will be concentrated mainly on certain public utilities and on those which are closely concerned with national security.

The National Economic and Social Development Plan for 1967-1971, the adoption of which has been graciously proclaimed by His Majesty the King, should be considered as the most important guideline for the development of our country. My Cabinet and I are determined to do our utmost to accomplish its objectives and targets. However, our country is presently encountering a series of critical situations in international politics which might gradually develop into severe crises.

It is extremely important, therefore, that our Development Plan must take into consideration the problem of our national security. When necessary the Plan must be reoriented and revised to conform to the situation as it develops. In this connection, I have issued instructions to the Office of the National Economic Development Board and related government agencies to undertake a continuous study and review of the economic situation for the purpose of timely revision of our Development Plan accordingly.

The National Economic and Social Development Plan must be regarded as the national determination towards progressive economic advancement. It is my sincere hope that the Thai people will unite in this effort to develop the country and will be prepared to make personal sacrifices, if necessary, for their own future prosperity and also of the nation as a whole.



( Field Marshal T. Kittikachorn )  
PRIME MINISTER

# CHAPTER I

## SUMMARY OF

### THE SECOND NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLAN

(1967 - 1971)

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#### Scope of the Second Five Year Plan

1. Planning for economic development in Thailand has improved steadily since the establishment of the National Economic Development Board in 1959 as the central planning agency. During this relatively short experience, development planning has contributed to the acceleration of the rate of economic growth and the diversification of the economy. The First Economic Development Plan, 1961 - 1966, was an operational programme of action for the central government's development expenditures. In the Second Phase of the First Plan, 1964 - 1966, the public sector coverage was broadened to incorporate development programmes for state enterprises and local governments; foreign financed expenditures were presented in detail and linked to specific projects and the balance of payments; and the development targets and policies were more clearly defined.

2. The scope of the Second Plan has been broadened to permit more realistic assessment of the potential of the economy as a whole and the measures necessary to realize development objectives. While the central part of the Plan continues to be the estimation of public sector resources and the sectoral programmes of development expenditures, special emphasis is placed upon social development to assure that the benefits of economic growth result in improved living standards for all groups in the society. Regional planning is introduced to accelerate development in the remote areas of the country and private sector policies and manpower considerations have become an integral part of the planning process. Representatives of the private sector, serving on working committees on manufacturing, trade and services, have participated in the process of establishing targets for private production and investment and recommending policy measures affecting the private sector. Estimates have been made of the increase in the labour force and the additional employment likely to be generated by the Plan so that training and educational planning could be harmonized with the manpower requirements for the implementation of the Plan programmes.

3. The comprehensive scope of the Plan has permitted the construction of a target for the overall economic balance, which projects the movement and interrelationships of investment, consumption and foreign trade for the first time. Each target is the cumulation of the results of the detailed studies of the Plan. Thus, the balance sheet represents a reconciliation of the diverse forces expected to be operative during the period and a summary of the planned economic growth and structure under the Plan. Overall planning has evolved as a mechanism for obtaining clearer guidance as to the basic strategy of the Plan and as a check on its consistency, both during the period of the Plan and the longer term perspective.

## **Overall Development**

### **Progress during the First National Economic Development Plan**

4. Thailand's economy progressed satisfactorily during the period of the First Plan, 1961 - 1966, with Gross Domestic Product increasing at an annual rate of 7.2 %, from 56,000 million baht in 1960 to 87,000 million baht in 1966. The economic growth of the past six years has increased the productive capacity of the nation and improved its structural balance. Agricultural production has been diversified, with new commodity lines contributing to the substantial increases in export earnings. Although the balance of trade was unfavourable, the balance of payments produced surpluses reflected in the rising foreign exchange reserves, which equalled 820 million U.S. dollars at the end of September, 1966. Political stability, sound fiscal and monetary policies, stable exchange rates, combined with the marked rise in private and public investment have contributed to the healthy expansion of the economy.

5. On balance the First Plan was successfully implemented, although some projects inevitably lagged behind their planned schedules. The most prevalent causes of delay were shortages of trained technical and administrative personnel and problems in the negotiation of foreign loans and the placement of equipment orders.

6. Fundamental problems persist in spite of the broad economic advances during the First Plan. Low levels of productivity are still widespread in agriculture and rapid population growth is compounding the difficulty of future development. Severe regional inequality constitute an economic weakness which outside infiltrators have been exploiting for subversive purposes.

### **Development Objectives and Policies**

7. The basic objective of the Plan is to attain the maximum increase in the standard of living which is consistent with the social and security requirements for improving the welfare of the people. Mobilization of the full human and natural resources of the country will be sought in order to expand productive capacity and draw all classes of society into the development process. The objective of social justice requires that the benefits of development be shared equitably, especially in isolated areas where the people cannot effectively help themselves. The maintenance of financial stability will be sought to enable long term growth to continue on a sound basis. The ultimate objective of national security depends upon the successful realization of the objectives of economic strength and social unity.

8. To realize the objectives of the Plan the successful policies already established will be continued. These include strengthening the efficiency and growth of the private sector, maintaining a stable monetary environment, and making more effective use of the substantial investments in national infrastructure under the First Plan. The policy of rural development will receive particular emphasis in a wide spectrum of programmes to lessen the severe inequalities between different regions of the country and to build up the agricultural base of the economy. The Plan also stresses the policy of promoting employment and developing manpower by improving the quality of the nation's human resources at all levels.

### **Targets and Economic Structure**

9. The Plan target is to raise Gross Domestic Product in real terms by an average rate of 8.5% per year. Assuming an increase in population of 3.3% per year, average per capita income will increase at the rate of over 5% per year and rise to about 3,900 baht by 1971. Both public and private investment will increase substantially during the Plan period, stimulating the expansion of many types

of economic activity, employment opportunities and higher income for the people. The rising volume of exports and foreign assistance will contribute to the accelerated growth of the country's economy. A significant structural change is expected in the economy during the Plan period, as the agricultural sector declines in significance relative to the non-agricultural sectors. By the end of 1971, the share of the agricultural sector in the Gross Domestic Product is expected to be only 26% as compared to approximately 33% in 1965. The economic sectors which will gain increasing prominence include manufacturing, construction, transportation and communication, banking and insurance. In spite of this healthy diversification, agriculture will continue to be the most important sector. The marked increase in the rate of development expenditures, combined with substantial inflows of foreign purchasing power, may have an adverse impact on the general price levels. Conversely, increasing demand will stimulate domestic production and induce foreign imports which will tend to stabilize the economy.

10. The perspective of the Second Plan necessarily extends beyond the limits of the five year period because development is a continuous process, requiring sustained and consistent long term efforts. The economic outlook is for continued rapid growth in output during the Third and Fourth Plans, as the private sector responds to the physical and social infrastructure and the investment climate built under this Plan. Gross Domestic Product is expected to rise by at least 7% per year, doubling present per capita income by 1981 if the current population growth rate continues. The growth rate of public investment will decline after the Second Plan period due to the completion of major portions of the public infrastructure and private investment will accelerate as the capital market becomes more effective in mobilizing savings for the financing of modern industry. The trends in the structural composition of the economy will continue and, by the end of 1981, the projected share of agriculture in the Gross Domestic Product will be approximately 20%. Manufacturing, construction, transportation, commerce and banking will experience rapid growth rates and will be responsible for larger shares of national output. The overall economic system of the country will have a more balanced productive capacity, as the improved transport and communications network fosters closer economic ties between different areas and promotes the development of regional centres outside of Bangkok. Measures to realize social objectives will become increasingly more important as the production of goods and services gains sufficient momentum. Foreign trade will continue to play a prominent role and, although exports are expected to increase, Thailand will continue to rely upon foreign capital to augment its domestic resources during this period of development. The future internal economic outlook depends upon the political developments affecting the security and cooperation of the region. Thailand will strive to realize economic cooperation, particularly between the Southeast Asian countries, in order to enjoy the maximum economic benefits for the area as a whole and each of the regional countries.

#### **Monetary and Fiscal Policies**

11. To achieve the Plan targets, total public development expenditures of 57,480 million baht and private investment spending of about 92,800 million baht will be required. The largest portion of the public development expenditures will be for the development of infrastructure projects in the sectors of agriculture, power, and transport and communications, which will amount to 33,400 million baht, or approximately 58% of the total. About 11,900 million baht, or about 21% of the total, will be spent for community facilities, social welfare and rural development and about 9,180 million baht, or 16% for the sector of education and health. Approximately 73% of the development expenditures or 42,200 million baht, will be financed by domestic resources, and about 27% will be financed by foreign resources.

12. Private investment is larger and more significant than public investment, for a free enterprise economy such as Thailand depends upon private enterprise to serve as the engine of economic growth. During the Second Plan, private investment is expected to increase 8.7% per year, rising to a cumulated total of 92,800 million baht or 17% of Gross Domestic Product by 1971. Eighty nine percent of private investment is expected to come from domestic sources - individual and business savings (79%) private commercial banks (8%), and other financial institutions (2%).]

13. During the First Plan period Thailand's balance of payments was in a favourable position. A sizeable balance of trade deficit due to the strong upsurge of capital goods imports was largely offset by Thailand's net surplus on invisible payments. Moreover, net capital inflow turned the trade deficit into a balance of payments surplus. During the Second Plan period export earnings are projected to increase at an annual rate of 7.2% and import spending at 9.3%. A larger trade deficit is expected to be offset by net earnings on invisible items, such as tourist and U.S. military expenditures in Thailand, and transfer payments. Continuing foreign capital inflows will contribute to a rise in international reserves which is expected to be lower than during the First Plan period.

14. The Second Plan budget expenditures, both current and development are approximately double the level of the First Plan and in excess of the likely availability of domestic public resources. Financing the deficit may therefore accentuate the inflationary pressure created by the accumulation of foreign exchange, thus requiring more efficient tax administration or new taxes if the objectives of the Plan are to be realized. Because of the uncertain international situation in Southeast Asia, estimates of revenues, expenditures and balance of payments can be only approximate, and fiscal and monetary policies must be reviewed annually to assess evolving economic trends.

#### **Manpower Development**

15. The development of manpower represents one of the most important policy objectives of the Plan. This objective has a threefold approach: to generate employment opportunities at least equivalent to the increase in the labour force, to promote rural employment with a view to relieving underemployment, and to improve the quality of manpower in order to meet requirements of the present and future programmes of economic and social development.

16. It is estimated that the Plan will provide new jobs for approximately 2.2 million persons, which is almost equivalent to the increase in the labour force expected during the Plan period. Underemployment in the rural areas will be alleviated by the measures undertaken in the Rural Manpower Development Plan. The quality of the country's manpower will be upgraded through education and different types of training programmes.

#### **Regional and Local Development**

17. An important policy objective of the Plan is to reduce the differences in the standard of living of different areas of the country. Special programmes will be implemented by five Regional Development Committees so the requirements and potential of each region will be considered. The Accelerated Rural Development Programme will focus attention on the development of remote areas in the Northeast and the North. There will also be programmes operated by the local administration with financial assistance from the central government.



### State Enterprises

18. During the Second Plan period 9,800 million baht, or 17% of the Government's entire development expenditures, will be implemented by the 108 state enterprises, which are firms in which the Government holds over half of the equity capital. The Government objective is to limit state enterprises to those which are public utilities, which contribute to the Government revenue, or which are essential to the security of the nation. Investment projects of present or new state enterprises will not be approved unless they are economically feasible and will not conflict with the policy of promoting private enterprise. Unprofitable state enterprises will be examined to determine the possibility of improving their efficiency or transferring them to the private sector. The majority of the state enterprise development projects are for public infrastructure such as the generation and distribution of electric power and transport and communication facilities.

## Sectoral Development

### Agriculture and Cooperatives

19. The agricultural sector is the foundation upon which the country's economic development must be based. About 80% of the country's population is engaged in agricultural employment; agricultural exports earn the foreign exchange required for capital imports to modernize the economy; and the agricultural sector is the primary market for industrial production. The major emphasis upon this sector is reflected in the rise of development expenditures on agriculture from 14% of the total First Development Plan expenditures to 20% of this Plan. The primary objectives of the agricultural sector are to increase productivity, to diversify and balance agricultural production, and to develop the remote rural areas where neglect and poverty create vulnerability to subversion.

20. The target annual growth rate for the agricultural sector is 4.3% which is slightly lower than the rate under the First Plan but well in excess of the population growth rate. The growing flow of benefits from agricultural development projects is expected to stimulate crop production and reduce the instability of income caused by inadequate water control. The primary component of the agricultural sector is crop production, especially paddy which is expected to reach 13.7 million tons by 1971. Other crops which will contribute significantly to the sector's projected growth include maize, sorghum, oil bearing beans, industrial cotton, and vegetables. The annual growth rates of fishery products and livestock are expected to be 4.7% and 5.0% respectively, while forestry production will be low because of conservation efforts to ensure adequate future supplies.

21. The major agricultural development programme will continue to be for irrigation, much of which will consist of projects initiated during the First Plan. However, major new projects will be implemented on the following basins: Nan, Pran, Nam Oon, Upper Chee, Nam Young, and Upper Mun. The area under irrigation is expected to rise to 15 million rai by 1971, an increase of 3.3 million rai over 1966. Regional Agricultural Research Centres will be established and specialized experimental stations will be established to promote the cultivation of such important crops as rice and rubber. Promotion efforts will continue for maize, sorghum, banana and new crops such as cotton and oil palm. Fishery projects include the promotion of deepsea fishing by surveying fish resources and training fishermen in advanced techniques. The main features of the livestock development programme are the acceleration of breeding improvements and disease control. The forest control programmes will emphasize forest protection and afforestation. The land development programmes include land surveys and classification, and the provision of technical assistance to various governmental agencies concerned with land resettlement areas.

