

Thailand during World War II: Impact and Aftermath



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Abstract

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Japan coordinated its invasion of Thailand to coincide with the 7 December 1941 attack on Pearl Harbour. Small and with little choice, Thailand quickly joined the Axis. Despite this capitulation, Japanese occupation brought substantial economic loss and widespread social disruption. GDP contracted by a fifth. Japanese finance required that Thailand pay the costs of occupation and ship goods, mostly rice, to Japan while receiving little in return. Resulting shortages of consumer goods, swift money supply expansion and high inflation cut living standards, necessitated rationing and led to social unrest.

One main aim of my dissertation is to analyse the costs to Thailand of Japanese occupation. The dissertation's other main objective is to examine the longer-term impact of occupation. Alone in Southeast Asia, post-World War II Thailand avoided revolution or civil war. The advantages of administrative continuity through occupation, buoyant rice exports and a non-strategic geographical location largely explain post-war stability. Furthermore, the wartime alliance with Japan avoided Thailand's population being taken as comfort women or as forced labour on the Thailand-Burma railway.

Wartime macro-economic shocks helped to shape Thailand's post-1945 economic development. Efforts towards industrialisation and import substitution were a response to wartime setbacks: the government directed resources towards producing goods which were scarce during the occupation. In reaction to wartime fiscal dislocation, the state strengthened its control of financial institutions, budgets, and currency. Exploring the connection between Thai experiences under the Japanese and during the early 1950s is crucial to fully understanding the legacies of the war.

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Notes and abbreviations

A note on the Thai monetary system

100 *satang* = 1 baht

Conversion of Thai measurements

Thai measurement		Metric	Imperial
1 <i>picul</i>	=	60.479 kilogram	= 133.33 lbs
1 <i>rai</i>	=	1,600 metre ²	

Abbreviations

BOI	Board of Investment
BOT	Bank of Thailand
CCC	Chinese Chamber of Commerce
CPI	Consumer price index
ECOSOC	Economic and Social Council
FDI	Foreign direct investment
FOA	Food and Agriculture Organisation
IBRD	International Bank for Reconstruction and Development, or the World Bank
ILO	International Labour Organisation
ISI	Import substitution industrialisation
UNAC	United Nations Appeal for Children
NAT	National Archive of Thailand
NARA	National Archives and Records Administration
NEDCOL	National Economic Development Corporation, Limited.
NESDB	National Economic and Social Development Board
OSS	Office of Strategic Services
PSO	Purchasing and Sales Organisation
SYB	Statistical Yearbook of Thailand

A note on ethnic and citizenship identity markers

In this dissertation, an ‘ethnic Thai’ means someone who is ethnically Thai and resides in Thailand, as opposed to ethnically Chinese or Indian residents of the country.

‘Chinese,’ interchangeable with ‘Sino-Thai,’ is always an ethnically Chinese person who resides in Thailand. I will always refer to a Chinese person from outside Thailand with a location marker, such as ‘Mainland Chinese,’ ‘Malay Chinese,’ or ‘overseas Chinese.’

I will use the terms ‘Thailand’s population,’ ‘the Thai population,’ ‘Thai citizens,’ or ‘Thai civilians’ to include all people living in Thailand, regardless of ethnicity.

A note on spelling

Apart from those with already established and commonly accepted Romanised spellings like ‘Siriraj’ or ‘Tejapaibul,’ all Thai names are transcribed according to the 1999 Royal Thai General System of Transcription.

Introduction

Motivation and aim

‘With the Greater East Asia Co-Prosperity Sphere in the process of establishment, the objective of policy towards Thailand is to create a close, inseparable military, political and economic union with that country for the self-sufficiency and self-defense of the empire.’

- *Matters concerning policies towards Thailand*¹

On 8 December 1941, the Thai Prime Minister Field Marshall Plaek Phibunsongkram (Phibun) allowed Japanese troops passage through the country to attack its southern and western neighbours, Malaya and Burma. Unable to resist superior Japanese forces, Thailand quickly allied with Japan. Although a Thai government remained in place, the Kingdom fell under Japanese occupation and officially became part of Japan’s wartime empire, the Greater East Asia Co-Prosperity Sphere.

The sentiment of the above extract tells little, at most a small part, of the story of Japan’s attitude towards Thailand during its wartime occupation. A more accurate representation would have been to describe a plan to utilise Thailand’s economy and resources to support the war effort with little regard for the well-being of the Thai people. Japanese officials argued that for the Thai, like other Southeast Asians, it would be easy to maintain some basic standard of livelihood ‘because the culture of the inhabitants is low, and because the area is rich in natural products’.² In reality, during the war Thailand — an overwhelmingly agrarian economy and heavily dependent on imported manufactures from the west — experienced a large reduction in GDP, high inflation, and acute shortages of essential consumer goods. Some of the most important economic legacies of the

¹ William L. Swan, ‘Japan’s Intentions for Its Great East Asia Co-Prosperity Sphere as Indicated in Its Policy Plans for Thailand’, *Journal of Southeast Asian Studies* 27, no. 1 (1996): 140–42.

² Nobutaka Ike, ed. and translator, *Japan’s decision for war: records of the 1941 policy conferences* (Stanford: Stanford University Press, 1967), p. 224. The speaker on 5 November 1941 was Japanese Finance Minister Kaya.

occupation were an augmented pre-war determination of the Thai government to industrialise and new public and private financial institutions founded during the war.

The impact and legacies of the Japanese occupation on Thailand have not been properly studied. The aim of this dissertation is to analyse the consequences for Thailand of the Second World War and fill a gap in the historiography of the country between 1941 and 1945. In so doing, the dissertation contributes to the existing literature on post-war Thailand by identifying the legacies of the Second World War and analysing how wartime events continued to shape Thailand's post-1945 economic development. I argue that the Japanese occupation was not a 'break' in the Kingdom's economic history. Rather, this dissertation will demonstrate that the Second World War is integral to understanding the continuity Thailand's long term economic, political, and social development.

Impact and aftermath of the Second World War

Prior to 1941, Thailand was an overwhelmingly agrarian economy, and exported four main agricultural goods: rice, rubber, tin, and teak. Bangkok was the centre of trade and exports; the rest of the country engaged in agriculture for subsistence and export, produced handicrafts such as textiles for its own consumption, and participated in small local markets. The agricultural processing and export industry were largely dominated by foreigners and the Chinese-Thai community. Western interests came in the form of funding and establishing mines for tin and sawmills for teak, while the rice industry was controlled by Chinese millers and exporters. Other than the Siam Cement Company, the Boon Rawd Brewery, and Chinese rice milling, there was little manufacturing. Pre-war Thailand relied heavily on imports for consumer and manufactured goods. Chinese cottage industries produced small quantities of consumer goods in their own homes or small workshops using family labour. Similarly, pre-war commercial banking was dominated by

Europeans and local Chinese. During absolute monarchy, there was little government involvement in industry or public finance initiatives.

After the 1932 revolution, which established Thailand as a constitutional monarchy, the new government began to push for change. Under the leadership of Phibun, which began in 1938, the state attempted to diminish foreign influence on the Thai economy and adopted economic nationalist policies. The government began competing with Chinese rice millers, encouraging Thai investment, and establishing state-operated enterprises. Not only was the control of foreign and Chinese merchants quite strong over Thailand's export sectors, there was also insufficient indigenous private capital to compete or establish new industries. Efforts to do so yielded little success before the Japanese invaded in 1941.

The Japanese occupation affected every aspect of the Thai economy. Japan imposed regional autarchy within its wartime empire, the Greater East Asia Co-Prosperity Sphere, cutting Thailand off from necessary imports of consumer goods. Allied destruction of Japan's commercial shipping prevented trade within its empire. Consequently, the kingdom's GDP – which mostly consisted of agricultural production, rice exports, and import of consumer goods – fell by as much as 20 per cent during the war. Though legal rice exports fell more than 80 per cent, paddy production was stable. This was partly because government officials heavily regulated the market and subsidised farmers to prop up the country's rice production. More importantly, large amounts of Thai rice were smuggled down the coast to Malaysia and Singapore, where rice was in short supply, providing a channel for contraband rice exports and incentivising farmers to continue planting.

Thailand suffered high inflation and lost control of its currency under Japanese occupation. The kingdom signed two bilateral agreements that necessitated the devaluation

of the baht and establishment of the Bank of Thailand (BOT) to print notes for Japanese use. With few other alternatives available, the Japanese financed occupation mainly through money creation. Consequently, Thailand saw its money and supply and cost of living rise tenfold between 1942 and 1945.

The collapse of imports and subsequent shortage of necessary goods intensified pre-war government involvement in manufacturing. The state took over factories that were abandoned by western firms and founded new ones in an attempt to supply the country with much-needed products. These efforts were insufficient to alleviate acute wartime scarcity, as Thailand lacked raw materials, machinery, fuels, and a skilled labour force.

To cope with high inflation and a lack of basic necessities, the Thai government instated rationing and price control systems for many consumer goods. These measures, were, however, insufficient due to an extreme shortage of many products and corruption of petty officials. Shortages of necessary goods, along with the government practice of blaming Chinese merchants for profiteering, fractured the plural society in Bangkok, and pitted ethnic Thais against ethnic Chinese. All measures of standard of living indicate that those living in Thailand suffered during the Second World War.

After 1945, Thailand had to repair damages from the war. The wartime loss of foreign exchange reserves, budget deficits, and high inflation were remedied by the monopolisation of rice exports by the government and adoption of multiple exchange rates. The multiple exchange rate system allowed the government to heavily tax rice and accrue exchange profits. The Bank of Thailand, itself a legacy of the war, managed these proceeds to stabilise the currency, and cover large expenses of reparations and reconstruction of infrastructure from war damages. In 1955, the state stopped monopolising rice exports and reunified the exchange rate. Like multiple exchange rates, however, rice premiums were a heavy tax on rice exports and became an important source

of government revenue. The premiums kept domestic rice prices – and inflation – low in post-war Thailand.

Part of the profits from the multiple exchange rates and rice premiums were used to fund the post-war government's state-led industrialisation programs. Wartime shortages reinforced the pre-war drive to promote domestic manufacturing and industrialisation in the 1950s was an important legacy of the occupation. With the basis of government-led industrialisation during the occupation, state control of distribution channels through the rationing system, and some machinery and capital goods left behind by the Japanese army, the Thai government expanded import-substitution industrialisation albeit with protection and high production costs. At the same time, a new alliance of politico-economic elites of government officials and wealthy Sino-Thai entrepreneurs emerged and dominated the post-war manufacturing sector. This co-dependent relationship led to increased rent-seeking and corruption, rendering many state-run factories inefficient and unable to make profits. Without proceeds from the multiple exchange rates, these industries could have drained the treasury and left a large deficit in the government's budget.

Cause and legacy

The historical method deals in cause and consequence; 'The study of history is a study of causes'.³ Whatever follows from the past is in some sense a consequence of it. An historical legacy is, however, more than a mere consequence. In this dissertation, I define legacy as a development not only fundamentally shaped by what went before, but one that has a clearly discernable effect in shaping society or economy in the decade or decade and a half that follows. Beyond that time frame, although legacies may linger, even for centuries, it becomes difficult to assign causation with adequate certainty, or to disentangle one event from the causal strands of other, later, events. For Thailand, several

³ E. H. Carr, *What is history?* (London, 1964), p. 87.

legacies of the war are apparent, as could hardly have been otherwise for an event that lasted almost four years and which affected every aspect of the country. One main aspect of the dissertation is to identify and discuss major legacies, rank them in some magnitude of relative importance and impact, and justify that judgement.

An assessment of legacies necessarily requires a use, explicit or implicit, of the counterfactual: what would have occurred in Thailand if there had been no Pacific War, no wartime Japanese occupation. No indisputable answer is possible; a legacy must be weighed for its effect on future events by the historical facts that are known. Most, perhaps all, of those aspects of post-1945 Thai society which, I argue, rank as legacies of the Japanese occupation might have happened anyway: the expansion of the commercial banking system, the founding of a central bank, a diversification of agriculture away from rice, industrialization, an increase in corruption, bureaucratic capitalism, and Phibun's lengthy tenure as head of state. It is difficult to believe that in the absence of war any of these developments would have taken the form that they did: each of them was significantly influenced by the war. In this dissertation, I try to assess how war and occupation took these antecedents and shaped them such as to deserve the description of legacies.

Legacies from an event so momentous as World War II for Thailand often subsequently interact. That can create what economists call an identification problem: how to distinguish for two phenomena between cause and effect. Does causation run from phenomenon A to phenomenon B or vice versa? The answer may be, as will be shown in chapters 7 and 8 and the conclusion, that the interaction of the phenomena cannot be traced one to the other but to another separate event, the Japanese occupation. After the war and into the 1950s, wartime legacies interacted dynamically to shape Thailand's economy and

society in ways that could not have been predicted and most likely would not have occurred if there had been no Japanese occupation.

Thailand would, for example, no doubt have industrialized in some fashion even in the absence of the war. It seems likely, however, that industrialization would not have happened as it did without reparations, a need to finance them, the consequent choice of a multiple exchange rate, and the Bank of Thailand to oversee its use for Phibun's programme to develop Thai industry. Nor, for that matter, might the Bank of Thailand have even existed in 1946 in the absence of occupation and the desire of Thailand's government to avoid total Japanese control of the money supply. Furthermore, it is hard to believe that industrialization would have occurred in the same way and with the same choice of targeted industries without these being directed at remedying wartime shortages. Likewise, industry would probably not have started from the same base in the 1950s: the advantages of having some abandoned Japanese machinery to draw on; the skills training of Thai during 1942-1945 for joint Japanese-Thai industrial ventures; and, crucially, the same imperative to recruit ethnic Chinese entrepreneurs for industrial ventures as was felt by Thai government bureaucrats and Japanese administrators when, in the form of Japan's capital and technical expertise, a seeming opportunity for rapid industrialization presented itself.

Three points may be made in regard to the above. One is the high subsequent interweaving of all these events, each of which can legitimately be regarded as a wartime legacy. Second, many different industrialization scenarios might have emerged without war and occupation, but whichever had transpired would almost certainly have been different from what actually happened and from the working out of the war's legitimate legacies. Third, a disclaimer is in order: an aim of this dissertation is to establish wartime events and assess their interrelationships. That task has not hitherto been attempted and

constitutes a full research agenda. To go beyond this would require using the material in the dissertation to construct a testable economic model. While the validity of such a model for the whole of Thailand is more than questionable, it could possibly be constructed, to use the example already discussed, for possible alternative industrialization paths. That would involve, as Robert Fogel suggested for historians, the construction of ‘a set of general statements that will allow him to deduce a counterfactual situation from institutions and relationships that actually existed’ and to formulate a construction that can be tested econometrically.⁴ The task of this dissertation is more modest: identifying actual events, weighing their likely subsequent importance, and untangling, in chapters 7 and 8, the complexities between them as they unfolded in 1950s Thailand.

In the course of the dissertation, eight main legacies will become apparent. Three are financial: the founding of the Bank of Thailand; the expansion of the Thai commercial banking system after Japanese expulsion of European financial institutions; and the consequences of high wartime inflation due to the departure from traditionally conservative Thai monetary policy, a departure which greatly alarmed Price Wiwat and others. Another two legacies can be regarded as structural: a diversification of Thai agriculture from its remarkably high pre-war concentration on rice and the advance of industrialization, planned in the 1930s but still no more than embryonically realized in 1941. Industrialization during the war and after was, of course, strongly influenced in choice of industry and probably also timing by yet two further legacies: state reaction to wartime shortage and the ready availability of Japanese machinery along with a Japanese-trained factory workforce. Overarching in the drive to industrialize was that the war left a legacy for the political economy of a Thailand in which capitalists and powerful

⁴ Robert William Fogel, ‘The Specification Problem in Economic History’, *The Journal of Economic History* 27, no. 3 (September 1967): 283–308, p.285.

government banded together and solidified their hold on power and resources.

Bureaucratic capitalism, which, this dissertation will argue, was what this banding amounted to, had roots in the late 1930s but gained considerably during the war, prior to its flowering in the 1950s. The eighth, and last obvious legacy, was civil service corruption. While, no doubt, some civil servants were corrupt before the war, during it corruption became a survival necessity as inflation eroded real wages. The civil service never recovered after the war and during the 1950s corruption remained endemic and ubiquitous.

The interrelations among all these legacies makes any ranking difficult. One approach might be to consider which of the legacies would, in the absence of war, have been most unlikely to have occurred. In this circumstance, arguably inflation and probably civil service corruption should be singled out. Nor might Thai commercial banking have gained the same strong footing that it was able to during the war, at least not so soon as this happened. Such an approach, however, can at best be informed speculation. The present dissertation, instead, attempts to establish the course of wartime events and to trace how one fed into another to shape 1950s Thailand.

Contribution of the dissertation

Understanding the shocks and legacies of the Second World War fills in an important gap in the historiography of Thai economic history, offers a new perspective on post-war economic changes, and contributes to debates on economic growth.

Economic historians of Thailand have almost entirely ignored the Japanese occupation as an integral episode of Thai economic development. Scholars who consider general development, while doing essential groundwork, almost invariably pass lightly over World War II and mention only briefly the high inflation and disrupted international trade. James Ingram and Sompop Manarungsan, two of the most significant scholars on

Thai economic history, have largely overlooked the war even though their research theoretically ends in 1950.⁵ Chris Baker and Pasuk Phongpaichit have done important work on the political economy of Thailand, and are critical of bureaucratic capitalism, but spend little time studying the effects of the Japanese occupation on capital and power consolidation of the military.⁶ Similarly, Thomas Silcock and David Feeny study both pre- and post-Second World War economic development but do not integrate the war into a full narrative of long-term growth, and thus miss the occupation's important effects on subsequent economic development.⁷

Others, such as Peter Warr, Medhi Krongkaew, Robert Muscat, and Richard F Doner, begin their narrative in the late 1940s or 1950s and treat the war as an anomaly rather than an integral part of Thailand's developmental trajectory.⁸ While Thailand's post-war economic history is replete with research questions to be answered and can offer interesting perspective on economic growth, integrating the legacies of the Second World War into the narrative can offer a long-term insight into the basis of Thai post-war economic development.

⁵ James C. Ingram, *Economic Change in Thailand, 1850-1970* (Stanford, 1971); Sompop Manarungsan, *Economic Development of Thailand, 1850-1950 : Response to the Challenge of the World Economy*, 1989.

⁶ Pasuk Phongpaichit and Chris Baker, *Thailand's Boom and Bust* (Chiangmai, 1998); Chris Baker and Pasuk Phongpaichit, *A History of Thailand*, 2nd ed. (Cambridge, 2009); Pasuk Phongpaichit and Chris Baker, *Thailand: Economy and Politics* (Oxford, 1995).

⁷ Thomas H Silcock, 'Outline of Economic Development 1946-65', in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 1–26; Thomas H Silcock, *The Economic Development of Thai Agriculture* (Ithaca, 1970); David Feeny, *The Political Economy of Productivity* (Vancouver, 1982).

⁸ Peter G Warr, *The Thai Economy in Transition* (Cambridge, 1993); Medhi Krongkaew, ed., *Thailand's Industrialisation and Its Consequences* (New York, 1995); Robert Muscat, *Thailand, a Strategy for Development* (New York, 1965); Robert Muscat, *The Fifth Tiger: A Study of Thai Development Policy* (New York, 1994); Richard F. Doner, *The Politics of Uneven Development: Thailand's Economic Growth in Comparative Perspective* (Cambridge, 2009).

Akira Suehiro's research on capital accumulation in Thailand discusses how Sino-Thai capitalists built up wealth, began private financial ventures, and consolidated political power through partnership with powerful politicians in the 1940s and 1950s.⁹ In his studies, he includes the war years in what he deemed a period of economic nationalism and bureaucratic capitalism from 1932 to 1957, but does not closely consider the details regarding Thailand's experience between 1941 and 1945. Similarly, Unger studies the building of capital and social in Thailand in the post-war period and finds that personal relationships among the elite dominate the country's economy.¹⁰ This dissertation not only adds new sources and analyses to the study of capital accumulation, but argues that a study of capital accumulation is not complete without examination of the war years.

Another important historian on Thai capitalist development is Pannee Bualek. Her works focus largely on how the Japanese empire played a role in Thai capitalism and the development of commercial banks.¹¹ My research supports her findings, but expands the scope beyond capitalists and cooperation: While Bualek mentions the number of notes printed for the Japanese army, I explain the mechanism of money creation as well as the effects of inflation on the population. Bualek's main findings deal with the cooperation between Japanese companies and the Thai government and capitalists during the war. I examine the consequences of these Japanese companies utilising limited Thai resources,

⁹ Akira Suehiro, *Capital Accumulation in Thailand* (Tokyo, 1989).