22. Agricultural development depends upon the active initiative of the farmers and their ability to make production decisions in an environment which is equitable and understandable. One important programme, therefore, is the promotion of farmers organizations to assist the farmers in participating in the development process. Legislation will be enacted to permit the conversion of farmers' groups into corporate entities and specialized cooperatives will be encouraged to merge into larger multi-purpose organizations for this purpose. Research studies of the land tenure system and the structure of markets and prices will facilitate sound policy formulation. The Government, moreover, will substantially expand its programme of agricultural credit, through the new Bank for Agriculture and Cooperatives, so that credit will be available for productive investment.

23. The total development plan expenditures for agriculture will be 11,300 million baht, consisting of 8,400 million baht of budget appropriations, including 800 million baht for the Aid-to-Farmers Programmes; 1,940 million baht of foreign loans to develop the irrigation system; foreign grants of 550 million baht; and 400 million baht for the rubber replanting subsidy programme.

#### **Industry and Mining**

24. The primary objective is to accelerate the rate of private industrial investment by the creation of a favorable economic infrastructure and business climate. The Second Plan will continue and expand programmes of industrial finance, management development and industrial research. New projects will be implemented to establish an industrial estate and to strengthen the small scale industries which must serve as the basis for future growth. Special measures will be designed to prevent tax policy from deterring private industrial investment and to prevent state enterprises from competing with private firms.

25. The rate of growth of industrial production is expected to increase to 11% per year during the Second Plan. On the basis of consultations with representatives of the private sector, rapid growth targets have been established for the following industries - paper, chemical fertilizers, steel, automotive assembly, cement, textile and plywood manufacturing.

26. The Plan identifies the specific industries which must be expanded to reach these targets. The primary vehicle for promoting foreign and domestic private investment will continue to be the Board of Investment which has been reorganized and strengthened. The Government will particularly encourage medium and small scale industries using domestic raw materials, food processing firms and construction materials manufacturers. The policy on industrial state enterprises will be to prevent them from competing with private enterprise, to restrict the establishment of new state enterprises, to invest only to improve the efficiency of present facilities and to emphasize better organization and management techniques.

27. Mineral development will similarly depend on the private sector's vitality in responding to market opportunities. Tin production is expected to continue to rise, but no substantial increases are anticipated for the other minerals. The Second Plan stresses surveys of mineral ores in order to increase the known ore reserves and to create profitable potential opportunities for mining development.

28. Most of the Industry Sector's financial programme in the past has represented the investment expenditures of the industrial state enterprises, which will decline under the Second Plan. Consequently, the total development budget for this sector is only 917 million baht, less than 2% of total planned development expenditures, although the substantial expenditures in other economic sectors will also enhance the profitability of private manufacturing enterprise.

## Transport and Communications

29. Transport and Communications will continue as the largest sector of the Development Plan because of its success in stimulating private economic growth and its favourable impact on the social cohesiveness and security of the people. The general policy will be to continue and improve the varied projects underway, emphasizing the maintenance of facilities and integration of projects into economical and efficient systems of transport and communication.

30. The major programme in this sector is the Highway Department's Plan to construct an additional 1,600 kilometres of highways, thus increasing the national highway system to 11,300 kilometres by 1971. In addition, provincial and feeder roads will be built in remote areas to link with the trunk routes of the national system. Other transport and communications projects provide for improvements in the existing systems of railways, telephones, television and postal services. Plans are to survey and construct a second deepsea port facility, to improve the southern coastal ports, and to select a proper site for a second commercial airport. A comprehensive survey will be undertaken to recommend measures and institutional arrangements to integrate and coordinate the national transportation system. The telecommunication system for both the North and the South will be completed and telephone services, particularly in Bangkok, will be expanded and improved. The installation of a Satellite Telecommunication System will facilitate international communication services.

31. The development expenditures in this sector amount to 17,100 million baht, consisting of 9,200 million baht from the national budget, 5,400 million baht from foreign loans and grants, and 2,500 million baht of reinvested earnings of the state enterprises.

## Energy

32. Power generating capacity will increase 33% annually during the Plan period in order to satisfy the accelerating growth in demand. The Plan also focuses on increasing the effective utilization of present facilities by expansion of the distribution systems, coordination of producing and distributing units, and reduction of power rates to stimulate use for productive purposes.

33. Guided by the policy of utilizing the most economical production technology for the specific geographic area, the Power Programme includes hydro, thermal and diesel projects. Hydro capacity will be increased by the installation of additional units at Yanhee and the new Sirikit Dam, and surveys will determine the feasibility of hydroelectric sites in other regions of the country. Steam capacity will increase when the Lignite Authority adds a third unit at its Krabi plant and as the Bangkok Power Plant is expanded. Diesel generating facilities made surplus by the extension of the Yanhee line will continue to be relocated in remote areas. Although the per capita power consumption is still low, the initial bottlenecks have been overcome and adequate power will be available for industrial and commercial activities in spite of the relative decline in Plan expenditures allocated to this sector.

34. The Plan expenditures for power development will be 4,900 million baht, consisting of 1,400 million baht from the national budget; 2,200 million baht of foreign loans; 330 million baht of foreign grants, primarily for the development of the Mekong River; and 1,000 million baht from the reinvested earnings of the state enterprises. However, continuing review of power demand indicates that there may be a need to increase the power expenditures programme during the Plan period.

### **Commerce and Services**

35. The commercial policy of the Plan is to promote private initiative within a framework of free enterprise and fair competition, for an efficient commercial system is primary force in economic development. Projects will be implemented to analyze and forecast the markets of Thailand's major domestic products, to improve commercial intelligence, and to stabilize the prices of basic agricultural commodities such as rice. The free import of capital goods and raw materials will be permitted to encourage investment and to alleviate possible inflationary pressures on domestic resources. Programmes also will be adopted to promote foreign trade expansion by quality controls and the identification of market opportunities. The commodity export targets include a 30% increase in rice exports to 2.5 million tons by 1971.

36. The Plan recognizes the growing importance of the service industries, especially transport, construction and tourism. The tourist promotion industry has rapidly gained prominence as an important source of revenue and foreign exchange for the country.

### **Community Facilities and Social Welfare**

37. Social problems are an inevitable consequence of the rapid economic development Thailand is experiencing. The objective of this sector is to anticipate and alleviate these problems by improving the social system so that the populace can live in peace with opportunities for full realization of their individual potentialities. The growth of urbanization accentuates the need for adequate community facilities, particularly in the Bangkok-Thonburi area where the crowding together of about 7% of the population of the country creates special social problems. Development activities will continue for the Bangkok waterworks, road system, and city planning; slum clearance and public housing will be accelerated; and the private sector will be encouraged to invest in middle income housing. The implementation of a major Drainage and Sewerage Project for Bangkok will be started during the Plan period. The new Department of Labour will design measures for the welfare of the expanding labour force. Rural projects include rural water supply, provision of land through self-help settlements, community development and the promotion of agricultural occupations.

38. The planned development expenditures for this sector amount to 10,200 million baht, consisting of 5,200 million from the national budget, 2,300 million baht of local government development expenditures, 1,600 million baht from foreign loans, and 1,100 million baht from foreign grants.

### **Public Health**

39. The public health programmes are classified into curative measures which attempt to provide adequate medical service for the ill, and preventive measures, whose success is measured by declining incidence of diseases. Shortages of doctors and nurses have seriously handicapped progress in both the preventive and the curative fields. By the end of the Plan, the ratio of doctors to population is expected to improve from 1:8,000 to 1:7,000, but the supply will still not be adequate for national requirements. Medical training at all levels will be accelerated to overcome the manpower shortages which impede the expansion of public health services. A number of larger, provincial hospitals will be upgraded to serve as regional hospitals.

40. Preventive measures emphasize expanding the coverage of current programmes for the control of communicable diseases and the improvement of environmental sanitation. The large malaria programme has shifted from the control to the eradication phase. Important research on family planning and birth control may lead to future population policies. The district Health Centres, which are the traditional means of instructing the people concerning health measures, will be assisted by Mobile Medical Units traveling in remote areas.

41. Development Plan expenditures for public health will amount to 2,570 million baht, of which 1,800 million will come from budget appropriations and the rest from foreign grants.

### **Education**

42. Since the educational system bears the major burden of creating the human resources to generate social and economic progress in Thailand, its expenditures in this sector will increase significantly during the Second Plan. While the system has been steadily progressing and enrollment equalled approximately one sixth of the population in 1965, there were still many who were deprived of educational opportunity and the number of students above primary educational levels was inadequate for national needs. The quality of education in general has not been satisfactory and the system has produced graduates who have not met the country's manpower requirements, thus causing employment problems and wastages in the utilization of human resources.

43. It is the Plan policy to develop an education system which is consistent with the economic and social requirements of the country. The physical target for 1971 is to increase enrollment from the 1965 level of 5.3 million students to 6.4 million by 1971. Large additional investment will be necessary to realize the primary level objective of improving and expanding compulsory education and raising the national standard from the fourth to the seventh grade. At the secondary level, the vocational school system will be improved and comprehensive high schools will be established in order to provide attractive alternatives to the purely academic stream. The objective will be to expand the opportunities at the pre-university level for immediate, constructive participation in the society.

44. At the university level, the educational program will focus on upgrading the quality of present institutions, improving technical curricula, and decentralizing the opportunities for higher education. The universities require more rigorous and systematic curricula, as well as better teaching materials, if they are to reduce the present dependence on foreign education and provide the leadership of the future.

45. The Plan outlay for education development will be 6,600 million baht, of which 5,500 million will come from budget appropriations, 570 million from foreign loans and 530 million from foreign grants.

## CHAPTER II

### PROGRESS DURING THE FIRST NATIONAL ECONOMIC DEVELOPMENT PLAN

#### Economic Progress

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1. During the period of the Six-Year National Economic Development Plan (1961 - 1966), the Thai economy established a satisfactory record of economic growth; the increases in production as reflected in national income surpassed the targets envisaged in the Plan. The achievements under the First Plan are shown in the Selected Economic Indicators of Table 1. The Gross National Product (GNP) increased from 55,717 million baht in 1960 to 80,278 million baht in 1965 and it is expected to reach 86,930 million baht in 1966. Gross Domestic Product (GDP) in real terms rose at an annual average rate of 6.5% during the First Phase of the Plan (1961 - 1964) and increased to approximately 8% during the Second Phase (1964 - 1966), making the average annual growth about 7% for the Plan period. Per capita output in real terms increased at an annual average rate of about 4%. Capital formation grew at an accelerating rate, which over the period averaged slightly under 20% of the Gross Domestic Product. Price levels have reflected only slight increases during this period of economic expansion. International trade, a vital element in the national economy, grew steadily during the Plan period. Although there were annual deficits in the balance of trade, the overall balance of payments was favourable, and Thailand was able to maintain a high level of foreign exchange reserves. The success in maintaining overall financial stability during the Plan period has made the Baht a stable and reliable currency in international trade.

2. After allowing for the population growth rate of 3.3% per annum, per capita GNP in real terms has been rising at about 4% per annum, from 2,056 baht in 1960 to approximately 2,620 baht in 1966. Although development efforts have been successful in generating more income, inequality of income still prevails among the people in different regions of the country. The income of the people in the Bangkok-Thon Buri area is on the average very much higher than that of people in the rural areas, especially those who are engaged primarily in agriculture. Although the labour force has been increasing at the approximate rate of 2.9% per annum, unemployment does not appear to be a serious problem. The tentative estimates of the National Economic Development Board indicate that the unemployment rate in the municipal areas in 1965 was about 5.5% and there was negligible unemployment in the rural areas except for the usual seasonal unemployment among the farmers.

3. The rapid growth of gross fixed capital formation was conspicuous during the Plan period. Capital formation increased from approximately 8,150 million baht in 1960 to 17,419 million baht in 1965, and in 1966 constituted about 23% of the Gross Domestic Product. The rate of growth of capital formation in the private sector greatly increased during the Plan period. Since 1963 the growth of capital formation has kept pace with that of the Gross National Product, increasing at the rate of more than 7% per annum. The high rate of capital formation clearly reflects the increase of productive capacity in both public and private sectors.