¹⁰ Danny Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure* (Cambridge, 1998).

¹¹ Pannee Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]* (Bangkok, 1997); Pannee Bualek, *วิเคราะห์นายทุนธนาคารพาณิชย์ของไทย 2475-2516 (Thai Commercial Bank Capitalists, 1932-1973)* (Bangkok, 1986); Pannee Bualek, *ลักษณะของนายทุนไทยในช่วงระหว่าง พ.ศ. 2457-2482 (Characteristics of Thai Capitalists 1914-1939)* (Bangkok, 2002).

such as why Thai-run factories struggled during the occupation, as well as the resulting shortages of consumer goods, smuggling, and drop in the standard of living.

Scholarship on the economic consequences of the occupation tends to focus on commercial rice production in Southeast Asia. Work by Benjamin A. Batson and Paul Kratoska on the disruption of the rice trade and food supplies in Southeast Asia offers crucial perspective on both Thailand's economy and living standards under the Japanese occupation.¹² While rice was indeed by far Thailand's largest industry, this dissertation seeks to widen the scope of enquiry to other vital aspects of the economy fundamentally affected by war and occupation.

Important scholarship on Japanese imperial policies and attitudes, such as the work of Bruce E Reynolds and Willam Swan, is useful for understanding Japan's treatment of Thailand during the war, along with Japanese aims and goals for taking over Southeast Asian.¹³ This literature tends to rely on Japanese sources, and thus may not provide the full picture of the occupation. A different body of primary sources, especially those from the National Archives of Thailand, can offer not only a different perspective, but also insight into the implementation of these policies and their real effects on Thai people.

Studies that focus on the Thai-Japanese financial relations during the occupation, such as those of Swan and Gregg Huff and Shinobu Majima, contribute an understanding of the unravelling effects of occupation on the real economy and other sectors, such as

¹² Benjamin A. Batson, 'Siam and Japan: The Perils of Independence', ed. Alfred McCoy, *Southeast Asia under Japanese Occupation* (New Haven, 1980), 267–302; Paul H. Kratoska, 'Impact of the Second World War on Commercial Production in Mainland Southeast Asia', ed. Paul H. Kratoska, *Food Supplies and the Japanese Occupation in Southeast Asia* (Houndmills, 1998), 9–31.

¹³ E. Bruce Reynolds, 'Anomaly or Model? Independent Thailand's Role in Japan's Asian Strategy 1941-1943', ed. Peter Duus, Raymond H. Myers, and Mark Peattie, *The Japanese Wartime Empire, 1931-1945* (Princeton, 1996), 243–73; Swan, 'Japan's Intentions'.

agriculture and manufacturing.¹⁴ Nevertheless, these studies tend to concentrate on fiscal and monetary considerations, and this dissertation aims to build on their findings as well as include broader economic impact and social issues. Japan's extraction of resources from Thailand affected agriculture and manufacturing; and the rapidly rising cost of living had profound effect on the standard of living of both skilled and unskilled wage-earners during and after the war.

Historians of the Thai resistance, such as Batson and Reynolds, underline political tension but overlook the economic strain of the occupation.¹⁵ It is important to remember that the Free Thai Movement played an important role in post-war international relations between Thailand and the United States, especially in the latter country extending economic aid to Thailand. This dissertation aims to expand the scope of primarily political studies and link the politics of pre- and post-Second World War Thailand to its economic development.

Scholars paint a mixed picture of the immediate post-war economic development of Thailand. GDP figures indicate a growing manufacturing sector; and many researchers acknowledge that industrial capacity expanded during this period even though state-led manufacturing was inefficient, haphazard, and lacked a clear strategy.¹⁶ Other economic

¹⁴ Gregg Huff and Shinobu Majima, 'Financing Japan's World War II Occupation of Southeast Asia', *Journal of Economic History* 73, no. 4 (2013): 938–78; William L. Swan, 'Thai-Japan Monetary Relations at the Start of the Pacific War', *Modern Asian Studies* 23, no. 2 (1989): 313–47; Direk Jayanama, *Siam and World War II*, trans. Jane Godfrey Keyes (Bangkok, 1978).

¹⁵ E. Bruce Reynolds, *Thailand's Secret War: The Free Thai, OSS, and SOE during World War II* (Cambridge: Cambridge University Press, 2005); Batson, 'Siam and Japan'.

¹⁶ Kevin Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand* (New Haven, 1989); Kevin Hewison, 'The State and Capitalist Development in Thailand', in *Southeast Asia: Essays in the Political Economy of Structural Change*, by Richard A. Higgott and Richard Robison (London, 1985); Ingram, *Economic Change*; Silcock, 'Outline of Economic Development 1946-65'; Andre Mousny, *The Economy of Thailand: An Appraisal of a Liberal Exchange Policy* (Bangkok, 1964); Muscat, *Thailand, a Strategy for Development*.

historians emphasise that, along with bureaucratic inadequacies, corruption and rent-seeking were prominent features of the 1950s. These historians argue that state-led industrialisation entrenched economic and political power among the ruling elites and wealthy Sino-Thai capitalists, leading to a manufacturing sector that may be ‘growing’ but at a cost too high for the kingdom.¹⁷ This dissertation contributes to and complicates this debate with new findings, and argues that Thailand’s industrial capacity expanded due to the war and paved the way for post-war import-substitution industrialisation.

Many have explored in a political economy context the conditions that played a role in these economic changes in the 1950s. Riggs’ study of the ‘bureaucratic polity’ of Thailand is a pillar for many scholars.¹⁸ He argued that bureaucrats had replaced the monarchy as the centre of power, and that they organised the state and the economy according to their own interests. The Sino-Thai entrepreneurs became ‘pariahs,’ whose wealth was extracted by the politically powerful. Scholars such as Doner, Ramsey, Rock, and Laothamas argue that clientelism was an important component of post-war Thailand, that institutions and overlapping powers of various bureaucracies limited rent-seeking abilities of any one governmental organisation, and that eventually bureaucratic polity gave way to a more liberal corporatism in which businesses had more power in their relationship with the state.¹⁹ All of these components can be better understood within the

¹⁷ Suehiro, *Capital Accumulation*; Phongpaichit and Baker, *Thailand: Economy and Politics*; Baker and Phongpaichit, *A History of Thailand*; G. W. Skinner, *Chinese Society in Thailand: An Analytical History* (Ithaca: Ithaca: Cornell University Press, 1957); G. W. Skinner, *Leadership and Power in the Chinese Community of Thailand* (Ithaca, 1958); G.A. Marzouk, *Economic Development Policies: Case Study of Thailand* (Rotterdam, 1972); Fred W. Riggs, *Thailand: The Modernization of a Bureaucratic Polity* (Honolulu, 1966).

¹⁸ Riggs, *Thailand: The Modernization of a Bureaucratic Polity*.

¹⁹ Richard F. Doner and Ansil Ramsay, ‘Competitive Clientelism and Economic Governance: The Case of Thailand’, in *Business and the State in Developing Countries* (Ithaca, 1997), 237–76; Richard F. Doner and Ansil Ramsay, ‘Rent Seeking and Economic Development in Thailand’, in *Rents, Rent-Seeking, and Economic Development: Theory and Evidence in Asia* (New York, 2000), 145–81; Michael T Rock, ‘Thailand’s Old

context of the Japanese occupation. The war strengthened Thailand's bureaucratic polity; and many wealthy Sino-Thais accumulated capital between 1941 and 1945. The impact of the Second World War on Thailand, thus, still needs to be assessed and incorporated into an analysis of Thai political economy.

In attempting to do this, the dissertation invariably engages with debates about economic development and growth in Thailand. The findings of this dissertation support the arguments of scholars pointing to external factors and state intervention as key in shaping economic change in Thailand. Indeed, the Second World War was an important shock that exposed Thailand's weaknesses of being reliant on imports for necessary goods and reinforced the drive for industrialisation. The state played a key, if contradictory, role in creating an industrialisation drive, but also in hindering growth with lack of transparency and corruption.

Ingram identifies the lack of supply of power, capital, and human capital, along with a small domestic market and corruption of officials as important obstacles for pre-war industrialisation.²⁰ Bell and Tai, and Ayal point to pre-war economic conditions, namely the rice trade, which did not lay the basis for increasing productivity.²¹ The main debates, however, tend to involve why these difficulties were not overcome.

The literature remains divided on whether the main impetus to growth was inaction from conservative elites, or economic and political constraints imposed by the threats of

Bureaucratic Polity and Its New Semi-Democracy', in *Rents, Rent-Seeking, and Economic Development: Theory and Evidence in Asia* (New York, 2000), 182–206; Anek Laothamas, *Business Associations and the New Political Economy of Thailand: From Bureaucratic Polity to Liberal Corporatism* (Boulder, 1992); Anek Laothamas, 'From Clientelism to Partnership: Business-Government Relations in Thailand', in *Business and Government in Industrialising Asia* (Ithaca, 1994).

²⁰ Ingram, *Economic Change*, pp.134, 148.

²¹ Peter F. Bell and Janet Tai, 'Markets, Middlemen, and Technology: Agricultural Supply Response in the Dualistic Economies of Southeast Asia', *Malaysian Journal of Economic Studies*, 1969; Eliezer B. Ayal, 'Some Crucial Issues in Thailand's Economic Development', *Pacific Affairs*, no. Summer (1961).

colonialism. Scholars like Narthsupa et. al, Manarungsan, and Feeny argue that the lack of development was because modernisation and economic development were not in the interests of the elites, similar to findings of large cross-sectional studies by Acemoglu and Robinson.²² Larsson and Brown are among those who disagree, noting that security threats of western imperialism took precedent and that Thai elites did try to modernise under these strict economic and political constraints.²³ While my research focuses on a later period, it can throw light on the importance of external factors and elites' struggles to overcome them. The Thai government's attempts to industrialise, especially during the Japanese occupation, were hindered by political and material limitations. Once the restrictions of war were lifted, the same set of elites was able to draw on their experiences during occupation and expand Thailand's industrial capacity. Indeed, works by Stubbs, Feeny, Slater, and Doner et al. on later periods find that when circumstances change so that security, financial benefits, and growth were compatible, Thai elites were driven to modernise.²⁴

²² Chattip Narthsupa, Suthy Prasartset, and Montri Chenvidyakarn, *The Political Economy of Siam* (Bangkok, 1981); Benedict R. Anderson, 'Studies of the Thai State', in *The Study of Thailand: Analyses of Knowledge, Approaches and Prospects in Anthropology, Art History, Economics, History and Political Science*, ed. Eliezer B. Ayal (Athens, 1978); Manarungsan, *Economic Development*; Feeny, *The Political Economy of Productivity*, p.2; Daron Acemoglu and James A. Robinson, 'Economic Backwardness in Political Perspective', *American Political Science Review* 100, no. 1 (2006): 115–31.

²³ Tomas Larsson, *Land and Loyalty: Security and the Development of Property Rights in Thailand* (Ithaca, 2012); Ian Brown, *Economic Change in Southeast Asia, c.1830-1980* (Kuala Lumpur, 1997).

²⁴ Richard Stubbs, *Rethinking Asia's Economic Miracle: The Political Economy of War, Prosperity, and Crisis* (Basingstoke, 2005); Richard Stubbs, 'War and Economic Development: Export-Oriented Industrialization in East and Southeast Asia', *Comparative Politics* 31, no. 3 (1999): 337; Feeny, *The Political Economy of Productivity*; Dan Slater, *Ordering Power: Contentious Politics and Authoritarian Leviathans in Southeast Asia* (Cambridge, 2010); Richard F. Doner, Bryan Ritchie, and Dan Slater, 'Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective', *International Organisation* 59, no. 2 (2005): 327–61.

At the same time, historians point to strong states and institutions, as interventions from ‘developmental states’ that can lead to growth in contrast to extractive governments that exploit and seek rents.²⁵ The Thai post-war state consisted of both rent-seeking elements and institutions that prevented exploitation from being too costly.²⁶ My research shows that these characteristics are not mutually exclusive and a strong institution can balance out the graft of extractive states. Indeed, many elites benefitted financially from government capture of industrialisation; but an effective institution such as the Bank of Thailand could curb corruption and rent-seeking from bureaucrats.

Many scholars that have studied Thai financial development, while undertaking crucial research, have not considered Thailand’s experience between 1941 and 1945 in the larger narrative. Huff’s studies of Southeast Asian financial development either stop at the beginning of the Second World War, focus on the hyperinflation during the war, or acknowledge the differences between pre- and post-war financial systems in different countries.²⁷ Rozental and Trescott, on the other hand, focus on post-war financial development and monetary changes in Thailand.²⁸ Ingram’s brief discussion on Thailand’s wartime finance and the studies of the multiple exchange rates by Yang, Mousny, and

²⁵ Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge, 2004); Slater, *Ordering Power: Contentious Politics and Authoritarian Leviathans in Southeast Asia*; Andrew MacIntyre, ‘Business, Government and Development: Northeast and Southeast Asia Comparisons’, in *Business and Government in Industrialising Asia* (Ithaca, 1994).

²⁶ Doner and Ramsay, ‘Competitive Clientelism and Economic Governance: The Case of Thailand’; Doner and Ramsay, ‘Rent Seeking and Economic Development in Thailand’; Muscat, *The Fifth Tiger: A Study of Thai Development Policy*.

²⁷ Gregg Huff, ‘Finance and Long-Term Development Issues in Southeast Asia’, n.d.; Gregg Huff, ‘Financial Transition in Pre-World War II Japan and Southeast Asia’, *Financial History Review* 14, no. 2 (2007): 149–75; Gregg Huff, ‘Monetization and Financial Development in Southeast Asia before the Second World War’, *Economic History Review* 56, no. 2 (2003): 300–345; Gregg Huff, ‘Finance for War in Asia and Its Aftermath’, in *The Cambridge History of the Second World War*, ed. Michael Geyer and Adam Tooze, vol. 3 (Cambridge, 2015), 56–93.

²⁸ Paul B. Trescott, *Thailand’s Monetary Experience: The Economic Stability* (New York, 1971); Alek A. Rozental, *Finance and Development in Thailand* (New York, 1970).

Corden consider the impact of the Second World War on Thailand's exchange rate systems. This body of research serves as the basis for this dissertation, but I take a further step by explaining the changes with Thailand's wartime experiences, and to include legacies of the war, namely the Bank of Thailand and the rise of commercial banks, in the discussion.²⁹

Sources

Due to Thailand's complex situation and the multifaceted nature of this study, I consult a variety of sources: primary sources from Thailand, Japan, the United States, and the United Kingdom. Though each type of source has different benefits and drawbacks, together they contribute to understanding the impact and effects of the Japanese occupation on Thailand.

Thai archival sources

The dissertation draws extensively on primary sources from the National Archive of Thailand (NAT). These are mostly internal government documents, communications, and policies stored by the Department of the Secretariat of the Cabinet. Others come from the Ministries of Foreign Affairs, Industry, Finance, and Economic Affairs. The Department of the Secretariat of the Cabinet stored sources from other governmental organisations not only because it was the centre for many government procedures and communications, but also because its stability throughout the 1940s and 1950s aided preserving records in one place. Numerous bureaucratic changes took place during the 1940s. For instance, the Ministries of Industry and Public Health were founded in 1941

²⁹ Ingram, *Economic Change*, pp.163-70; Shujin Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand's Experience, 1946-1955* (Madison, 1957); Mousny, *The Economy of Thailand: An Appraisal of a Liberal Exchange Policy*; W.M. Corden, 'Exchange Rate and Taxation of Trade', in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 151–69.

and 1942 respectively; the Ministry of Economic Affairs was abolished and the Ministry of Economics established in its place in 1941.

Archival sources are not evenly spread throughout the four years of occupation. There are more surviving documents from 1942 and 1943 than 1944 and 1945, because as the war continued paper became increasingly scarce. This is also evident in the physical documents themselves, as towards the end of the war bureaucrats began reusing pieces of paper, scratching out old messages and scribbling new ones. Despite their shortcomings, these materials are valuable in re-constructing the effects of the Japanese occupation and the Thai government's policy reactions to them.

Many of these sources have not been studied in the context of economic history, or at all. These materials have remained mostly unused due to language barriers. Phibun 'simplified' the Thai language to retain the pronunciation of words but alter their spelling. This change makes it more difficult for non-native speakers to read these primary sources.

Official published documents

This dissertation utilises a variety of statistical information from governmental published sources, namely the Statistical Yearbooks of Thailand, the Bank of Thailand Yearly Reports, figures from the National Economic and Social Development Board, and various censuses and official surveys. While there are reservations about the accuracy of trade statistics and balance of payments, especially those not from the Bank of Thailand, these data are indicative of overall economic changes.³⁰ Additionally, statistics were collected for administrative purposes and at times overlook some aspects of the economy. For instance, data on rice yields are extensive; however, there are few materials on the home production of textiles or cottage industries. These statistics largely reflected the export-oriented Bangkok more than the subsistent countryside. The other shortcoming of

³⁰ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.53.

these data is that their reliability depends on the administrative capacity of the Thai state. There is limited statistical data for pre-war Thailand. Post-war data collection was superior, especially with the aid of American advisers and funding. Quantitative comparisons between pre- and post-war statistics, thus, are kept to a minimum and approached cautiously.

Japanese and Western primary sources

There are few available Japanese archival sources: Much of wartime Japanese records was burned or otherwise destroyed before, or soon after, Japan's surrender on 15 August 1945. The existing materials from the National Archives of Japan throw light on Japanese investment in Thailand, the Japanese attitude towards Thailand, and the extent of Japan's ability to assist or manage its empire during the occupation.

Further information is available from documents from the National Archives at Kew and the National Archives and Records Office in Washington, DC. British archival sources mostly include intelligence materials and reports from the British India Colonial Office registers. After the war began, American primary materials become more useful and extensive. These include declassified intelligence reports from the Office of Strategic Services and the United States Army's Signal Intelligence Service descriptions (known as the 'MAGIC' summaries), along with papers from the US Department of State and Foreign Affairs, and economic foreign aid information from the American Mission to Thailand. Western wartime intelligence reports, while informative, are usually summaries and analysis from the agencies, which could colour the information in certain ways. Post-war reports from the economic missions and aid programs offer an important outsider point of view on Thailand's economic and social situation. While one must keep in mind that the United States' main mission in the kingdom was to prevent Thailand from falling to communism, the materials from American officials are helpful in countering the perspective of Thai bureaucrats.

Thai newspapers

During the war, the Thai government had some control over the press and allocated scarce newsprint to newspapers. While publications, such as *Bangkok Times* which began publication in 1887, might not have full freedom to print political commentary, their reports on economic or social events during the war can still be utilised. More surviving newspapers can be found for the post-war period, and clippings of these are stored in the National Archives of Thailand. These newspapers include *Pimthai*, *Siamrat*, *Toedthai*, *Siamnikorn*, *Democracy*, *Sarnseri*, *Srikrung*, and *Daily Trade News*, with issues ranging from 1953 to 1957. The choice of clippings was not random; and it is unclear whether archivists or bureaucrats were responsible for the selection. Nonetheless, these clippings include both articles criticising and commending government officials and policies. Additionally, often the names of the authors were not published along with their articles, suggesting that no particular journalists were favoured. While newspapers articles are by no means objective, their content can offer an important perspective on the opinions of private citizens and the public on current issues.

Letters

Letters of complaint addressed to the government, are utilised throughout the dissertation, especially in chapters 5 and 6. This is not only to bring life to numbers, but also to depict social consequences of the economic shock of the war. The letters can be used to illustrate the plight of everyday people for Thailand as Kerkvliet did for the Philippines, and to shift the focus away from the government and high ranking officials to try to capture how Thai people lived and reacted to the consequences of war.³¹

³¹ Benedict Kerkvliet, 'Withdrawal and Resistance: The Political Significance of Food, Agriculture, and How People Lived during the Japanese Occupation in the Philippines', in *Agriculture and Food Supply in the Second World War* (Ostfildern, 1985), 297–316, p.298.

During the Japanese occupation, the Thai government received several hundred letters a month to complain about economic hardship and bureaucratic inefficiencies. This is not unprecedented in Thai history: during the Great Depression, the middle class wrote to daily newspapers, often under pseudonyms, to air their grievances.³² The practice was revived again during the occupation.