**Table 1**  
**Selected Economic Indicators : First Plan Period**

	Unit	1960	1963	1964	1965	1966 (Estimated)
Population	Million	27.1	30.0	31.0	32.0	33.2
Gross National Product (current prices)	Million baht	55,717	68,921	74,738	80,278	86,930
Per Capita GNP (current prices)	Baht	2,056	2,301	2,413	2,508	2,628
Gross Fixed Capital Formation (current prices)	Million baht	8,150	14,961	16,488	17,419	19,300
<b>Production</b>						
Agriculture	Thousand tons					
Paddy	"	7,789	10,168	9,640	9,584	11,900 <sup>1/</sup>
Maize	"	544	858	935	1,000	1,200
Rubber	"	171	198	211	215	220
Kenaf & Jute	"	179	219	310	384	500
Tapioca	"	1,222	2,111	1,557	2,340	2,400
Teak	Thousand cubic metres	154	144	143	154	140
Yang Wood	"	321	462	537	540	540
Fisheries	Thousand tons					
Fresh Water Fish	"	73	95	83	86	90
Marine Fish	"	146	323	494	551	580
<b>Industry</b>						
Cement	Thousand tons	544	997	1,059	1,247	1,400
Gunny bags	Thousand bags	6,878	23,129	33,511	39,892	45,000
Paper	Tons	2,554	7,890	13,577	22,300	26,300
Sugar	Thousand tons	140	125	168	320	270
Cigarettes	Million	8,862	10,171	10,195	10,500	10,800
Cotton Textiles	Million yards	83	140	171	251	325
<b>Mining</b>						
Tin	Tons					
"	"	16,757	21,617	21,635	26,419	27,100
Lignite	"	107,783	137,073	103,633	124,967	153,100
Iron ore	"	11,475	15,743	190,955	750,477	710,000
Gypsum	"	13,000	23,889	41,900	11,240	34,000

## Selected Economic Indicators : First Plan Period

	Unit	1960	1963	1964	1965	1966 (Estimated)
<b>Gross Power Generated</b>	Million K.W.H.	563	887	1,088	1,340	1,700
<b>Price Index</b>						
Wholesale Price	Index (1958=100)	92	99	93	96	96
Consumer Price	Index (1962=100)	96.4	100.9	102.9	103.8	107.7
<b>Foreign Trade</b>	Million baht					
Exports		8,614	9,676	12,339	13,049	13,700
Imports		9,622	12,803	14,253	15,219	17,500
Balance of Payments		949	949	1,437	1,705	4,170
<b>Finance</b>	Million baht					
Revenues (Fiscal year)		6,683	8,803	9,778	12,457	12,711
Expenditures (Fiscal year)		6,721	10,502	11,030	12,416	14,440
Internal debt (end of Dec.)		6,380	7,619	8,784	10,007	12,265 <sup>2/</sup>
Foreign debt (end of Dec.)		2,153	3,923	4,490	4,906	5,256 <sup>3/</sup>
<b>Money and Banking</b>	Million baht					
Money Supply (end of Dec.)		10,088	11,881	12,919	14,332	15,428 <sup>2/</sup>
Commercial Bank Deposits		5,450	9,948	11,798	14,141	17,211 <sup>2/</sup>
<b>Foreign Reserves</b>		7,130	11,008	12,445	13,989	17,066 <sup>2/</sup>

Note: 1/ Statistics undergoing adjustment

2/ Actural figure at September 30, 1966

3/ Actural figure at August 31, 1966

## Price Levels

4. During the period 1961 - 1965, the wholesale price index fluctuated in a narrow range from 96 and 100, with 1958 as the base year. The wholesale price index rose from 92 to 100 in 1961, the first year of the Plan, but by 1966 it had fallen to 96. During the same period the consumer price index rose from 97.6 to 103.8, using 1962 as the base year. It is estimated that this index will reach 107.7 in the year 1966. Although there were seasonal fluctuations in both indices, the very small annual increases indicate the financial stability which characterised the Plan period.



### International Trade

5. Thailand's international trade has grown successfully during the past six years. Export earnings rose from 8,614 million baht in the year 1960 to 13,049 million baht in 1965, while imports rose from 9,622 million baht to 15,219 million baht. The total value of foreign trade in 1966 is estimated to exceed 30,000 million baht. During the Plan period, 1961 - 1966, the average annual export and import growth rates were 10% and 11.8% respectively. During the First Plan period the import of capital goods increased from 24.8% to 31.7% of total imports. Imports of food and beverages accounted for 9.3% of the total value of imports in 1960, compared with only 7.4% in 1965.

6. Foodstuffs continued to be the major export items, accounting for 57.9% of the total export earnings in 1966, as compared with 45.4% in 1960. Traditional major export commodities have consisted of rice, rubber, tin and teak. A recent decline in the export earnings from teak has been more than offset by the increased exports of upland crops such as maize, kenaf, tapioca and sorghum. Because of this diversification in Thailand's export commodities, the relative importance of rice as a major export declined to about 33.5% of total export earnings in 1966.

7. Rapid economic growth has increased the demand for imports, especially of capital goods, and since 1960 Thailand has had balance of trade deficit on current account. In 1963 a record 3,127 million baht deficit was registered. However, the substantial net inflows of private and public investment have exceeded the current deficits and the overall balance of payments has been consistently favourable. By the end of September 1966, the country's foreign exchange reserves had risen to 17,200 million baht, and the international value of the baht remained almost unchanged over the six year period.

### Fiscal, Monetary and Banking Conditions

8. The Government successfully followed a policy of financial stability during the Plan period. Money circulation gradually increased in accordance with the widening monetization and development of the economy. Tax revenues were buoyed up by the rapid growth of economy, particularly during the Second Phase of the First Plan. Government revenue for 1966 was 98% higher than for year 1962. Overall total public expenditures increased substantially to satisfy the growing demand for government services and development activities.

9. During the First Plan private savings increased moderately and new measures were instituted to raise public savings and avoid inflation. These included easing import restrictions on certain commodities and improving tariff regulations, as well as methods of tax collection to prevent consumer demand from becoming excessive. Furthermore, the interest rate for savings deposited at the Government Savings Bank was increased, in order to promote private savings and mobilize domestic investment. Total commercial bank deposits, including demand and time deposits, continued to increase. Expanding credit from the commercial banks assisted the private sector in financing the substantial investment which stimulated the growth of the economy during the First Plan.

### Sectoral Development

#### Agriculture

10. While agriculture is still the dominant sector of the economy, its relative importance as a share of Gross Domestic Product has declined as the economy has become more balanced and diversified. During the Plan period, the growth rate of agricultural production averaged about 5%, as compared with 4% prior to the Plan, with remarkable increases being registered in new upland crops for the export market.

11. The most important single crop, paddy, experienced an expansion in the area under cultivation and an increase in total output. Paddy production increased from 9.2 million tons in 1962 - 1963 to 10.2 million tons in 1963 - 1964, an average growth rate of 11 %. This impressive increase in paddy production has been achieved by the introduction of higher yielding varieties of rice, increased application of fertilizer, the control of certain crop diseases and improved water control as well as the expanded area of cultivation. The 1965 production of maize of over 1 million tons was double 1960 production and a record high is expected in 1966 due to the strong demand for maize in foreign markets. The production of tapioca and other upland crops also increased. Output of sorghum, a newly introduced crop, expanded rapidly, although improvement is needed in seed selection. Cotton production has been steadily increasing since 1962 as the result of energetic promotion of improved varieties by the Government. Castor oil production increased considerably reaching a total of 45,000 tons in 1965 and the demand in the world market affords good prospects for this crop.

12. The Government investments in irrigation, land development, fishery and livestock development and other infrastructure facilities contributed substantially to expanding agricultural development. The largest expenditure was for irrigation and the total irrigated area increased by 1.9 million rai, from 9.8 million rai in 1961 to 11.7 million rai in 1966, which is equal to about one fourth of the total cultivated land; see Table 2. Diversion dams were completed at Kang Kracharn, Mae Tang, Mae Yom and multi-purpose dams were completed at Bhumibol, Ubolratana and Nam Pung. Eight additional projects were under construction, at Nan ( Phasom ), Kiw Lom, Lampao, Lam Praplerng, Lam Takong, Nong Wai, Mae Klong Yai and Ta Chiad. In addition to the large irrigation projects, people's irrigation projects, which include ditches and dikes and water storage projects, made considerable progress in the Central Plain and the Northeast. Although progress generally was satisfactory, delays in the implementation of some projects occurred because of the length of loan negotiation, problems of land appropriation and difficulties in the removal of people from the areas of the dams' reservoirs, as well as delays in the construction of water courses and field canals.

Table 2  
Increase of Irrigated Area During the First Plan

	Irrigated area 1961	Irrigated area 1966
State Irrigation	8,615,000 rai	9,666,100 rai
People's Irrigation	971,500 rai	1,174,900 rai
Water Storage	210,000 rai	360,000 rai
Water Conservation	—	500,000 rai
Total	9,796,500 rai	11,701,000 rai

13. In the field of agricultural research, considerable progress was achieved in the experimental work conducted at the 135 research and experiment stations under the Department of Rice, Department of Agriculture, Department of Fisheries and the Department of Livestock; see Table 3. Because the existing stations are generally too small and inadequately staffed with technical personnel, regional agricultural centres were initiated. During the Plan period, Regional Agricultural Stations at Khon Kaen and Chai Nat and a Rubber Research Institute at Songkhla were established.

**Table 3**  
**Number of Research and Experiment Stations at the End of 1966**

	Number
Regional Agricultural Stations	2
Agricultural Stations	20
Seed Multiplication Stations	9
Sericulture Stations	5
Rubber Stations	10
Rice Experiment Stations	18
Crop Disease Eradication Centres	11
Rice Disease Eradication Centres	12
Rubber Experimental Plantations	4
Rubber Growing Plots	11
Marine Fishery Stations	3
Animal Nutrition and Forage Crops Stations	5
Livestock Breeding Stations	10
Fresh Water Fishery Stations	13
Brackish Water Fishery Stations	2
Total	<u>135</u>

14. Agricultural extension efforts in the past have met with limited success due to the small number of field workers. In order to encourage the farmers to help themselves in utilizing the improved techniques and services derived from the agricultural research effort, approximately 1,000 farmers associations, with membership of about 40,000 families, were established in 60 provinces and agricultural promotion offices were set up in various regions.

15. The growth of rubber production was unsatisfactory because of difficulties in the replanting of old trees with high yielding varieties and the declining price of natural rubber in the world market. The Rubber Replanting Scheme which had been underway since 1961 lagged behind requirements and only about 158,000 rai had been replanted by mid 1966. The programme was impeded by the small average size of holding and insufficiency of the subsidy, although the latter was remedied by the increase in the subsidy to 1,850 baht per rai in 1966. The Rubber Research Institute worked on the improvement of rubber varieties, production techniques, as well as rubber disease control.

16. Development of fisheries, livestock and forestry progressed during the Plan period. Marine fishing output expanded rapidly and West Germany agreed to assist the establishment of a Marine Biological Research Centre in Bangkok. The livestock development programme included the promotion of animal husbandry and disease control, as well as work at the Dairy Promotion Centre at Muak Lek. Timber production increased only slightly as a new method for control conservation was initiated

by the establishment of 30 patrol units. About 7,000 rai of teak and 15,000 rai of other timbers were planted under the reforestation programme which lagged behind schedule due to shortages of capital and manpower. The development of national parks and areas for the preservation of wild life gained momentum and will be further expanded.

17. Work on land development was also accelerated by the newly created Land Development Department. Satisfactory progress was achieved in the land classification programme which had covered an area of 345,418 square kilometres at the end of 1966, of which approximately 263,301 square kilometres were identified as forest reserve. During the Plan period soil survey analysis and soil conservation activities were also undertaken in the Northeast.

18. Many types of cooperative societies, particularly land improvement and land settlement cooperatives, were successfully introduced. By the end of 1965, there were 487 land cooperative societies with a membership of 28,300 families and total holdings of 738,900 rai. Nevertheless, problems remained due to the shortage of competent personnel and the inadequacy of credit funds for the cooperative members. Credit and marketing cooperatives increased to approximately 121 societies with a total membership of 64,400 families, although many are still operating at a loss. On the whole, the cooperative movement was considerably strengthened during the Plan period, particularly by the amalgamation of many small cooperatives into larger and more effective cooperative unions.

19. To provide national agricultural credit, the Bank for Agriculture and Co-operatives was created and five branches outside of Bangkok were scheduled to open during 1966.

#### **Industry and Mining**

20. The manufacturing sector of the economy expanded rapidly at an annual average of 10.5% during the Plan period and by 1966 contributed over 12% to the Gross National Product, as compared to 10.5% in 1960. The industries created or significantly expanded during the Six-year period included oil-refining, manufacture of tires, glass sheets, paper, pharmaceutical products, construction materials, tin smelting, and cotton spinning and weaving. The traditional industries, producing products like gunny bags, milled rice and cement also expanded. The number of manufacturing establishments increased from 16,005 in 1960 to 38,393 in 1965. Cement production in 1965 reached a level double the 1960 production and it will be raised 25% further when the new plant at Nakhon Si Thammarat comes into operation. Production of gunny bags significantly increased and 1966 output is expected to be more than adequate to satisfy local demand. Since the opening of the first oil refinery in August 1963, the production of petroleum products has been growing at a rapid rate. Refined petroleum output increased four-fold from 1964 to 1965, reaching a total of 1,802 million litres. Production of sugar was 320,000 tons in 1965, about twice the 1960 production, although the surplus could not be exported without a subsidy to compensate for the low yields and high costs in the industry. Production of paper rose considerably, and a large increase will occur when the kraft paper factory at Kanchanaburi begins operations.

21. During the Plan period progress was realized in the promotion of domestic and foreign investment in medium and large scale industries under the Industrial Promotion Act of 1960; see Table 4. The Board of Investment, which administers the Act, was strengthened and established as a permanent agency in the Office of the Prime Minister. The industrial promotion policy has placed special emphasis on types of industry which utilize local raw materials, such as tin smelting and rubber tyre manufacture, two of the large scale industries which received promotion privilege during the Plan period.

**Table 4**  
**Number and Capital of Firms Receiving**  
**Incentives under the Industrial Promotion Act : April 1959—June 1966**

	Total Registered Capital (millions of baht)			Thai	Joint	Foreign	Total
	Thai	Foreign	Total	Companies	Ventures	Companies	
1959—1961	671.4	196.8	868.2	50	46	5	101
1962	252.5	122.6	375.1	17	27	3	47
1963	337.6	191.5	529.1	23	38	5	66
1964	261.8	248.8	510.6	18	43	2	63
1965	157.1	91.6	248.7	27	33	—	60
1966 (6 months)	281.5	134.0	415.5	9	12	—	21
	1,961.9	985.3	2,947.2	144	199	15	358

22. To provide development finances for large scale industries, the Industrial Finance Corporation of Thailand granted loans with low interest rates to 69 firms for a total value of 162 million baht although it encountered delays in the processing of loans and a shortage of capital funds.