Most of the surviving letters were written between 1942 and 1943. There are no records of correspondence received prior to the 1940s. It is thus difficult to ascertain whether the onset of the occupation altered the Thai quality of life so drastically that citizens were prompted to write messages of complaint to the government, or if the state was receiving the usual number of letters. There is also little explanation of why the letters ceased, or were no longer kept, after 1943. Possibly, that the change in government diverted such correspondence elsewhere. People may also simply have stopped communicating for a myriad of different reasons: hopelessness, less faith in the new regime, or basic lack of access to writing materials since by 1944 paper and newsprint were hard to obtain.

There is no evidence of the regional variation of the surviving letters, as they were stored without their envelopes or addresses of the writers. Many correspondents, however, disclose their locations either through their pseudonyms, such as ‘Chiangmai brothers’ (Chiangmai is a province in northern Thailand), or self-identification, like Thongmuan Atthakorn who was a member of parliament from Khon Kaen province in the northeast. The letters, thus, were not just from within the capital.

Authors of these letters were not representative of the entire Thai population. According to the 1937 and 1947 censuses, the literacy rate was 31.2 per cent and 53.7 per

³² David K. Wyatt, *Thailand: A Short History* (New Haven, 2003), p.229.

cent respectively.³³ This rise in literacy in only ten years can be explained by the decrease in Chinese immigration, the Compulsory Education Act 1933, and greater educational expenditure. The end of large Chinese migration increased overall literacy rate in Thailand, as immigrants were usually labourers and illiterate at least in Thai. To combat ethnic Chinese schools, the Compulsory Education Act decreed that Chinese children were to receive Thai education, and limited the curriculum of alien schools to teaching Chinese language for only seven hours maximum each week.³⁴ The Ministry of Education was also given a large budget, roughly 10 per cent of annual ordinary expenditures, even under the Japanese occupation. Usually 50 per cent of the ministry's spending was to fund primary schools.³⁵

The writers of these letters were likely at least middle class; many self-identified as retired or local politicians. Most of those in the working class, especially in the agricultural sector, were probably illiterate and, unlike their more educated counterparts, could not pen their troubles to the Prime Minister. There were, however, a few writers who mentioned their labouring jobs in mines or sawmills.³⁶ Despite these shortcomings, the letters and their contents are an illuminating historical resource.

Since this kind of correspondence is intended to evoke sympathy and elicit government action, there exists a possibility of exaggeration or overstatement of misfortune. The claims of correspondents can, however, be checked against other sources, such as governmental reports or contemporary newspapers. The officials in charge also

³³ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, 1939, p.74; Thailand Central Service of Statistics, *Statistical year book Thailand 1942-1945*, 1945, p.47.

³⁴ Ingram, *Economic Change*, p.229.

³⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.3.1/8, 'งบปีรายได้ประจำปี (Government annual revenues),' 1953, pp.12-14.

³⁶ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/898 ผู้ใช้นามว่า หมายเลข 7. ขอให้ช่วยสงเสริมก.ครองชีพของราษฎร ('Number 7' asks for pecuniary assistance for citizens), 1942.

scribbled comments in the margins, either confirming or negating the validity of complaints. Identities of the writers can also provide further means of verification, though some used pseudonyms or remained anonymous.

Rural surveys and anthropological studies

Finally, this dissertation utilises on the rural economic surveys conducted by Carl C. Zimmerman and James M. Andrews in 1931 and 1935 respectively, as well as anthropological studies, notably of John de Young. The rural surveys were conducted prior to the Second World War, and de Young's after. The true impact of the Japanese occupation, thus, is not captured in either of the accounts. Nonetheless, these materials offer information on the lives of Thailand's rural population in the period, ranging from what they ate to how they spent money, and complement macro-level data from other sources.

Structure of the dissertation

The dissertation is structured as follows: The first chapter explains the economic, social, and political context of Thailand, Southeast Asia, and Japan. It also discusses the Chinese minority, an important and economically influential group in Thailand, along with the community's social and political reactions to the Japanese presence in the kingdom. Chapter 2 examines the macroeconomic changes in Thailand's GDP and disruption of trade during the war, and argues that Thailand's GDP did not fall as drastically as the rest of their neighbours because of the kingdom's uniqueness within Southeast Asia. Chapter 3 considers the financial cost of supporting the Japanese army, and its effects on the development of Thailand's public and private financial sector. It finds that the Second World War led to a rapid increase in money supply and large government deficits, and argues that Thailand's economic structure and loss of Japanese shipping helped to prevent inflation from skyrocketing. Chapter 4 focuses on wartime industrialisation and focuses on the ventures undertaken by the Thai state to compensate for the loss of imports, and on the

obstacles the Thai government faced. Chapter 5 analyses the scarcity of goods, explores the various ways the Thai government coped with shortages, and concludes that there were not enough goods in the country for effective rationing. Additionally, corruption and lack of government enforcement power rendered the system inefficient. Chapter 6 utilises various measures of standard of living to show how Thailand's population was affected by the war, the scarcity of medical supplies, and the rising cost of living. The final two chapters consider the aftermath and impact of the Second World War on Thailand. Chapter 7 discusses war damage to and wartime legacies affecting Thailand's rice and financial industries. Remedies for these problems enabled a quick stabilisation of the economy and served as the means to fund post-war state-led industrialisation, which is analysed in detail in the chapter 8. It argues that the war played an important role in industrial development in the 1950s. The chapter demonstrates how an understanding of the Second World War's role in Thai history furthers a long-term narrative of modern Thai economic change.

Chapter 1 Background and context

Introduction

A small portion of the Thai population concentrated in Bangkok, the administrative and commercial hub, while the rest engaged in either export-oriented or subsistence agriculture in the countryside. In the 1930s, economic and social changes, along with the Great Depression, gave rise to a right-wing, nationalistic government. At the same time, economic opportunity created by growth, labour shortages, and an open-door policy until the 1930s led to mass Chinese immigration. Although Thai-Chinese racial tension was always apparent, it increased during the Great Depression when agricultural prices fell and Thai peasants felt at a disadvantage to their Chinese counterparts. Anti-Chinese feeling, partly stirred up by the state, created fertile ground for exploitation by the government during the war when Thailand's population suffered shortages of many of the goods on which it had long depended.

Export specialization in rice from the late 1870s, although fuelling economic growth, left Thailand on the eve of World War II still only minimally industrialised and dependent on imports for almost all basic consumer goods. Thai public finance was underdeveloped; commercial banking mainly existed to finance trade while Thai cultivators relied on informal credit. Apart from foreign private industries in agricultural processing, industrial development was slow despite government support.

As the Second World War began, Japan sought to establish an autarchic wartime empire and saw Thailand as a source of raw materials as well as a strategically important ally. With little economic and military capacity, Thailand fell under Japanese occupation in 1941. The occupation engendered small-scale hostilities between Thai civilians and Japanese soldiers, as well as formal resistance that would continue to have long-lasting effects on Thailand's international relations.

1.1 The Thai population in the 1930's

This section draws on the official census of 1937 and rural surveys to describe Thailand's population in the 1930s. These sources reveal that Bangkok had a disproportionately large population to urban areas in the rest of the country. Many of those in Bangkok were ethnically Chinese. Outside of the capital, most ethnic Thais engaged in agriculture.

The Thai census needs to be regarded with some caution. Censuses are generated and recorded by officials with agendas; these officials decide which characteristics of the population are important to document and which are not. Under-enumeration was undoubtedly an issue, as Thai administrative capacity was lacking and many immigrants would have avoided census enumerators.

To supplement the census, rural surveys by Carle Zimmerman and James M Andrews are utilised. As part of the International Council of Missions in 1930-1931 and 1934-1935 respectively, these men and their teams spent a year travelling to all four regions of Thailand and each surveyed 40 villages, totalling over 9,000 individuals. Both Zimmerman and Andrews were conscious of the difference in lifestyle and standard of living in the central towns and rural villages, and thus made certain that most of the villages in the sample were located well away from administrative hubs.³⁷

According to the 1937 census, Thailand had a population of just under 14.4 million, most of whom were Thai. The Chinese were the next biggest ethnic group (discussed further in section 1.5). Bangkok, the largest city had a registered population of over 680,000, but historians place Bangkok's population in the 1930s closer to one million.³⁸ Apart from a few smaller cities such as Nakhornratchasima, Mahasarakam, and

³⁷ Carl C. Zimmerman, *Siam Rural Economic Survey 1930-31* (Bangkok, 1931), p.10.

³⁸ Larry Sternstein, 'The Growth of the Population of the World's Pre-Eminent "Primate City": Bangkok at Its Bicentenary', *Journal of Southeast Asian Studies* 15, no. 1 (1984): 43-68, p.45.

Chiangmai, the rest of the country was sparsely populated and consisted of mostly farms and rice fields. Agriculture, forestry, and fishing were by far the largest occupation group and engaged nearly 90 per cent of the population (Table 1. 1).

On average, the country spent roughly a quarter of its monetary income on food – and this remains the same today (Table 1. 2).³⁹ While this proportion appears abnormally small for such a low-income country, the majority of Thailand’s population was engaged in subsistence farming, growing their own vegetables and producing their own rice, the staple grain of their diet. Many of those in farming households fished in nearby rivers and canals, and kept poultry, mostly to sell eggs or meat at the local markets. These markets played an important role in rural economies and in providing peasants with their full nutritional needs.⁴⁰

Regional differences in subsistence levels and reliance on markets are found in the rural surveys: Outside of Bangkok, roughly 45 per cent of all families purchased at least some rice, although to varying degrees (Table 1. 3). Those living in the fertile central plain only spent 16 per cent of their income on food. Peasants in the northeast region, which lacked soil suitable for rice cultivation, and the south, which was home to most of Thailand’s rubber plantations and tin mines, spent the largest portion of their incomes on food, namely between 16 and 30 per cent. Even so, roughly half of the households in the northeast and south did not need to buy any rice, the most important component of their diets. Indeed, even after the war, households in these areas still grew rice for their own consumption.⁴¹ That Thai peasants were relatively self-sufficient would later be an important buffer for the kingdom under the Japanese occupation.

³⁹ Brad Plumer, ‘Map: Here’s How Much Each Country Spends on Food’, *Vox*, 19 August 2015, <https://www.vox.com/2014/7/6/5874499/map-heres-how-much-every-country-spends-on-food>.

⁴⁰ John E. De Young, *Village Life in Modern Thailand* (Berkeley, 1955), pp.97, 99-100.

⁴¹ *Ibid.*, p.4.