23. The Ministry of Industry developed programmes to assist small scale industries. A Small Industry Loan Board was established in 1964 to complement the programme of the Industrial Finance Corporation and it approved loans to 123 firms with a total value of 29 million baht. The Management Development and Productivity Centre at the Ministry of Industry played an increasing role in the improvement of industrial management and productivity. A preliminary survey of the feasibility of establishing industrial estates was completed, and the Government acquired a site at Rangsit to develop as an estate for small-scale industry.

24. Mineral production increased during the Plan period as the Department of Mineral Resources continued its programme of geological surveys to increase the known reserves. In 1965 tin output was 26,419 tons, as compared with 16,757 tons in 1960. The rising world tin price and the increase in the international tin export quota to 14% in 1966 stimulated geological surveys to determine the size of reserve deposits. Approximately one million tons of tin deposits have already been discovered on land and there are favorable indications that deposits off-shore are of considerable magnitude. After the opening of an iron mine at Nakhon Si Thammarat, iron production increased from 11,475 tons in 1960 to 750,477 tons in 1965 most of which is exported to Japan. Large deposits of iron ore totalling approximately 35 million tons have been discovered, mostly in Loei Province. Production of other mineral products also expanded significantly. The output of lead increased 164% from 4,600 tons in 1960 to 12,403 tons in 1965. Lignite, wolfram, and fluoride production also increased above the 1960 level. The production of gypsum however decreased from the 1964 record of 41,900 tons to 11,240 tons in 1965 and there was considerable carryover from the previous year, although it is expected that the demand for gypsum will increase with the rise in cement production.

### Power

25. The progress in the development of power is reflected in the increase of generating capacity from 288,700 K.W. in 1961 to 552,600 K.W. in 1965. This can be mainly attributed to new hydro dams at Yanhee, Nampung and Nam Pong, and the establishment of the Krabi lignite plant and the North Bangkok power plant. Major power transmission projects implemented during the Plan period included the construction and improvement of the 1st and 2nd stages of the Yanhee project in the North, Central Plain and the East and the distribution network for the Krabi project.

### Transport and Communication

26. Considerable progress was achieved in the development of the communication system, which included postal, telephone and telecommunication services. By the end of 1966, the installation of a micro-wave system for inter-regional communication had been completed in the East and construction work was underway in other regions. There were increases in the metropolitan and provincial telephone services and by the end of 1966 there were approximately 55,000 telephone lines in the Bangkok-Thon Buri area and 28,000 telephone lines in the provinces, compared with a total of 40,607 telephone lines in 1961. However, further expansion is required as the number of existing telephones has not kept up with the rapid increase of public demand.

27. A Highway Plan was formulated and adopted during the First Plan period. At the end of 1965, the total highway network equalled 9,482 kilometres, of which 60% was paved with asphalt or concrete and the rest was laterite or earthsurfaced; see Table 5. During 1966, there were 12 highway projects under construction with a total length of 1,235 kilometres, all except two of which were let to private contracting firms. The execution of several of the highway projects was delayed by the slowness in administration, particularly in bidding and the selection of contractors, the shortage of engineers to supervise construction and problems of land reclamation.

**Table 5**  
**Increase of National Highways during the First Plan**  
**kilometres.**

Types of Roads	1961	1962	1963	1964	1965
Concrete and asphalt	3,108	3,708	3,966	4,702	5,031
Stone surface	1,668	1,499	1,342	1,019	853
Laterite and earth	3,723	3,759	3,807	3,682	3,597
Total	8,499	8,966	9,115	9,403	9,482

28. Railway development was mainly concentrated on improving the efficiency of passenger and freight services by the provision of additional freight cars, diesel locomotives, and the renovation of major railroad yards. The construction of the 250 kilometre Kaeng Khoi-Bua Yai by-pass line, which began in 1963, was about 60 % completed. See Table 6.

**Table 6**  
**Development of the Railway System during the First Plan**

Year	Steam Locomotives	Diesel Locomotives	Freight Cars	Passenger Cars	Length of Track (kms.)
1961	306	65	7,207	802	4,030
1965	283	168	7,937	760	4,178

29. A survey of the volume of river traffic was undertaken in order to gather necessary data for the formulation of a water transport development programme. Dredging operations at Kangtang harbour in the South were initiated so that port will be to accomodate large coastal vessels up to 600 tons without waiting for highwater. The port of Bangkok, increasingly congested over the past several years, was also expanded and a feasibility study of the establishment of second deepsea port on the eastern seaboard was undertaken.

30. Many projects for the improvement of air communications were implemented under the First Plan. These included the construction of an eastern runway at Don Muang Airport to relieve traffic congestion and the construction of additional all-weather runways at Phitsanulok, Lampang, Chiang Mai, Mae Hong Son and and Nong Khai. New planes were purchased for domestic flights and studies of a second commercial airport for Bangkok were conducted.

#### **Community Facilities and Social Welfare**

31. Community development coverage was further extended into the remote areas of the Northeast and South in order to encourage the people to improve their position through their own initiative. Since its introduction in 1962, community development has reached 15 provinces in the Northeast and 4 border provinces in the South and has been implemented on a pilot basis in some parts of the Central Plain and the North.

32. The forty Self-help Settlements are one important type of social welfare project. Approximately 2,800 families have been allotted land under the land settlement scheme and additional settlements were established for people who were evacuated from the flooded areas above the Bhumipol and Nam Pong dams. Remaining problems in the settlement schemes include the shortage of heavy equipment for land clearing and the need to increase the size of land holdings, provide water for irrigation and improve the land for cultivation. A subsidized housing programme for low-income groups was also introduced during the Plan period. Twenty blocks of flats were constructed in the Din Dang area of Bangkok to accommodate 1,312 families, but this is inadequate to satisfy the increasing demand for housing.

33. A major public utility project was the improvement and expansion of the waterworks for the metropolitan area of Bangkok-Thon Buri. Although the productive capacity was increased from 174,249 cubic metres per day in 1961 to 381,238 cubic metres per day in 1966, the water supply still lags behind the rapidly increasing demand and difficulties were encountered in further accelerating construction. Forty one new provincial water works were constructed and in 1966 there were 125 provincial water works with total capacity of 200,000 cubic metres per day.

## Public Health

34. Medical services were improved by the expansion of the existing 84 provincial hospitals and the conversion of the four provincial hospitals at Phitsanulok, Songkhla, Nakhon Ratchasima and Chanthaburi into Regional Hospitals. In the provincial hospitals the ratio of hospital beds to population was improved from 1:3,700 in 1963 to 1:2,800 in 1966. The number of hospital beds in Bangkok was raised from 4,466 in 1963 to 5,056 in 1966 and medical research units were established in the provinces.

35. Effective measures were undertaken for the control of infectious diseases and the death rate from filariasis, yaws and cholera was reduced. New chest clinics were opened in Yala, Khon Kaen and Chiang Mai. About 217 First Class Health Centres and 881 Second Class Health Centres were in operation by the end of 1966, and the major bottleneck preventing more rapid expansion was the shortage of medical staff, especially doctors. Notable progress was achieved in the malaria eradication programme which has reduced malaria transmission to a low level in the major areas of infection. Regular DDT spraying has already covered a population of about 19.3 million and training has been provided to 7,000 malaria eradication personnel.

## Education

36. The First Plan emphasized the formulation of educational policy in accordance with national manpower requirements. During the Plan period, primary education was improved both qualitatively and quantitatively by the expansion of classrooms, the increase in supply of teaching equipment, and the growing number of trained teachers. Efforts were made to extend compulsory education from 4 to 7 years. In 1966 the enrollment in all of the elementary schools was approximately 4,768,000 students, of which about 4,231,000 were studying in the lower compulsory elementary schools.

37. The development of secondary education included the establishment of 2 comprehensive high schools to improve the technical and vocational abilities of the students. At the end of 1966, the total enrollment in secondary schools was approximately 388,102 students, of which about 345,502 were in the general secondary stream and 42,600 were in the vocational stream. Teachers' training programmes were improved and expanded in order to increase the supply of qualified teachers. During 1966 the teachers' training courses had approximately 19,776 students, of which 14,498 were certificate students, 3,378 were higher certificate students and 1,900 were degree students. A loan of 120 million baht from the World Bank made it possible to start a project in 1966 for the improvement of 25 vocational schools.

38. A major development in higher education was the decentralization of higher education to regions outside of Bangkok. Universities were opened in Chiang Mai and Khon Kaen and preliminary work was completed on the establishment of a university in the South at Pattani, although difficulties were encountered in obtaining qualified faculty members. The existing universities, Thammasart, Chulalongkorn, Medical Sciences, Kasetsart and the Fine Arts Universities were improved by the construction of new buildings, extension of laboratories, and the increase in the number of both Thai and foreign teachers. During the academic year 1966, there was a total of 41,918 university students enrolled in all the universities of the country.



# CHAPTER III

## OBJECTIVES AND POLICIES OF ECONOMIC AND SOCIAL DEVELOPMENT

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### Objectives

1. The main objectives of the Second National Economic and Social Development Plan can be summarized as follows:

(i) Mobilization of human and natural resources for optimum utilization in expanding the productive capacity and national income of the country, so that the benefits of development can be shared equitably by all classes of people.

(ii) Promotion and maintenance of social justice; the preservation of social stability, national institutions, customs and culture; and the provision of relief to people in isolated areas who cannot effectively help themselves.

(iii) Maintenance of economic and financial stability to enable the development process to continue on the basis of sound values and productive investments for long term growth.

(iv) Preservation of national security, which depends in the final analysis upon the economic strength and social unity of the country.

### Policies

2. In accordance with the above objectives, the overall economic and social policies are as follows:

(i) To increase the productive capacity and national income of the country, which will raise the people's standard of living, and to ensure an equitable distribution of the benefits of development:— The Government wishes to improve the productive capacity and efficiency of the economy and to raise the people's standard of living by increasing private income and keeping down the cost of living. It is the policy also to distribute the benefits of development to people all over the country, especially in the rural areas. Public development projects are expected to increase per capita national income and to narrow regional differences in income distribution.

(ii) To strengthen the base and the overall balance of the country's economic structure: Thailand is an agricultural country and the majority of the Thai people depend upon agriculture for their livelihood. The country's development policy considers agriculture the key sector from which growth stimulants will flow to the other sectors in a pattern of balanced growth. The Government will encourage increased agricultural production and higher quality, as well as further diversification

toward products which command high prices in the world market and which serve as raw materials for domestic industries. Concerning industry, the Government will promote private enterprises and encourage private investment, both domestic and foreign, especially joint ventures using domestic raw materials and available labour. In the fields of commerce and services, the Government wishes to encourage competition within the limits of the public interest and to provide Thai nationals with greater opportunity to realize successful occupations in these fields.

(iii) To promote employment and develop manpower by improving skills of labour at different levels: An important consideration in increasing the country's productive capacity is realization of the optimum use of human resources. If these resources have low working efficiency or long periods of unemployment, there will be economic waste which is a burden on society. The Government's policy is therefore to promote the expansion of employment and the development of manpower at all levels. The development of education has not been commensurate with manpower requirements and shortages of skilled labour at various levels have occurred. This is one of the most important obstacles to development. In order to plan for the future growth of the country, it is crucial to train today's youth to become economically efficient citizens with a sense of responsibility towards the society in which they live. Measures will also be taken to provide the members of the labouring class with sufficient income to live decent and healthy lives.

(iv) To use natural resources more efficiently and in harmony with the policy of conserving resources for future generations: Thailand is reasonably well endowed with natural resources, such as soil, water, timber and ores. The Government will encourage the use of these resources to obtain maximum returns consistent with the public interest. It also plans to conserve natural resources by controls on the rate of exploitation and surveys of new sources of supply to compensate for the exhaustion of present sources. These measures will increase both the quantity and the quality of available resources, and consequently the productive capacity of the country.

(v) To promote scientific progress and the application of modern technology: In the modern world of scientific progress a country must possess sufficient technical knowledge to be able to interpret and apply the results of new inventions and research to its own conditions. The Government therefore plans to extend its scientific services to private enterprises and to apply relevant technological advances to public development projects.

(vi) To put the social system on a progressive and equitable basis: Economic development must proceed together with social development because social as well as economic problems affect the standard of living of the people. The Government policy is to achieve greater social equality by ensuring that public services and capital formation are in the genuine interests of the public and that the benefits of development reach all sections of the population. For those who cannot effectively help themselves, the Government will provide relief in order to realize social justice. In addition to the direct development projects, the Government will promote social welfare by giving protection to people's personal security and property and it will cultivate individuals' responsibility to themselves and to their society. It will also support the national culture, customs and morality - criteria of the stage of a society's civilization.

(vii) To maintain financial stability, avoid inflation, encourage private savings and investment, and to increase public revenues by equitable means: A rising level of public expenditures is required by the growing size of the government, the external threats to national security, and the insistent demands of economic development. Public revenues therefore have to be increased to avoid the inflationary pressures which would hamper development efforts and adversely affect the standard of living of the majority of people. The increase in public revenues will be secured on an equitable basis which penalizes no particular section of the community. The Government will also encourage private savings for investment in worthwhile projects with high rates of return. The country's balance of payments will continue to be favourable and the international monetary reserves will be maintained at a safe and adequate level.

(viii) To coordinate the Economic and Social Development Plan with the maintenance of national security: The maintenance of national security and sovereignty is of supreme importance. The Government intends to develop the national economic and social system so as to strengthen the ability to preserve national security. The Economic and Social Development Plan therefore contains many projects designed to support, either directly or indirectly, the preservation of national security, such as the Accelerated Rural Development project and the construction of highways in areas where subversive elements have appeared.

(ix) To accelerate implementation of infrastructure projects: Owing to the limitation of financial and human resources, only the most significant projects could be included in the present Plan. Special emphasis has been accorded to sectors which have been lagging behind, such as rural development and education. Infrastructure projects which contribute directly to productivity such as irrigation, highway construction, and the generation of energy will also be continued.

3. In implementing the Plan programmes, special attention will be devoted to rural development because the majority of the population in Thailand are village dwellers with a relatively low standard of living. The Government will therefore give special assistance to the agriculture sector and this will also induce development in other sectors.



## CHAPTER IV

### PLANNED ECONOMIC STRUCTURE AND TARGETS

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1. The overall economic targets presented in this chapter indicate the broad framework of planned economic development in Thailand. Since the Thai economy operates principally as a private enterprise system, the government does not have direct control over the majority of economic decisions and can not plan the future economic structure with precision. The economic planning function has as its objective the economic use of development plan expenditures and the formulation of policy guidelines for the private sector. Nevertheless the targets in this chapter have been based upon careful analysis of the capacity of the economy for future growth. Representatives of the private sector have been invited to participate in detailed discussions evaluating the vitality of each part of the economy. The projections therefore represent a broad consensus of conviction in the rate of continuing development of the economy.

2. As shown in Table I, the Gross Domestic Product ( GDP ) at constant prices is expected to grow at the average annual rate of about 8.5% during the five years of the Second Plan. During the First Plan period, the GDP growth rate accelerated from an annual rate of 6.5% in the First Phase ( 1961-1963 ) to about 8% in the Second Phase ( 1963 - 1966 ). Assuming a rate of population growth of 3.3% per annum, as estimated in Chapter VI, the overall growth target during the Second Plan indicates an increase in real per capita output of over 5 % per annum.

3. The setting of the development target at a higher level than in the past is due to the expectation that the dynamic factors stimulating growth during the First Plan will increase in strength in the Second Plan period. The greatly expanded development expenditures, both in the private and public sectors, will generate more income and consumption expenditure through the expansion of economic activities and the creation of employment opportunities. A continuing increase in income from the sales of exports is also anticipated. A special impetus to growth will be supplied by the joint programmes of Thai and foreign governments. In addition, the rapid expansion of tourism and other service industries will accelerate the development process.

4. During the First Plan period, the structure of the Thai economy underwent significant changes. Indicative of this structural change is the decline in the share of GDP originating in the agriculture sector from 36.7% in 1960 to approximately 31.6 % in 1966. This trend is expected to continue during the present Plan. The target share of agriculture is projected to be only 26 % in 1971, while the sector maintains a 4.3% annual growth rate. The principal private sectors taking up this slack are manufacturing, construction, transportation and communication, and banking, all growing at more than 10 % annually. This structural change will improve the overall balance of the economy by diversifying its production base. The proportion of the total labour force employed in agriculture is expected to fall from 80% in 1966 to about 75 % in 1971. However, agriculture will continue to be the most important economic sector, in terms of generating employment, producing raw materials for domestic industries, and earning foreign exchange by providing the country's major exports.

**Table 1**  
**Gross Domestic Product Target for the Second Plan**  
 (at 1965 prices)

(millions of baht)

Line	Industrial Origin	1966		1966 <sup>1/</sup>		Average Annual Growth Rate 1961—1966	1971 Targets		Average Annual Growth Rate 1967—1971	Line
		GDP	Percentage Distribution	GDP	Percentage Distribution		GDP	Percentage Distribution		
1	Agriculture	20,988.3	36.7 %	27,540.6	31.6 %	4.6 %	34,031.7	26.0 %	4.3 %	1
2	Mining and Quarrying	1,039.3	1.8 %	1,927.4	2.2 %	10.9 %	2,659.6	2.0 %	6.6 %	2
3	Manufacturing	5,948.8	10.4 %	10,583.5	12.2 %	10.2 %	17,799.8	13.6 %	10.9 %	3
4	Construction	2,220.7	3.9 %	4,415.1	5.1 %	12.3 %	7,577.7	5.8 %	11.4 %	4
5	Electricity and Water Supply	259.4	0.5 %	697.5	0.8 %	18.2 %	1,595.6	1.2 %	18.0 %	5
6	Transportation and Communication	3,997.0	7.0 %	6,666.0	7.7 %	9.0 %	11,217.4	8.6 %	11.0 %	6
7	Wholesale and Retail Trade	10,193.4	17.8 %	16,167.8	18.6 %	8.0 %	24,154.8	18.6 %	8.4 %	7
8	Banking, Insurance and Real Estate	1,372.1	2.4 %	3,433.5	3.9 %	16.6 %	7,527.7	5.7 %	17.0 %	8
9	Ownership of Dwellings	2,872.2	5.0 %	3,563.7	4.1 %	3.7 %	4,548.3	3.5 %	5.0 %	9
10	Public Administration and Defence	2,911.5	5.1 %	4,392.6	5.1 %	7.2 %	7,741.2	5.9 %	12.0 %	10
11	Services	5,361.0	9.4 %	7,597.6	8.7 %	6.0 %	11,960.4	9.1 %	9.5 %	11
12	Gross Domestic Product	57,163.7	100.0 %	86,985.2	100.0 %	7.3 %	130,814.2	100.0 %	8.5 %	12

<sup>1/</sup> 1966 estimates are based on incomplete (seven—month) data

### Production by Sector

5. Agriculture: In the past, the rate of growth of agricultural production had tended to fluctuate, thus imparting an element of instability to the farmers' income. However, under the First Plan the Government initiated a number of important projects such as the construction and improvement of irrigation and flood control systems. These projects will reduce the year-to-year fluctuation of agricultural output and contribute to the stability of the income of farmers and of the nation as a whole. The growth pattern of agricultural output is dominated by crop production which accounted

for nearly three quarters of the sector's total output in 1965. The growing flow of benefits to farmers from development projects in agriculture is expected to produce a growth rate of 4.4% per annum for all crops. Paddy, accounting for 43 % of the value of all crops in 1965, is expected to reach 13.7 million tons in 1971. Other crops which will contribute significantly to the agricultural sector's projected growth include maize, oil bearing beans, industrial cotton, and vegetables. Maize production, most of which will be exported, is expected to increase at an average annual rate of at least 7%. Output of kenaf and cassava will probably grow at somewhat slower rates principally because demand in foreign markets is estimated to be moderate. Output of the fishing industry will increase by 4.7 % per year owing to the Department of Fisheries' programmes, some of which are already well under way, to promote sea fishing by the establishment of the training centre for deep-sea fishing and the improvement of research work by marine fishing stations. The output target for meat has been set to yield an increase of 5% per year to meet the increasing demand created by the rapidly rising incomes of a growing population. Agricultural extension programmes will be focused on improving breeding and raising of livestock. Output of lumber and forest products will increase rather slowly, partially because of conservation efforts to ensure an adequate supply of lumber for the future.

6. Mining and quarrying: This industry contributed only slightly more than 2% to the GDP in 1966, but that part was exported, mostly tin, accounted for nearly 9% of the national export value. World demand for tin is expected to remain strong and new offshore discoveries in the South indicate possible output increases, within the constraints of the International Tin Council. Over half of the value added in this sector is attributable to tin, and one-third is attributable to stone and gravel quarrying, raw materials for the rapidly expanding construction industry. The growth target for this industry during the Plan period is set at 6.6 % per year, influenced strongly by the growing domestic demand of the construction industry.

7. Manufacturing: The real growth rate of manufacturing has averaged over 10% annually between 1961 and 1966. At the same time, its share of GDP has increased from 10.4% in 1960 to approximately 12.2 % in 1966. Detailed industry targets, presented in Table 2, show an average annual growth rate over the Second Plan period of about 10.9% per year and a 13.6% share of GDP by 1971. In 1966, food processing (rice milling, slaughtering, flour milling, sugar refining etc.) accounted for about 29.7% of total manufacturing value added. By 1971, it is expected that this share will decline to 23.4%. The principal industries taking up this "gap" will include paper, steel, beverages, textiles, glass, chemicals, and car assembly. This group of rapidly expanding industries accounted for a 24% share of manufacturing in 1966 and will probably account for a 38% share in 1971. [The further expansion of construction activity, both public and private, will put heavy demands on the cement, cement products, and metal fabrication industries.

**Table 2**  
**Target for Manufacturing Sector Value Added During the Second Plan**  
 (value added at 1965 prices)

(thousands of baht)

Line	Industry	1960	1966 <sup>1/</sup>	1971 Targets	Average Annual 1960—1966	Growth Rate 1967—1971	Line
1	Food	1,902,048	3,148,824	4,161,940	8.9 %	5.5 %	1
2	Beverage Industries	649,888	1,257,903	2,416,678	11.9 %	14.1 %	2
3	Tobacco Manufacturing	889,033	1,330,621	1,600,414	7.3 %	5.1 %	3
4	Manufacturing of Textiles	161,868	396,645	758,534	17.1 %	13.4 %	4
5	Manufacture of Footwear, Wearing Apparel and Made-up Textiles	268,728	343,295	481,489	4.3 %	7.1 %	5
6	Wood & Cork, except Manufac- ture of Furniture	292,464	605,016	883,690	14.0 %	7.8 %	6
7	Furniture & Fixtures	88,523	126,552	223,023	6.4 %	12.1 %	7
8	Paper & Paper Products	24,292	31,677	191,939	6.7 %	37.8 %	8
9	Printing, Publishing & Allied Industries	133,570	236,427	389,501	10.6 %	10.6 %	9
10	Leather & Leather Products, except Footwear	120,280	134,798	157,027	2.2 %	3.2 %	10
11	Rubber Products	226,938	268,175	412,620	3.4 %	9.1 %	11
12	Chemical & Chemical Products	426,185	635,368	943,004	7.3 %	7.5 %	12
13	Non-Metallic Mineral Except Products of Petroleum and Coal	267,443	701,568	1,172,744	17.6 %	11.1 %	13
14	Iron & Steel Basic Industries	17,119	10,938	34,737	4.0 %	26.1 %	14
15	Electrical Machinery, Apparatus, Appliances & Supplies	27,400	39,466	120,442	3.6 %	25.1 %	15
16	Machinery & Transport Equipment	244,455	338,250	544,755	6.1 %	10.1 %	16
17	All others	208,542	977,953	3,307,285	31.4 %	27.4 %	17
18	Total	5,948,776	10,583,476	17,799,822	10.3 %	10.9 %	18

<sup>1/</sup> 1966 Estimates are based on incomplete data

8. Construction: The growth rate of this sector will decline slightly from 12.3 % per year during 1961 - 1966 to about 11.4 % during the Second Plan period. This is still a very high rate, which is warranted by the expected heavy demands in the private sector for commercial construction together with record planned budget allocations for infrastructure projects such as highways, irrigation dams and energy production. It is estimated that value added in construction will account for 5.8 % of GDP in 1971, compared with 3.9 % in 1960. The proportion of public construction is expected to rise sharply. Private construction activity will probably slow down over the Plan period because significant commercial capacity has been built up during the 1963 - 1966 period.

9. Electricity and water supply: Although electricity and water supply contributed less than 1% to the GDP in 1966, their importance to overall economic development is critical. Over the period 1961 - 1966 this sector has grown on the average by about 18% per annum, representing a rapid build up of power - generating capacity, as well as the expansion of the water works. The completion of several large - scale electricity projects is contributing significantly to the present growth. Over the Plan period, the target for electricity generation and water supply is to maintain the past rate of 18%. Much of this growth will result from improved electricity distribution facilities and added generating capacity both in Bangkok-Thon Buri and in the provinces.

10. Transportation and communication: Growth in transport and communication at 11% per year from 1967 to 1971 will increase the sector's share of the GDP from 7.7% in 1966 to about 8.6% in 1971. The rapid rate of expansion in highway transportation is reflected in the high level of imports of trucks and buses, as well as substantial improvements in the highway system. In addition, the building of a supplemental railroad line from the Northeast to Sattahip is expected to take some of the pressure off highway transportation facilities. An accelerating demand for communication services usually accompanies rapid economic development.

11. Wholesale and retail trade: The contribution of trade to the GDP is second only to agriculture and stood at over 18% in 1966. This sector is expected to grow at a slightly lower rate than GDP, and to account for an 18.6% share in 1971. Its contribution reflects the value added to all output through the distribution from the producer to the final consumer, and is generated almost entirely by private enterprises. The foreign trade sector will continue to be a vital factor in stimulating business expansion.

12. Banking, insurance and real estate: This sector has grown at the very fast rate of 16.6% per year from 1961 to 1966, and is expected to continue to grow at about a 17% annual rate during the Plan period. This rate of expansion will raise its share of the GDP from 3.9% in 1966 to 5.8% in 1971. Banking has experienced the most rapid growth in its history. Demands for financing expansion in various sectors are anticipated to accelerate as the credit system expands. The rapid growth of the insurance business is characterized by the increased diversification of the types of insurance written, particularly casualty, accident and fire insurance.

13. Ownership of dwellings: This sector represents the annual net rental value of all residences, whether they are owned, occupied, (in which case the value would be imputed) or rented. From 1961 to 1966 the GDP originating from this sector has grown by 3.7% per year. The annual growth rate over the Plan period is estimated to accelerate to 5% in view of the higher value and rate of increase in residential construction.

14. Public administration and defence: The value added in Public Administration and Defence will increase at 12% annually over the Second Plan period. This classification includes only the current expenditures of the government (like salaries of civil servants) and excludes capital expenditures. The sector's contribution to the GDP will increase from about 5 in 1966 to nearly 6% in 1971.