Table 1. 1 Thai occupation groups for population 10 years and above, 1937

Occupation groups	Persons	Percentage
Agriculture, forestry, and fishing	6,823,556	89.8
Mining and quarrying	17,512	0.2
Manufacturing industry	110,362	1.5
Construction	22,828	0.3
Public services	106,925	1.4
Commerce	303,520	4.0
Transport, storage and communication	57,905	0.8
Services	160,007	2.1
Total	7,602,615	100.0

Source: Statistical Yearbook 1939-1944, pp.80-83.

Table 1. 2 Cash value (baht) and percentage of total expenditure of annual household incomes spent on food, 1930-31 and 1934-35

Region	1930-31		1934-35	
	Cash value	% of total expenditure	Cash value	% of total expenditure
Bangkok	85.96	24.05	64.72	
Central (except Bangkok)	60.62	16.63	48.31	17.37
North	44.29	23.23	16.1	20.22
South	35.3	26.10	23.92	28.99
Northeast	29.35	31.81	8.72	16.53

Source: Zimmerman, *Siam rural economic survey 1930-1931*, pp.113-116; Andrews, *Siam 2nd rural economic survey 1934-35*, p.194.

Table 1. 3 Proportion of families purchasing some of each food item, 1930-31 (%)

	Rice	Meat and salted meat	Sugar	Salt	Fish and salted fish	Other
Bangkok	64	78	100	100	94	100
Central (except Bangkok)	35.82	95.64	96.18	96.91	77.45	98.55
North	46.83	88.33	51	95.33	72.17	86.83
South	42.75	79	92.75	92.5	75.88	99.75
Northeast	53.37	73.12	68.62	65.12	36.75	76.87

Source: Zimmerman, *Siam Rural Economic Survey 1930-1931*, pp.117-120.

Apart from food, Thai civilians spent their monetary income mostly on ‘ecclesiastical costs’ (donations and maintenance of local temples and offerings to monks), clothing, household goods, and medicine (Table 1. 4). These spending patterns have implications for the Thai standard of living during the Japanese occupation. In every region, roughly 20 per cent of total Thai household expenditures were on ecclesiastical costs. It is possible that during difficult times like the Second World War, these donations to the temples would decrease. However, if these households were still spending as much as 20 per cent of income on their faith at the time of the Great Depression, it seems likely that they would continue to do so during the Japanese occupation. After all, monks did not grow food, shop, or cook for themselves and would still depend on the generosity of Buddhists even during a war. One must also take into account that most of the consumer goods regularly bought by Thai households would have been imported and then transported within the country from ports. Thai households’ access to these products during the war would therefore have been extremely limited and although this clearly affected the quality of life, it may also have freed income for ecclesiastical donations and so help to explain why these remained high during the war.

Table 1. 4 Average expenditures of Thai households by region, 1933-34 (nominal baht)

	<i>Central</i>	<i>North</i>	<i>South</i>	<i>North-east</i>
<i>Food</i>	49.8	16.1	23.9	8.72
<i>Clothing</i>	12.65	5.46	5.82	3.73
<i>Household</i>	10.18	4.46	5.84	3.33
<i>Medical costs</i>	5.45	1.47	2.93	0.52
<i>Ecclesiastical costs</i>	21.12	6.95	6.51	4.51
<i>Social costs</i>	2.58	1.38	0.69	0.64
<i>Extra civil Costs</i>	2.22	0.54	0.34	0.55
<i>Gambling losses and others</i>	1.19	0.02	1.88	0.24
<i>Total</i>	105.19	36.38	47.91	22.24

Source: Andrews, pp.194-201, 266-269

1.2 Political change in the 1930s

The 1930s was a decade of turbulent political and social changes. Within less than ten years, Thailand changed from an absolute monarchy to a *de facto* military dictatorship, and witnessed the rise of nationalism under the leadership of Field Marshall Plaek Phibunsongkram.

Siam suffered during the Great Depression, as the kingdom's main industry was rice and world agricultural prices fell drastically. Economic turmoil led to a revolution in 1932 by the People's Party, which replaced absolute with constitutional monarchy. At the beginning, the rule of the People's Party was plagued by an attempted rebellion, two attempted coups, and overall political infighting and instability. Eventually, in 1938, the country found a firm leader in Phibun, a military hero and one of the key players in the 1932 revolution. An admirer of Benito Mussolini and his brand of fascism, Phibun strived to build a new 'Thai' society through a cultural revolution.⁴² Phibun's 12 cultural mandates or *rattaniyom* were meant to build up a sense of national pride and strive towards a 'new, greater, and more civilised Thailand.' The military founded youth movements to indoctrinate boys and girls, as well as regulated monks and religious practices.⁴³

Accompanying political change was economic nationalism. Even before Phibun's rise, the Siamese government began limiting western influence and investing in various manufacturing sectors to diversify the country's economy.⁴⁴ Phibun's government took a more aggressive approach. For instance, the state launched 'Thais buy Thai' campaigns,

⁴² Thamsook Numnonda, 'Pibuldsongkram's Thai Nation-Building Programme during the Japanese Military Presence, 1941-1945', *Journal of Southeast Asian Studies* 9 (1978): 234-47, p.234.

⁴³ Phongpaichit and Baker, *Thailand: Economy and Politics*, pp.259-61.

⁴⁴ Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, pp.67, 71.

implying that supporting local instead of imported goods was part of one's patriotic duties.⁴⁵ The government also declared,

‘Any industry which the government desires to create but which is too big an undertaking for private persons, shall be started by the government in the form of a private corporation, having private individuals as share-holders and conducted semi-officially.’⁴⁶

The state's attempts to establish local textile, gunny, tobacco, and sugar sectors demonstrate this sentiment (section 1.4.3).

The pre-war oil industry is a prominent example of Phibun's resentment of foreign influence, and of how pursuing national control of industries without consideration of the immediate economic situation could harm the Thai economy. In the 1930s, the Thai oil industry was in the hands of three foreign enterprises: the Asiatic Petroleum Cooperation (Shell), Standard Oil, and Vacuum Oil Company. In 1939, the Phibun administration passed the Liquid Fuel Act which reserved all distillation of liquid fuel to the state. The Asiatic Petroleum Cooperation and Vacuum Oil left Thailand in protest. With Japanese technical assistance, the state began building a new refinery in Chong Nonsi district the following year. It imported expensive raw materials from the United States and Japan, and relied on Indonesia and British Borneo for crude oil. These areas were, however, under the control of the three companies whose very influence Phibun was trying to lessen. Due to the outbreak of war in Europe, oil from Denmark and Norway was also difficult to obtain. The unprepared Oil Fuel Department and the Ministry of Finance had to begin rationing benzene, gasoline, diesel, and various fuels even before the Japanese invasion.⁴⁷ After the

⁴⁵ Numnonda, ‘Pibuldsongkram's Thai Nation-Building Programme during the Japanese Military Presence, 1941-1945’, pp.235-6, 238.

⁴⁶ ‘Memorandum on the Economic Crisis in Siam’, *Memorandum (Institute of Pacific Relations, American Council)* 3, no. 23 (1934), p.3.

⁴⁷ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.147-151; Kate Louise Mitchell, *Industrialization of the Western Pacific* (New York, 1942), pp.174-175.

invasion, the shortage of fuels and lubricants worsened and rationing became imperative (chapter 5).

1.3 The Chinese minority in Thailand

The Chinese community in Thailand has always been economically important. The Chinese were concentrated in Bangkok and important in Thailand's lucrative rice trade. Their commercial success elicited hostility from both the nationalist government and Thai peasants in the 1930s and 1940s.

Before the war, Thailand witnessed an influx of Chinese migrants to work in its expanding agricultural export industries as middlemen. It was observed that 'no place south of China [was] the rendezvous of so many Chinese junks as Siam.'⁴⁸ The total number of Chinese residents in Thailand was unclear. According to the 1937 and 1947 censuses respectively, roughly 600,000 and 800,000 Chinese were living in Thailand, making up 4-5 per cent of the population.⁴⁹ These figures, however, were likely an undercount. Some scholars estimated roughly 1.7 million Chinese were residing in Thailand in 1937, or roughly 12 per cent of the population.⁵⁰

Chinese minorities were largely concentrated in Bangkok and accounted for roughly 60 per cent of the city's population.⁵¹ Some Chinese lived in the south, working on mines and rubber plantations. Indigenous Thais and Chinese were occupationally separate. Ethnic Thais remained largely in the agricultural sector, while Chinese migrants dominated commerce and industry. Their hold on rice milling was so strong that even

⁴⁸ Skinner, *Chinese Society in Thailand*, pp.29, 32, 35, 41, 43, 57-58.

⁴⁹ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, p.59.

⁵⁰ Skinner, *Chinese Society in Thailand*, pp.79, 81, 85, 87.

⁵¹ D. W. Fryer, 'The "million City" in Southeast Asia', *Geographical Review* 43, no. 4 (1953): 474-94, p.493.

western firms struggled to compete.⁵² Consequently, the Chinese minority not only controlled commercial channels, but also significantly profited from their roles as dealers and financiers in the rice export industry.⁵³ The Sino-Thai exhibited strong ties with the Kuomintang through many newspaper publications and boycotted Japanese imports upon Japan's invasion of Manchuria.⁵⁴

Phibun's economic nationalism included a dislike of Chinese influences on the Thai economy. Under his tenure, the government passed laws discriminating against and restricting Chinese participation in the economy. The administration raised immigration fees and barred ethnic Chinese from certain professions. The Phibun regime was concerned with supporting 'Thai' businesses, including state-operated ones. For instance, the government founded the Thai Rice Company to compete with Chinese millers, and it became the impetus for state intervention in other industries. Similarly, the government monopolised the production and distribution of salt; many tobacco factories were taken over by officials.⁵⁵ Social policies targeting the Chinese community were also instated. The state closed Chinese schools, and went as far as encouraging ethnic Thais to marry one another instead of 'aliens.'⁵⁶ Anti-Chinese sentiments became manifest in the 1930s, stoked by both the government and the Great Depression. Many Thai élites feared being 'swamped' within their own country by mass Chinese migration; the economic downturn caused many Thai peasants to think that they were exploited for Chinese financial gains.⁵⁷

⁵² James C. Ingram, 'Thailand's Rice Trade and the Allocation of Resources', in *The Economic Development of South-East Asia*, ed. C.D. Cowan (London, 1964), 102–26, p.104.