15. Services: The growth rate of this sector, which includes public and private education, medical services, hotels, restaurants and other recreation services, has averaged 6% per year between 1961 to 1966. With the rapid increase in tourism which is creating heavy demands for hotel and recreation facilities, the value added from this sector is expected to increase by 9.5% per annum over the Second Plan period.



**Table 3**  
**Target Gross Fixed Capital Formation During the Second Plan**  
 (at 1965 prices)

(millions of baht)	
Type of Capital Goods	1967 — 1971 Cumulative
I. Imports of Capital Goods (excluding construction materials)	36,635
II. Building and Construction	64,144
1. Private Construction	35,613
2. Public Construction	28,531
III. Other Domestic Capital Formation	29,955
Total	130,734
Public Sector	37,900
Private Sector	92,834
Total	130,734

### Investment

16. Investment is one of the most important factors in economic development. Capital formation occurs both in directly productive projects and in the public facilities which complement and induce productive investment. It is necessary therefore to examine the adequacy of the nation's investment capacity to reach the target rate of economic growth.

17. During the period of the Second Plan, the marginal capital-output ratio will increase from 2.5:1 during the First Plan period to about 2.75:1.\* This is due to the relative rise in public sector capital expenditures which have a longer "pay-off" period than capital formation in the private sector. Nearly one half of public capital formation is for irrigation, health, education, defence and community facilities which add significantly to output only in the intermediate or long run.

18. Using the marginal capital-output ratio of 2.75:1, capital formation valued at 130.7 billion baht will be required during the five years of the Plan in order to reach the target for national economic growth of 8.5% per year. The capital formation estimates for both public and private sectors are shown in Table 3. The annual rate of increase will be less than during the First Plan but total capital formation as a percentage of GDP will continue to grow from 22% in 1966 to about 23% in 1971.

19. Capital formation in the public sector for the Second Plan period is estimated at 37.9 billion baht. The large public capital expenditures in infrastructure facilities are considered essential for the successful realization of the Plan targets. The highest proportion of these expenditures will be for transportation and communication purposes. Second highest are capital expenditures in the agricultural sector, particularly in the field of irrigation, which are principally aimed at increasing output to meet consumer demand as well as to provide higher export earnings.

\* The marginal capital output ratio has been defined for the Plan as the ratio of Gross Fixed Capital Formation to the increment of GDP with a one year time lag.

20. The two main components of private capital formation are the imports of machinery and equipment and domestic construction. A major portion of the imported machinery and equipment will be invested in the manufacturing sector, particularly in new industries, whereas the traditional industries like rice and tapioca mills will account for a small part of the sector's capital formation. Nearly one third of the imported capital goods will consist of transport equipment, the bulk of which will be for highway transport.

21. Over 38% of total private investment expenditures will be for construction, consisting mainly of commercial and industrial buildings. Construction of commercial buildings is expected to increase further in response to heavy demands created by the rapid growth in tourism and the increased commercialization of economic activity. Residential construction, particularly in urban areas, will increase significantly because of rising incomes as well as an urbanization trend.

### **The Overall Economic Balance**

22. In formulating a national economic development plan it is necessary to consider carefully the changes in the structure and the overall balance of the economy. This will help to ensure that economic development expenditures are consistent with the maintenance of overall stability and balance of the economic system.

23. Table 4 presents estimates of total demands upon the national production of goods and services or Gross Domestic Product, which is expected to grow at 8.5% per year and to total 559 billion baht during the five years of the Second Plan. These demands occur in the private and public sectors for consumption and capital formation. In the foreign sector, an import surplus of 16.8 billion baht is projected.

24. Capital formation expenditures in the private and public sectors are expected to amount to 37.9 and 92.8 billion baht respectively during the Second Plan period. Government consumption, the major component of which is expenditures on wages and salaries of civil servants, is budgeted to grow 13.3% annually and to total 72 billion baht. This is due to increasing government responsibilities in general government functions and defence coupled with the rising maintenance costs of the accelerated economic and social development programme and the internal debt repayment services.

25. One of the most important long-term objectives of the Economic and Social Development Plan is the raising of the people's standard of living, as measured by the level of private consumption expenditure. Table 4 indicates that private consumption will increase at annual rate of 8.2% compared to the population growth rate of 3.3%. The resulting increase in per capita private consumption of nearly 5% per year reflects an appreciable rise in the standard of living of the people in the next five years. However, the projected increase in private consumption must be consistent with capital formation expenditures both in the private and the public sectors, in order to maintain the stability of financial relationships which has been one of the hallmarks of economic progress in Thailand.

26. In the foreign trade sector, targets have been set on the basis of constant prices and the assumption of sustained international demand for Thai agricultural exports. It is estimated that exports of goods and services will increase at annual rate of 7.2%. Rice will continue to maintain its predominance among all exports. Exports of services such as those of the tourist and other service industries are expected to increase at a slower rate than that of merchandise exports.

27. Projections of imports have taken account of demands for capital goods, the bulk of which will consist of transport equipment and construction machinery for the rapid expansion of manufacturing, construction and transport industries, and also for a higher level of consumption goods imports. The total value of imports of goods and services is estimated to grow by 9.3% per year. Imports of services such as transportation, insurance, and other services, are expected to increase at a slightly lower rate than that of merchandise imports.

28. The growth rates of both exports and imports will be lower during the Second Plan period than from 1961 to 1966. Exports of goods and services will, therefore, not be adequate to pay for the level of imports required for economic growth. However, the resulting balance of trade deficit is expected to be more than offset by foreign capital inflows in the form of loans, grants and investment.

**Table 4**  
**Target Overall Economic Balance**  
**During the Second Plan**  
**(at 1965 prices)**

	1960 <sup>1/</sup>		1966 <sup>1/</sup>		1971		1961—1966		1967—1971	
	Million Baht	Percentage of GDP	Million Baht	Percentage of GDP	Million Baht	Percentage of GDP	Million Baht	Average Annual Growth Rate	Million Baht	Average Annual Growth Rate
Gross Domestic Expenditure	57,200	100.0%	87,000	100.0%	130,000	100.0%	433,900	7.0%	559,200	8.5%
Government Sector: (Subtotal)	8,300	14.5%	14,700	16.9%	26,100	20.0%	66,500	10.2%	109,900	12.3%
Consumption <sup>2/</sup>	5,900	10.3%	9,100	10.5%	16,700	12.8%	41,300	7.9%	72,000	13.3%
Gross Capital Formation	2,400	4.2%	5,600	6.4%	9,400	7.2%	25,200	16.0%	37,900	10.8%
Private Sector: (Subtotal)	49,400	86.3%	74,000	85.0%	109,900	84.0%	373,600	7.0%	466,100	8.3%
Consumption	41,800	73.1%	59,000	67.8%	89,200	68.2%	306,100	6.0%	373,300	8.2%
Gross Fixed Capital Formation	7,600	13.2%	15,000	17.2%	20,700	15.8%	67,500	12.8%	92,800	8.7%
Foreign Sector Balance <sup>3/</sup>	— 500	—0.8%	—1,700	—1.9%	—5,200	—4.0%	—6,200	—	—16,800	—

<sup>1/</sup> Figures relating to 1960 and 1966 includes extractor of changes in stocks and statistical discrepancy.

<sup>2/</sup> Excludes transfer payments and debt repayments.

<sup>3/</sup> Excludes foreign travel and investment income.

### Long Term Economic Outlook (1971—1981)

29. The process of economic and social development requires sustained and consistent efforts beyond the limit of each Plan period. In drawing up the Second Plan, therefore, an attempt has been made to forecast the economic structure in the next fifteen years in order to provide a broad outline of the evolving strategy and the prospects of development under the Third and Fourth Plans (1971 - 1981). Should any drastic changes occur in the present political situation affecting the country's security, however, the long-term economic forecast will necessarily have to be reviewed.

30. The economic outlook is for continued rapid growth in output during the Third and Fourth Plans. An estimated annual growth rate of not less than 7% is expected to nearly double the per capita Gross Domestic Product between 1965 and 1981. Private consumption will continue to grow rapidly, and the benefits of development will reach the people and increase their personal interest in the process of development.

31. Capital formation will grow at a slightly lower rate than during the Second Plan period, and will increase as a percentage of Gross Domestic Product from 23% in 1971 to about 24% in 1981. Government investment also will not rise as rapidly as during the first two Plans owing to the completion of many major public infrastructure projects. Development expenditures in the public sector will increasingly emphasize social and manpower development projects. The rate of growth of private investment is expected to accelerate as a result of government measures to provide basic facilities and to develop the capital market and other financial institutions required for the efficient financing of modern industry and commerce.

32. The change in economic structure during 1971 - 1981 will continue along the trend observable during the first two Plans. The share of agriculture in the Gross Domestic Product will gradually decline from 26% in 1971 to about 22% in 1981. The compensating increase will appear in such modern, fast growing sector as manufacturing, construction, transportation and communications, wholesale and retail trade, and banking. The manufacturing sector in particular will increase its share of the GDP from 14% in 1971 to about 17% in 1981. These other sectors will be able to increase their labour force more rapidly than agriculture, with the result that the agricultural force as a percentage of total will decline from 75% in 1971 to about 70% in 1980 and farmers will continue to earn a significant portion of their income in non-agricultural pursuits. This will further diversify and help to improve the overall balance of the economy.

33. On regional economic development, the expansion of the transportation and communication system is expected to draw together economically all the geographical regions of the country. The relative importance of the Central Plan, particularly of Bangkok-Thon Buri, as the economic centre of the country will decline somewhat. Conditions in the Northeast will improve significantly owing to the accelerated development programme in this region. The projected construction of a new sea port in the Eastern seaboard and a new highway and railroad linking the East directly with the Northeast will improve the prospects of the Eastern provinces becoming new industrial and commercial centres. The vast urbanization of the Bangkok-Thon Buri and other municipal areas will create economic and social problems which require massive government development expenditures for social services and community facilities.

34. The Government's rural development projects will begin to bear fruits. Productivity and hence the standard of living of agriculturists in all regions will improve. Diversification of agriculture will continue, with major crops such as rice, rubber, maize and kenaf retaining their importance and with additional products gaining in importance such as oilbearing crops, fibre crops and marine fish. Development in the rural society will enable agriculturists to follow their occupation with greater independence and to combine into associations for purposes of bettering themselves. The difference between the standard of living of town and village dwellers will decline. However, agricultural development depends largely upon efficient and economical uses of natural resources. This indicates the importance of thorough planning for the use, improvement and conservation of these resources.

35. The foreign trade sector will continue its critical role in the modernization process. Although rice will still be the single biggest export of the country, its relative importance will decline. New exports will include other agricultural products and mineral ores. This is due to the increasing diversification of the economy and to the government's export promotional efforts aiming at products in demand in the world market. On the side of imports, capital goods will continue to maintain their importance. Raw materials imports will increase in order to meet the demand of expanding domestic industries. Although the unfavourable balance of trade will persist, the expected inflow of foreign private and official capital will cover the foreign exchange gap. The country's financial stability will therefore remain unaffected during the period considered.

36. Sustained economic growth at a satisfactory rate will depend on the government's ability to provide continued political stability, internal security, protection to the citizens in the honest pursuit of their occupations, balance of justice among various sections of the community, and generally a favourable administrative structure. On foreign relations, it is expected that Thailand will play an increasingly important role in international economic cooperation associations, particularly those aiming at economic, social and cultural cooperation in the Southeast Asia region.

## CHAPTER V

### RESOURCES AND FINANCING

1. The impressive performance of the Thai economy during the first five years of the First Plan (1961 - 1965) was due to the ability of the Government to mobilize its resources effectively for productive purposes while maintaining monetary stability. The rapid expansion of both foreign and domestic private investment also was a major factor contributing to the growth rate of Gross Domestic Product in excess of 7% over the period.

2. Foreign exchange reserves increased significantly during the First Plan due to the rapid growth of exports and the recent increase in U.S. military expenditures; reserves equalled 17,000 million baht at the end of September, 1966. The projected increase in foreign reserves combined with the rise in government expenditures under the Second Plan indicate the potential for inflationary pressure on the Thai economy.

3. The target for the annual growth of Gross Domestic Product during the period of the Second Plan is 8.5%. Realization of this ambitious target will require a continuing high level of both public development expenditures and private investment. The government must, therefore, shape its fiscal and monetary policy so that allocation of economic resources will be in accord with development objectives.

#### The Public Sector Programme

4. Estimated total public expenditures will rise to 134,520 million baht during the Plan period which represents an increase of 75.5% compared to the First Plan. Of the total, 112,575 million baht will be financed by the central government from budget appropriations the remainder will be financed by the state enterprises and local government units and by foreign loans and grants. Development expenditures of 57,520 million baht will be 42.7% of total outlays, as compared to 37.0% during the period 1961 - 1965<sup>1/</sup> Non-development expenditures will equal 77,000 million baht. The international tension in Southeast Asia has compelled the government to expand its non-development expenditures especially for national defense and internal security. Other factors which will cause non-development expenditures to rise are an increase in debt services, the maintenance costs of projects completed during the First Plan period, and an increased salaries for low level government officials.

#### Public Development Expenditures

5. Total public development expenditures under the Second Plan will be 57,520 million baht, consisting of 35,575 million baht under the central government budget, 6,345 million baht from the self financing of the state enterprises and local government units, and 15,600 million baht from foreign loans and grants (including foreign exchange loans from the Bank of Thailand). The major portion of the development expenditures will be allocated for continuation of infrastructure programmes in transport and communications, irrigation and power. The Government will initiate new projects only if they are of high priority. Greater emphasis will be placed on social development, especially education and public health, and the development of backward and remote areas; see Table 1

<sup>1/</sup> Development expenditures for capital and current expenditures on development projects. The current costs of operating development projects are considered developmental for the duration of the Plan period.

Table 1

**Public Development Expenditures by Sectors and by  
Sources of Funds for the Second Plan**

(millions of baht)

Sectors	Government Budget	Foreign Loans 1/	Foreign Grants	Self-Financed by State Enterprises & Local Gov't 2/	Total
Agriculture and Cooperatives	8,420	1,990	550	400	11,360
Industry and Mining	600	—	150	165	915
Transport and Communications	9,190	4,140	1,310	2,460	17,100
Power	1,375	2,260	330	1,005	4,970
Commerce	180	—	—	—	180
Community Facilities & Social Welfare	5,210	1,640	1,120	2,300	10,270
Public Health	1,800	—	755	15	2,570
Education	5,500	570	535	—	6,605
Unallocated	3,300	—	250 <sup>3/</sup>	—	3,550
Regional Development Fund	(400)				
Accelerated Rural Development Fund	(1,000)				
Development Fund for Remote Areas	(220)				
Development Fund for Specific Areas	(80)				
Counterpart Funds	(1,600)				
<b>Total</b>	<b>35,575</b>	<b>10,600</b>	<b>5,000</b>	<b>6,445</b>	<b>57,420</b>

1/ Including foreign exchange loans from the Bank of Thailand.

2/ Including 2,300 million baht revenue from Local Government and Rubber Cess Fund of 400 million baht.

3/ Non project grants : Peace Corps, general scholarships, etc.

6. Public development expenditures of 57,520 million baht can be classified by sectors as follows ( see Table 2 and 3 ):

**Table 2**  
**The Second Plan Public Development Expenditures by Sectors**

(millions of baht)

Sector	Estimated Actual Expenditures		Planned Expenditures	
	1961—1966	%	1967—1971	%
Agriculture	3,900	13.9 %	11,360	19.8 %
Industry and Mining	2,340	8.3 %	915	1.6 %
Transport and Communications	7,360	26.1 %	17,100	29.7 %
Energy	4,740	16.8 %	4,970	8.6 %
Commerce	—	—	180	0.3 %
Community Facilities & Social Welfare	5,560	19.7 %	10,270	17.8 %
Public Health	1,060	3.8 %	2,570	4.5 %
Education	2,080	7.4 %	6,605	11.5 %
Unallocated	1,140	4.0 %	3,550	6.2 %
<b>Total</b>	<b>28,180<sup>1/</sup></b>	<b>100.0 %</b>	<b>57,520</b>	<b>100.0 %</b>

<sup>1/</sup> About B 4,000 million lower than indicated in the First Plan.

**Table 3**  
**Second Plan Government Budget-Financed Development Expenditures**

(millions of baht)

Sector	1967	1968	1969	1970	1971	Total 1967—1971
Agriculture	1,495.05	1,624.22	1,684.41	1,747.21	1,869.39	8,420.28
Industry	125.30	133.90	126.81	105.23	108.25	599.49
Transport and Communications	1,739.68	2,060.21	2,089.02	1,780.58	1,516.29	9,185.78
Energy	232.27	397.60	288.01	230.81	228.65	1,377.34
Commerce	31.40	38.50	36.30	36.50	36.60	179.30
Community Facilities and Social Welfare	822.94	1,025.55	1,103.35	1,102.20	1,156.10	5,210.14
Public Health	233.36	339.47	373.72	416.55	438.06	1,801.16
Education	893.83	1,080.30	1,103.50	1,169.50	1,253.30	5,500.43
Unallocated						
Regional Development Fund	70.00	75.00	75.00	85.00	95.00	400.00
Accelerated Rural Development Fund	150.00	150.00	200.00	250.00	250.00	1,000.00
Development Fund for Remote Areas	35.00	40.00	45.00	50.00	50.00	220.00
Development Fund for Selected Areas	10.00	10.00	20.00	20.00	20.00	80.00
Counterpart Funds	250.00	300.00	300.00	350.00	400.00	1,600.00
<b>Total</b>	<b>6,088.83</b>	<b>7,274.75</b>	<b>7,445.12</b>	<b>7,343.58</b>	<b>7,421.64</b>	<b>35,573.92</b>



(i) Agriculture and Cooperatives - A cardinal objective of the Second Plan is to increase agricultural productivity so that the welfare of the country's rural population can be improved. Development expenditures for this sector will be 11,360 million baht or about 20% of total development expenditures. Most of the development expenditures will be for water resource development projects, research programmes and agricultural promotion. However, new project such as the Bank for Agriculture and Cooperatives and the Farmers' Assistance Programme will further improve the farmers' investment opportunities and their ability to raise their living standards.

(ii) Industry and Mining - The development expenditures for this sector will be less than during the First Plan because the Government's policy is not to establish new state enterprises but to concentrate on services for promoting and assisting the private sector to develop industrial and mining opportunities.

(iii) Transport and Communications - The Transport and Communications Sector will continue to account for the largest share of development expenditures. 17,100 million baht have been allocated for transport and communications facilities, especially the construction of new highways, the improvement of the Bangkok port and the telephone and telecommunication services throughout the country. This includes 2,500 million baht for the improvement of the State Railway.

(iv) Energy - Since several substantial power projects were completed at the end of the First Plan, emphasis will be on the expansion of the original projects, and the improvement of power supply and distribution to meet the nation's rapidly rising demand. Consequently, the percentage share of the expenditure on the Power Sector will decrease compared to the First Plan.

(v) Commerce and Services - The development expenditures in this sector only amount to 180 million baht since the Government's role is restricted to providing technical services and formulating policies to stimulate private activity.

(vi) Community Facilities and Social Welfare - Development expenditures in this sector will increase substantially during the Second Plan period as the Government attempts to disperse development into the rural and remote areas. Projects such as the Accelerated Rural Development Programme and the Village Water Supply Project are examples of this new emphasis.

(vii) Public Health - The Public Health Sector will account for about 4.5% of total development expenditures, as compared to 3.8% during the First Plan. About 1,800 million baht of the total of 2,570 million baht allocated to this sector will be for the construction of medical facilities and the improvement of medical services in the rural area. The remainder will be spent on the prevention and eradication of diseases.

(viii) Education - The increase in development expenditures in the Education Sector is due to the Government's policy to emphasize education in order to raise the quality of the nation's human resources and stimulate progress. One aspect of the educational programme is the extension of compulsory education from four to seven years, thus increasing the financial requirements for the primary education level.

(ix) Unallocated - The unallocated funds of 3,550 million baht, or 6.2% of total development expenditures, consist of counterpart funds of 1,600 million baht, non-project grants of 250 million baht and funds for rural and regional development of 1,700 million baht; the sectoral allocation of these funds cannot be determined in advance.

## Development Financing

7. The sources of financing for the development expenditures of the Plan are 41,920 million baht from domestic sources, or 73 % of the total, and 15,600 million baht from external sources (including a foreign exchange loan from the Bank of Thailand), as presented in Table 4.

**Table 4**  
**Financing of Second Plan Development Expenditures**

(millions of baht)

	Estimated Actual Expenditure		Planned Expenditure	
	1961 — 66	%	1967 — 71	%
<b>1. Domestic Sources</b>				
Revenue Surplus <sup>1/</sup>	8,540	30.0 %	10,000	17.4 %
Self - Financing by State Enterprises & Local Governments	4,540	16.0 %	6,345	11.0 %
Domestic Borrowing Sources :				
Commercial Banks, Government Savings Bank, and the Public	5,900	20.9 %	15,000	26.1 %
Bank of Thailand	3,100	11.0 %	4,000	7.0 %
Foreign Exchange Reserves	400	1.4 %	3,000	5.2 %
Treasury Balances <sup>2/</sup>	— 1,500	— 5.3 %	3,575	6.2 %
Sub - total	20,980	74.3 %	41,920	72.9 %
<b>2. Foreign Sources</b>				
Loans	4,840	17.2 %	10,600 <sup>3/</sup>	18.4 %
Grants	2,400	8.5 %	5,000	8.7 %
Sub - total	7,240	25.7 %	15,600	27.1 %
<b>3. Grand Total</b>	<b>28,220</b>	<b>100.0 %</b>	<b>57,520</b>	<b>100.0 %</b>
<b>4. Less Estimated Shortfalls</b>	—	—	7,520	13.0 %
<b>5. Estimated Actual Development expenditure</b>	—	—	50,000	87.0 %

<sup>1/</sup> Revenue surplus is the surplus of total government revenues over non-development expenditures ; see Table 5

<sup>2/</sup> Calculated as a residual and refers only to changing balances associated with government budgetary operations.

<sup>3/</sup> Including foreign exchange loans from the Bank of Thailand.

8. Government Revenues and Surplus: During the First Plan period the average annual growth rate of government revenues was about 11 %, thus permitting the Government to finance about 30.7 % of total development expenditures from its own revenues. Table 5 indicates that, excluding tax change total government revenues for the Second Plan period are expected to be 84,000 million baht or an

average increase of 11.6% annually. In order to finance the marked increase in development expenditures without creating inflationary pressures, the Government will have to increase its tax revenues. It is estimated that adjustments in the tax structure and rates can raise revenues by 3,000 million baht, without interfering with private investment plans or inequitably burdening any group in the society. Deducting non-development expenditures of 77,000 million baht from total revenues leaves 10,000 million baht as revenue surplus, about 17% of total development expenditures.

**Table 5**  
**Government Revenues & Surplus during the Second Plan**

	(millions of baht)					
	1967	1968	1969	1970	1971	Total
<b>Government Revenues</b>						
1) Taxation	12,500	13,940	15,726	17,631	19,707	79,504
Existing tax structure and rates	12,500	13,723	15,106	16,662	18,422	76,413
Estimated increase in revenues from tax changes	—	217	620	969	1,285	3,091
2) Sales of Goods & Services	305	320	335	351	365	1,676
3) State Enterprise Contributions	432	453	476	499	523	2,383
4) Other Sources	840	687	763	619	528	3,437
<b>Total</b>	<b>14,077</b>	<b>15,400</b>	<b>17,300</b>	<b>19,100</b>	<b>21,123</b>	<b>87,000</b>
<b>Minus Non - Development Expenditures</b>	<b>12,600</b>	<b>14,300</b>	<b>15,300</b>	<b>16,700</b>	<b>18,100</b>	<b>77,000</b>
<b>Revenue Surplus</b>	<b>1,477</b>	<b>1,100</b>	<b>2,000</b>	<b>2,400</b>	<b>3,023</b>	<b>10,000</b>

9. Self-Financing by State Enterprises and Local Government : The resources which the state enterprises and local government units have available, after deducting expenses, for development purposes are an important source of financing the Plan. Self-financed development expenditures of the state enterprises will equal 4,045 million baht and of the local governments 2,300 million baht.

10. Domestic Borrowings: The total domestic borrowing of 25,575 million baht for the next five years will be obtained from the following sources:

(i) Commercial Banks - The commercial banks have been growing rapidly, buoyed by the expansion of the economy, and it is expected that they will be able to purchase government bonds and treasury bills in the amount of 10,000 million baht.

(ii) Government Savings Bank and the Public - The Government Savings Bank has attracted growing deposits in recent years by offering a higher interest rate and this will permit it to purchase 4,000 million baht of government bonds during the Plan period. The high and tax free interest income from government securities is expected to attract the public and other private institutional investors who are expected to purchase 1,000 million baht during the Plan period.

(iii) Bank of Thailand - Financing from the Bank of Thailand can be divided into two categories:

- a. Local Currency Borrowing - The magnitude of baht borrowing will be restricted to 800 million baht annually, which is considered a reasonably conservative limit of non-inflationary financing.
- b. Borrowings from the foreign exchange reserves will total 3,000 million baht, excluding foreign exchange loans from the Bank of Thailand for particularly high priority development projects. The foreign exchange reserves will be used for financing foreign currency expenditures in development projects in order to avoid the expansionary effect on the money supply of local currency borrowing.

11. Treasury Balances - The Government will draw down the treasury balances by 3,575 million baht during the Plan period.

#### **External Sources of Finance**

12. The rapid increase in domestic expenditures requires the Government to depend quite heavily on external financing. The foreign financing planned for the period 1967 - 1971 equals 15,600 million baht, and is composed of the following:

13. Foreign Loans - The 10,607 million baht of foreign loans are mainly for the development of infrastructure. In order to reduce the shortfalls of foreign loan, the government has emphasized on diversification of the sources of finance and insisted on international bidding. The Government will negotiate loans mainly from international financial institutions such as the World Bank and from countries of the Consultative Group for Thailand. The sources of external finance for the First Plan mostly came from West Germany and the World Bank. At the same time the Government will draw on its foreign exchange reserves to finance development projects by means of loans from the Bank of Thailand, which will be made in accordance with terms and conditions laid down by the Bank.

**Table 6**  
**Second Plan Foreign Loans by Sector**

(millions of baht)

Sectors	1967	1968	1969	1970	1971	Total 1967-1971
Agriculture	192	301	567	566	361	1,987
Transport and Communications	886	1,012	1,072	618	550	4,138
Energy <sup>1/</sup>	393	381	570	628	287	2,259
Community Facilities & Social Welfare	15	221	477	467	466	1,646
Education <sup>2/</sup>	36	157	134	119	131	577
<b>Total</b>	<b>1,522</b>	<b>2,072</b>	<b>2,820</b>	<b>2,398</b>	<b>1,795</b>	<b>10,607</b>

<sup>1/</sup> Including foreign exchange loans of 208 million baht from the Bank of Thailand.

<sup>2/</sup> Including foreign exchange loans of 290 million baht from the Bank of Thailand.