⁵³ Rhoads Murphey, 'New Capitals of Asia', *Economic Development and Cultural Change* 5, no. 3 (1957): 216–43, p.234.

⁵⁴ Skinner, *Chinese Society in Thailand*, pp.139, 237-238.

⁵⁵ Suehiro, *Capital Accumulation*, p.108-109.

⁵⁶ G. W. Skinner, 'Chinese Assimilation and Thai Politics', *Journal of Asian Studies* 16, no. 2 (1957): 237–50, pp.245-246.

⁵⁷ Skinner, *Chinese Society in Thailand*, pp.247-8.

Official dislike of the Chinese community – private citizens with the most capital – hindered pre-war industrial progress. An example of Chinese attempts to industrialise beyond rice milling and agricultural processing is the Min-sae Match Factory. Though the state should have welcomed the factory in a period of industrial promotion, the Thai government did not regard a Chinese company as ‘Thai,’ and refused to offer financial assistance as the state did for other industries (section 1.4.3).⁵⁸ The antagonistic relationship between the Chinese minority and the state would later be exacerbated by wartime shocks, and set the stage for post-war economic nationalism.

1.4 Economic changes up to 1941

1.4.1 Export-oriented agriculture and dual development

This section describes Thailand’s agricultural and economic development in the early 1900s, and demonstrates that the kingdom was almost completely oriented towards four main agricultural exported goods: rice, rubber, tin, and teak. While these exports drove economic expansion, they did not translate to much growth of GDP per capita.

In the early 19th century, Thai farmers were self-sufficient, producing little more than needed for local consumption and relying on local markets for other necessities. Exports constituted of only five per cent of Siam’s total crop yields. Neighbouring countries’ demand for Thai produce – mainly rice – was erratic, only increasing marginally due to immediate and temporary circumstances, such as wars or crop failures.

Throughout the course of the early twentieth century, the kingdom became highly specialised in rice, rubber, tin, and teak; and relied on imports for most everything else, including fuels, consumer goods, medicines, and textiles. After the arrival of western imperialism in Southeast Asia, Thailand emerged as the sole independent state, thanks to a degree of luck, geography, intelligent leaders, and the ability to pit one western power

⁵⁸ Bualek, *Characteristics of Thai Capitalists*, p.379-387.

against another. The kingdom, however, still felt the economic influence of Britain and France. The Bowring Treaty with Britain (1855) and cheap water transport opened the Siamese market, slowly monetised the economy, and led to a realisation of the value of rice in the global market. At the same time, European demand for primary goods oriented other Southeast Asian countries towards focusing on a few cash crops and the production of primary commodities such as tin, requiring these countries to import rice from Thailand to feed their populations. By the 1930s, rice grew to make up 50-60 per cent of total Siamese exports; roughly 90 per cent of total cultivated area was used to grow rice. Apart from rice, Thailand exported teak, produced in the north, and rubber and tin, cultivated and mined in the south (Table 1. 5).⁵⁹ Other minor crops grown in provincial Thailand included sugar, tobacco, opium, chilies, soybeans, and onions. Household cotton was also common in pockets far from the capital.⁶⁰

The growth of these exports did not greatly increase living standards.⁶¹ It is true that between 1880 and 1913, the economies of many tropical countries, Thailand among them, expanded as rapidly as their industrialised counterparts.⁶² Thai GDP per capita, however, provides a less positive picture. Despite a two per cent annual growth in total output in 1913 and 1929, per capita GDP decreased by 0.36 per cent (Table 1. 6 and Table 1. 7). Unlike industrialised countries such as the United States or Japan, Thailand's growth was extensive (utilising more land and labour to increase output), and did little, if anything, to raise the average standard of living.

⁵⁹ Ingram, *Economic Change*, pp.37, 41; Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand's Experience, 1946-1955*, p.10.

⁶⁰ De Young, *Village Life in Modern Thailand*, p.5; Silcock, *The Economic Development of Thai Agriculture*, pp.47-48.

⁶¹ Gregg Huff, 'Globalisation, Natural Resources and Foreign Investment: A View from the Resource Rich Tropics', *Oxford Economic Papers* 59, no. 5 (2007): 127-58, p.128.

⁶² Ronald Findlay and Kevin H. O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Princeton: Princeton, N.J. : Princeton University Press, 2007), p.415.

The export boom also contributed to a dual economy and society of Thailand. Rural parts of the kingdom had a traditional way of life, while Bangkok, urbanised and modernised, was export- and externally-oriented.⁶³ Almost all of Thailand's exports were shipped through the Port of Bangkok, creating jobs for skilled and unskilled workers.⁶⁴ All the foreign exchange banks were based in Bangkok (section 1.4.2). Employment opportunities in the export industries, as well as the newly emerging public sector, led to disproportionate population density in the capital and attracted immigrants, mostly from southern China, as discussed above. Consequently, a middle class consisting of merchants and low-ranking bureaucrats emerged in the city. The population of Bangkok was more linked to the global economy than the rest of Thailand, making wage-earners living in the capital more susceptible to wartime inflation (chapter 3) and shortages of imported goods (chapter 5).

Table 1. 5 Percentage of total exports accounted for by rice, rubber, tin, and teak, 1920-1939

	Rice	Rubber	Tin	Teak	All four
1920-1924	68.2	0.8	8.6	4.5	82.1
1925-1929	68.9	2.3	9.0	3.7	83.9
1930-1934	65.4	2.0	13.8	3.9	85.1
1935-1939	53.5	12.9	18.6	4.2	89.2

Source: Statistical Yearbook 1939-1944, pp.162-5.

Table 1. 6 Real per capita GDP and of the United States, Japan, and Thailand, 1870-1973

Country	1870	1913	1929	1950	1973
United States	2,445	5,301	6,899	9,561	16,689
Japan	737	1,387	2,026	1,921	11,434
Thailand	712	841	793	817	1,874

Source: Maddison Project Database, version 2018. Bolt, Jutta, Robert Inklaar, Herman de Jong and Jan Luiten van Zanden (2018), "Rebasing 'Maddison': new income comparisons and the shape of long-run economic development", Maddison Project Working paper 10.

⁶³ Doner, *The Politics of Uneven Development: Thailand's Economic Growth in Comparative Perspective*, p.9.

⁶⁴ *ibid.*, p.52.

Table 1. 7 Per capita GDP annual growth rates of the United States, Japan, and Thailand, 1870-1973

<i>Country</i>	<i>1870-1913</i>	<i>1913-1929</i>	<i>1929-1950</i>	<i>1950-1973</i>	<i>1870-1973</i>
United States	1.80	1.65	1.55	2.42	1.86
Japan	1.47	2.11	-0.25	7.76	2.66
Thailand	0.39	-0.36	0.14	3.61	0.94

Source: Maddison Project Database.

1.4.2 Financial development

Little statistical data exist on Thailand's financial development prior to the establishment of the Bank of Thailand in 1942. This section relies on the few existing sources to describe Thailand's financial system up to 1941. Before the war, the Thai state was inexperienced, monetarily conservative, and influenced by British financial advisors; therefore, the government did not implement many publically-financed economic developmental projects. Foreign commercial banks dominated the formal banking system, and chiefly financed international trade.

Public finance

The pre-war Thai government did not have the experience or legislative tools to extensively influence financial or economic development. Thailand's volume of currency was dictated by balance of payments, which, in turn, closely reflected the trade surpluses or deficits.⁶⁵ Thailand had no central bank. Instead, the Ministry of Finance took on some central banking activities such as regulating exchange rates.⁶⁶

After the 1932 revolution, the government wanted more control over the financial system. Thai officials first brought up the idea of central bank in the 1890s and interests continued to grow in the 1930s; however, no central bank was established in the pre-war period. Financial advisers such as Baxter and Doll advised against creating a central bank for a range of reasons: Thai financial officials lack technical knowledge; the kingdom had no balance of payments problems, inflation concerns, and the possibility of large public

⁶⁵ Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand's Experience, 1946-1955*, p.19.

⁶⁶ Ingram, *Economic Change*, p.152.

debts. In 1939, Thailand established the National Banking Bureau as the first organisation to regulate financial institutions and to give Thai officials training, but it was not a fully-fledged central bank.⁶⁷

Apart from building railways, there was little evidence of the Thai government attempting finance economic development through public credit or budget deficits. While acknowledging that irrigation would have been helpful for the rice export industry, the state did not extend funds for land or water developments in this period. There are three cited reasons behind Thailand's conservative pre-war monetary policy: First, diverging interests of the elites from the rest of the country discouraged the government from spending funds on irrigation. Second, fear of foreign intervention discouraged the state from large foreign loans, as other Southeast Asian countries had been invaded by their debtors under excuse of financial irresponsibility. Finally, conservative monetary principles were instilled in Thai officials by British financial advisers.⁶⁸

Commercial banking

Pre-war commercial banking was dominated by European exchange banks and Chinese financial institutions. In 1938, Thailand had 11 commercial banks, only four of which was incorporated in the country.⁶⁹ The main activities of exchange banks were buying and selling currencies.⁷⁰ While these financial institutions facilitated international

⁶⁷ William L. Swan, 'Japan's Economic Relations with Thailand: The Rise to "Top Trader" 1875-1942' (Bangkok, 2009), pp.217-8; Akhand Akhtar Hossain, *The Evolution of Central Banking and Monetary Policy in the Asia-Pacific* (Cheltenham, 2015), p.460.

⁶⁸ Ingram, *Economic Change*, p.170; Thomas H Silcock, 'Money and Banking', in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 171–201, pp.171-172; Brown, *Economic Change in Southeast Asia, c.1830-1980*, p.176; Larsson, *Land and Loyalty : Security and the Development of Property Rights in Thailand*, p.126; Richard F. Doner and Daniel Unger, 'The Politics of Finance in Thai Economic Development', in *The Politics of Finance in Developing Countries*, ed. Stephan Haggard, Chung H Lee, and Sylvia Maxfield (Ithaca, 1993), pp.95-6; Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.27.

⁶⁹ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, p.94.