Since transport and communications are essential for the development of other sectors, the Government will continue its emphasis on this sector, much of which will be financed by foreign sources. Foreign loans for the Agriculture Sector of about 1,987 million baht are mainly for the development of water resources. The Energy Sector requires about 2,259 million baht of foreign loans (including foreign exchange loans from the Bank of Thailand) for expanding power generating and distribution capacity. Foreign financing for the Community Facilities and Social Welfare Sector will concentrate mainly on the survey and construction of a drainage and sewerage system in Bangkok-Thon Buri, the improvement of water supply systems, and housing development for low income groups. Foreign loans for the Education Sector will finance improvements in vocational education and the increase in comprehensive high schools.

14. During the course of the Second Plan, it is estimated that foreign debt services of the government and state enterprises will be about 4,900 million baht. The outstanding foreign public debt will total around 13,900 million baht or 10% of GDP by the end of 1971. Debt services of the government and state enterprises will be about 1,000 million baht or 4.0% of foreign exchange earning in 1971 while debt services of the private sector will be around 4% of foreign exchange earnings. The debt service burden is within the capacity of the economy, considering its present strength, expanding exports and prospects for continuing rapid growth.

15. Foreign Grants - Total foreign grants are expected to increase from 2,400 million baht under the First Plan to 5,000 million baht under the Second Plan. The major contributor is the United States which will emphasize the Accelerated Rural Development Programme in the Northeast and North, feeder road construction in the South, and strategic highways in the Northeast. The United Nations Special Fund and the Colombo Plan countries and countries which are members of the Consultative Group for Thailand will provide assistance. Non - project grants for development proposes such as fellowships will amount to about 250 million baht. Out of the total grants of 5,000 million baht, 1,900 million baht will be for projects initiated during the First Plan and the remainder will be for new projects.

16. The financing strain is expected to be partially alleviated by shortfalls in the rate of Plan development expenditures. On the basis of past experience and project analysis these shortfalls are estimated at 10% for development budget expenditures, 20% for foreign loans and grants, and 15% for self-financed expenditures.

#### Private Capital Formation

17. Private investment is larger and more significant than public investment, for a free enterprise economy such as Thailand depends upon private production to serve as the engine of progress. During the First Plan private investment was 67,500 million baht, 15.5% of Gross Domestic Product, compared to public investment of 25,000 million baht or 5.8% of Gross Domestic Product.

18. During the Second Plan, private investment is expected to increase at an annual rate of 8.7%, rising to a cumulative total of 92,800 million baht or 16.6% of Gross Domestic Product by 1971. This contrasts with the planned public investment which is expected to increase at a 10.8% annual growth rate equal 37,900 million baht or 6.7% of Gross Domestic Product in 1971. This is so since the private investment is calculated as a residual. However, the private investment policy for this Plan period by no means deviates from the policy during the First Plan. The Government will pursue its policy of private investment promotion as far as it is practicable, since this is a key to modernization. However, this projected annual growth rate of private investment is rather on the low side. The Government will therefore encourage private investment so as to obtain a higher rate as long as it will not interfere with the economic and financial stability. The government will also consider, if necessary, applying any measures to reduce its expenditures or increase its revenues in order to activate investment. Therefore both estimated figures may be altered depending on the development policy which will be constantly reviewed during the course of the Plan period.

19. Private capital formation between 1967 - 1971 is expected to generate from the sources shown in Table 7.

**Table 7**  
**Sources of Private Capital Formation**  
**During the Second Plan Period**

	( millions of baht )
Self-financed by the Private Sector	73,800
Foreign Sources	10,000
Financial Institutions	9,000
Commercial Bank	7,100
Insurance Companies	150
Industrial Finance Corporation of Thailand	400
Housing Bank	250
Loans from the Small Industry Loan Office	100
Bank for Agriculture and Agricultural Cooperatives	500
Stock Market	500
Total	92,800

20. The non-banking private sector is expected to generate internal funds to finance 73,800 million baht or 79.5% of the total private capital formation. Private foreign capital inflow will consist of 5,000 million baht for direct foreign investment and 5,000 million baht in the form of credits. Domestic financial institutions will provide about 9,000 million baht of investment funds, in the form of loans, over-drafts and discounts of certain categories of commercial papers.

21. The dynamic private growth of the past six years has been accompanied by a rapid expansion in the number of financial institutions which contribute to the financing of the private sector. The private commercial banks have competitively improved their services and opened new branches in Bangkok-Thon Buri and the provinces. The Government has contributed by establishing the Small Industry Loan Office and the Bank for Agriculture and Agricultural Cooperatives as well as improving the Housing Bank and the Industrial Finance Corporation of Thailand.

22. During the Second Plan period the Government will continue its policy to encourage the development of the capital market so that it can generate more savings in the private sector. The Government will promote the establishment of specialized financial institutions so as to diversify the types and increase the number of financial intermediaries and to lengthen the process by which funds can be channeled from the savers to the ultimate users. This strategy will reduce the existing reliance upon the unorganized money market which has so far been a major source of finance for the private sector.

#### **Policies for Commercial Banks**

23. The Commercial banks are the most significant establishments in Thailand for generating savings and supplying investment funds. During the Plan period, they will provide 7,100 million baht for private capital formation. The Government has the following development strategy for the commercial banks:

(i) The number of banking establishments increased from 384 in 1961 to 488 by 1966, thus benefiting the rural areas where many of the branches were opened and diversifying the sources of savings. The Government will encourage the commercial banks to expand their services into additional localities in order to further diversify and expand the sources of credit.

(ii) Present regulations prevent the commercial banks from accepting saving deposits or time deposits for periods longer than one year. This inconveniences savers and impedes the ability of the commercial banks to make long-term loans for capital projects. The Government will therefore try to create conditions which will permit the acceptance of long-term deposits and encourage medium and long-term loans to industrialists and entrepreneurs.

(iii) The commercial banks currently play only a minor role in extending agricultural credit. The Government will take measures to encourage the commercial banks to discount bills for primary commodities.

(iv) The Government will adopt new measures to increase the capacity of the Bank of Thailand to give credit to the commercial banks.

(v) The commercial banks generally require collateral of real property in the form of land deeds for their loans and this severely restricts their lending capacity. The Government will revise the commercial law so that certain types of personal property, such as machinery and equipment, will also be acceptable as collateral.

(vi) Since the commercial banks are the most experienced institutions in the investment field, they will be encouraged to provide advice on long-term investment and to participate in the development of a capital market.

(vii) The Government will attempt to channel the loan funds of the commercial banks into investments which will contribute to economic development.

#### **Policies for Other Financial Institutions**

24. Other financial institutions have generally been ineffective in mobilizing savings for investment purposes. For instance, measures will be taken to promote the life insurance business, which in spite of its great potential will only contribute about 150 million baht to private capital formation during the Plan period. Specialized institutions, such as Saving and Loan Associations and Mutual Funds, will be established to broaden the capital market.

25. Agricultural Credit - The Government recently established the Bank for Agriculture and Agricultural Cooperatives for the purpose of providing the farmers with agricultural credit for productive purposes. During the Second Plan, 50 additional branches will be opened and the Government will design measures to encourage the present banking system, including the Bank of Thailand, to provide capital for the new bank. The Bank for Agriculture and Agricultural Cooperatives will make loans directly to the farmers and through cooperative societies at a subsidized interest rate. Its lending operations will be closely coordinated with other Plan programmes to raise productivity in the agricultural sector.

26. Financing of Housing Construction - From 1961 to 1965 the Housing Bank lent about 50 million baht for the purchase of land and for housing construction. During the Second Plan the Government will establish a Housing and Urban Development Agency with the Housing Bank constituting a part of the new organization. It is expected that the Housing Bank will be able to provide loans of about 50 million baht annually. The Government will also consider providing other financial assistance for the promotion and expansion of the private construction industry.

27. Industrial Finance - In addition to the private commercial banks and life insurance companies there are two specialized sources of industrial finance - the Industrial Finance Corporation of Thailand (IFCT) and the Small Industry Loan Office. The loan provided by those two institutions were limited during the First Plan to 17 million baht a year by the IFCT and about 9 million baht by the Small Industry Loan Office. During the Second Plan it is expected that the IFCT will lend about 80 million baht per year and the Loan Office will finance about 20 million baht per year of industrial investment. The Government is encouraging those two institutions to expand their programmes in cooperation with the other government agencies concerned with industrial promotion and to seek capital funds from the money market.

28. Capital Market Policy - The capital market is currently not significant in providing investment funds and for the years 1966 - 1971 only about 500 million baht is expected to be raised through the Stock Exchange. Obstacles include the lack of specialized financial institutions, absence of confidence concerning management controls, and the method of buying and selling securities. The number of securities passing through the public market is small because private corporations restrict equity sales to insiders in order to retain control. The Government will promote the development of the capital market by encouraging the establishment of intermediary financial institutions like investment bankers and brokers. They will be able to purchase securities and resell them to the organized stock market. This will require close cooperation between the commercial banks and financial intermediaries to increase the liquidity of bonds and securities and facilitate the healthy growth of the capital market in Thailand.



### Balance of Payments

29. During the First Plan period Thailand's balance of payments was in favourable position. The foreign exchange reserves increased about 1,700 million baht annually. At the end of September 1966, the reserves stood at 17,000 million baht or equivalent to about 10 months imports. The growth of exports accelerated markedly during the First Plan with an average annual rate of 8.1%. The export earnings during this period totalled 67,365 million baht. But imports also rose rapidly to 85,363 million baht or an increase of 10.1% annually. The explanation for the strong upsurge of imports was the rapid increase of investment requiring capital imports. Consequently the balance of trade indicated a deficit of approximately 18,000 million baht. However, this was partly offset by the improvement of Thailand's net surplus on invisibles of 7,092 million baht. Rapid growth in the tourist industry and rapidly rising United States military expenditures were the main reasons for this surplus. When the net transfer payments of 10,149 million baht are added the current account deficit is reduced to only 757 million baht. Moreover, net capital inflow accelerated so that Thailand was able to offset substantially the current account deficit and thus increase reserves by 10,535 million baht as shown in Table 8 below.

**Table 8**  
**Balance of Payments during the First and Second Plan Periods**

(millions of baht)

	First Plan Estimated Actual 1961 - 1966	Second Plan <sup>1/</sup> Projected 1967 - 1971
<b>1. Merchandise:</b> <sup>1/</sup>		
Exports	67,365	84,015
Imports	85,363	116,424
Trade balance	— 17,998	— 32,409
<b>2. Services (net)</b> <sup>1/</sup>	7,092	18,159
<b>3. Transfer Payments (net)</b>		
Private	806	925
Official	9,343	5,266
Current Account	— 757	— 8,059
<b>4. Capital Movements (net)</b>		
Private	5,287	7,916
Official	3,398	5,268
Net Errors and Omissions	2,607	—
<b>5. International Reserves Movements</b>	<u>10,535</u>	<u>5,125</u>

<sup>1/</sup> Projected at 1965 constant prices.

30. During the Second Plan period export earnings at 1965 constant prices are projected to be 84,015 million baht or equivalent to an annual increase of about 8.1%, as compared to 67,365 million baht during the First Plan. Imports are estimated to be 116,424 million baht out of which 44,646 million baht will be for capital goods. The annual growth rate of imports will be 9.3% as compared to about 10.1% for the First Plan period. The decline in the growth rate of imports may be affected by the expected level of United States military expenditures in Thailand.

31. The trade deficit will amount to 32,409 million baht. However, this deficit will be offset by the net earnings on invisibles and transfer payments as was true in the First Plan. The tourist industry is expected to develop even more rapidly. But the main cause will be an increase of United States military expenditures. Altogether the current account deficit will stand at 8,059 million baht.

32. Adding the net receipt of capital, both private and public, of about 13,184 million baht results in an increase in foreign exchange reserves of 5,125 million baht. The rapid increase of foreign capital inflows is due to the larger amounts of loans and grants expected in the public sector, more private borrowing from abroad as well as an increase in foreign investment in Thailand.

33. Rapid increases in the net invisibles and capital movement are the reasons for the substantial accumulation of foreign exchange reserves. These occurrences may be only temporary, especially the United States military expenditures which is an exogenous factor and depends heavily upon international situation.

### **Fiscal & Monetary Policy for the Second Plan**

34. The Second Plan budget expenditures (both current and development) are substantially higher than double the level of the First Plan. This is far above the likely availability of public resources that can be raised domestically; the proposed expenditure level, after deducting projected government revenues, shows a deficit of about 25,600 million baht. The government will therefore have to increase its borrowings from the Bank of Thailand and its use of treasury balances. This will accentuate the inflationary pressure created by the accumulation of foreign exchange reserves. If the planned public expenditures are made and the foreign exchange reserves increase as expected, the rate of increase of private consumption and investment may have to be reduced so that limited available resources can be transferred to the public development programme.

35. Nevertheless, the public expenditures and the balance of payment are projected figures and actual situation may differ due to the following reasons:

(i) There may be underspending by the government agencies, as occurred during the First Plan, due to their inability to implement projects in accordance with schedules. During the First Plan, this phenomenon obviated the need to borrow from the Bank of Thailand and on the contrary, treasury balances increased. Private investment was unrestrained in its forward momentum.

(ii) The international situation in Southeast Asia may improve, thus reducing the accumulation of foreign exchange caused by the spending of foreign military personnel stationed in Thailand. This would tend to alleviate the inflationary pressure.

36. On the other hand, if the international crisis becomes more serious, the Government will have to divert increased resources into defence and internal security. Continuing the Plan's programme to expand economic activities would create inflationary pressures. The Government would therefore be faced with the choice between