⁷⁰ Huff, 'Finance and Long-Term Development Issues in Southeast Asia', p.61.

trade, they did not extend credit for investment. Commercial banks were rarely utilised by ethnic Thais, who were not used to depositing money.⁷¹ Farmers infrequently had surplus cash to deposit in a savings account. When peasants did have extra money, they often spent it on slightly expensive consumer goods such as bicycles.⁷² Affluent ethnic Thais held their wealth instead in real estate, jewellery, foreign securities, and precious metals.⁷³

Local financial institutions operated mostly within the Chinese community. Sino-Thai banks offered small amounts of credit mainly to Chinese millers and traders, facilitated sending remittances back to China, and did not expand rural access to credits. As the majority of these banks' funds were demand deposits, the banks could not make long-term investments and were thus not conducive to economic growth.⁷⁴ Sino-Thai financial institutions also lacked skilled personnel and access to external credit market available to foreign banks. Many Chinese banks failed in the 1930s as they had no other sources of liquidity during times of stress and were all tied to the world rice market.⁷⁵

Informal credit

To the vast majority of the population, only small-scale informal rural credit was available. The pre-war Thai economy did not require extensive financing to grow, as Thailand had abundant frontier lands and peasants who were contributing labour – not capital – to the rice trade.⁷⁶ The only significant expense for a farming household was a water buffalo for ploughing, even then bullocks could be borrowed or rented from

⁷¹ Huff, 'Financial Transition in Pre-World War II Japan and Southeast Asia', p.160.

⁷² De Young, *Village Life in Modern Thailand*, p.162.

⁷³ Ingram, *Economic Change*, p.134; Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand's Experience, 1946-1955*, p.13.

⁷⁴ B. R. Shenoy, 'The Currency, Banking, and Exchange System of Thailand', *IMF Staff Papers* 1, no. 2 (1950): 289–314, p.294.

⁷⁵ Naris Chaiyasoot, 'Commercial Banking', in *The Thai Economy in Transition* (Cambridge, 1993), 226–62, p.226; Huff, 'Financial Transition in Pre-World War II Japan and Southeast Asia', p.161; Bualek, *Thai Commercial Bank Capitalists*, pp.6-12.

⁷⁶ Huff, 'Finance and Long-Term Development Issues in Southeast Asia', p.64; Huff, 'Monetization and Financial Development in Southeast Asia before the Second World War', p.301.

neighbours.⁷⁷ Rural surveys revealed that there was little borrowing in the agricultural sector. In 1935, 80 per cent of total credit outside the capital originated in the central plain, suggesting that subsistent farmers rarely borrowed.⁷⁸ When peasants needed credit, they relied on small informal loans from friends and family, or merchants and middlemen, based on established relationships in the countryside and with flexible repayments on future crop yields.⁷⁹ Though the state established a Cooperative Credit Movement in 1919, it had limited funds and capacity.⁸⁰ The main reason for peasant borrowing was crop failure, signifying that if harvests were normal farmers were mostly self-reliant.⁸¹

1.4.3 Industrial development

Little statistical data about pre-war Thai industrialisation exist. Based on GDP data, the 1937 census, and other qualitative sources, manufacturing made up only roughly 11 per cent of the Kingdom's total GDP in the 1930s. On the other hand, rice comprised of 14-17 per cent of GDP even though many farmers were engaged in subsistence cultivation.⁸² According to the 1937 census, only 1.6 per cent of the population was employed in manufacturing.

This section describes the meaning of these numbers, firstly with an exploration of Thai handicrafts and how little they contributed to GDP. Private industries were largely agricultural processing for export crops, and dominated by Chinese and European firms. The last sub-section utilises government reports to throw light on how the Thai government attempted, with limited success, to increase industrialisation in the 1930s.

The reasons behind Thailand's small manufacturing sector in the pre-war period are a topic of historical discussion. Many factors hindered Thai industrialisation. One was

⁷⁷ De Young, *Village Life in Modern Thailand*, p.134.

⁷⁸ James M. Andrews, *Siam 2nd Rural Economic Survey* (Bangkok, 1935), p.293.

⁷⁹ Huff, 'Finance and Long-Term Development Issues in Southeast Asia', p.64.

⁸⁰ W.D. Reeve, *Public Administration in Siam* (New York, 1975), p.55.

⁸¹ Zimmerman, *Siam Rural Economic Survey 1930-31*, p.195.

⁸² Van der Eng, 'Thailand Estimates of GDP based on Sompop's work,' Typescript, 1994.

the Bowring Treaty, signed in 1855 and revised in 1926, which prevented Thailand from controlling its own tariffs. Under the treaty, imported goods were subject only to a three per cent duty, prohibiting the Thai government from any kind of protection for new industries. Fiscal conservatism – for fear of owing money to western powers and prompting an ‘intervention’ that could cost the kingdom its independence – played an important role in Thailand’s lack of industrialisation. Additionally, lack of supply of power, capital, and human capital, along with a small domestic market and corruption of officials posed difficulties for Thai industrialisation.⁸³ I rely on new archival data on private and government industries from the National Archives of Thailand to evaluate these reasons. Indeed, after the treaty revisions in 1927, the most important obstacles were the want of capital, lack of skilled personnel, and corruption.

Handicrafts

The most important and widespread traditional handicraft in pre-war Thailand was hand weaving, hand spinning, and breeding silkworms.⁸⁴ The traditional narrative is that cheap textiles from Europe crowded out local handicrafts in Southeast Asia.⁸⁵ Indeed, there is some evidence that household crafts faced competition as British cotton entered the market under the Bowring Treaty: many farmers converted their cotton fields to rice paddies to tap into the lucrative rice market. With the monetary gains from rice exports, these farmers could purchase imported clothes along with other foreign goods. At the same time, many weavers relied on imported yarn, and foreign textile piece goods found their way into rural markets.⁸⁶ Surveys of rural Thailand and anthropological studies find that the rice growers in the central plain, and tin miners and rubber growers in the south,

⁸³ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.27; Ingram, *Economic Change*, pp.134, 148.

⁸⁴ Andrews, *Siam 2nd Rural Economic Survey*, pp.122-8.

⁸⁵ Jeffrey G. Williamson, *Trade and Poverty: When the Third World Fell Behind* (Cambridge, 2011).

⁸⁶ Ingram, *Economic Change*, p.36, 115-6.

purchased a lot of their textiles from Chinese merchants in nearby market places, with little household weaving taking place.⁸⁷

Local handicrafts, however, were not wiped out by any means. Hand weaving, hand spinning, and breeding silkworms were common family industries in the rural north-eastern region, usually producing subsistence levels of output, and did not contribute to monetary incomes.⁸⁸ Indeed, Japanese officials commented that the Thai textile industry was ‘like a hobby.’⁸⁹ Thai households were therefore able to sustain themselves when imported textiles were no longer available. Other handicrafts were sold and generated cash incomes, especially in villages specialising in certain crafts, such as broom making, hat weaving, and tile making.

Private industries

There are no statistics available for private industries in Thailand in the 1930s. Corresponding to exports, Thailand’s pre-war industries mostly involved processing of export commodities. The most prominent industrial sector was rice milling, which was dominated by five Chinese families, termed the ‘big five:’ Wanglee, Hulasuk, Bulakun, Iamsuri, and Lamsam. In 1938, mills owned by these families produced roughly 43.5 per cent of total milled rice in Thailand.⁹⁰

Other important export industries include tin, rubber, and teak. Tin mining was originally dominated by small Chinese firms, operating with crude equipment. In the early 1900s, the Thai government encouraged western companies with advanced dredging technology to mine tin in Thailand, and British and Australian firms began to compete

⁸⁷ Zimmerman, *Siam Rural Economic Survey 1930-31*, pp.51, 109; De Young, *Village Life in Modern Thailand*, p.42.

⁸⁸ NAT, Ministry of Foreign Affairs, (2)กต2.5/235, ‘บรรยายเกี่ยวกับกิจการของกรมเกษตร และการประมง (Description of the affairs of the Agricultural and Fisher Departments),’ 1943, p.16; De Young, *Village Life in Modern Thailand*, p.102.

⁸⁹ National Archives of Japan, Cabinet Library, A06033000200, ‘Political and economic conditions of Thailand 1941,’ p.160-162.

⁹⁰ Suehiro, *Capital Accumulation*, pp.110, 117.

with and overtake Chinese mines in the sector. In 1936/37, slightly less than two-thirds of total tin output was from British and Australian companies. Rubber smoking and rolling were conducted by either Chinese middlemen or the rare large estate owners who could afford equipment.⁹¹ Sawmilling was largely dominated by European companies. In 1938, for instance, European firms operated on 88 per cent of teak forest lands in Thailand, the Chinese seven per cent, and the Forest Department five per cent.⁹²

Few Thai capitalists existed at this point. Some of the most prominent Thai private industries included the Boonrawd Brewery and the Siam Cement Company, both of which had royal support, and some private-run bus and taxi services.⁹³ There were also small family-run shops producing light consumer goods for local markets.⁹⁴

State-led industries

After the revolution in 1932, the People's Party encouraged domestic industrialisation. The government established a Division of Industrial Promotion in 1936, and adopted an economic plan in 1938-39 to 'enlarge the position of the Thai in agriculture, tin mining, trade, and industry' and the slogan 'the Thai people produce and the Thai people consume (คนไทยทำคนไทยใช้)' was adopted.⁹⁵ Partly as a reaction to the Great Depression and partly due to economic nationalism, the government pushed for manufacturing, and explicitly announced that the state would take the lead where private capital and entrepreneurship fell short. The government bought tobacco factories from overseas companies, offered financial assistance to private capitalists in the sugar sector, and attempted to develop government-run factories in textiles, gunny bags, tobacco, and sugar. However, the state stopped short of imposing tariffs to protect emerging sectors

⁹¹ Ingram, *Economic Change*, pp.99-100, 104.

⁹² Ministry of Economic Affairs, *Commercial Directory for Siam, 1939* (Bangkok, 1939), pp.137-45 (via Ingram, p.107).

⁹³ Bualek, *Characteristics of Thai Capitalists*, pp.104-8; Ingram, *Economic Change*, p.66.

⁹⁴ Ingram, *Economic Change*, p.135.

⁹⁵ Suehiro, *Capital Accumulation*, pp.107-8.

even after treaty revisions in 1926; there were also no known records of developing new industries through public debt (Thailand's preference for conservative financial policies discussed in section 1.4.2). Many of these state-operated industries, however, did not come to fruition mainly due to lack of raw materials and funds, issues of poor human capital, and corruption.

State involvement in the textile, gunny sack, tobacco, and sugar industries demonstrates the Thai government's eagerness to establish domestic manufacturing sectors. Silcock commented that the Division of Industrial Promotion was able to develop human capital in simple and labour-intensive crafts.⁹⁶ The government's involvement in textiles is an example of how officials tried to improve skill and technology. As there were already pockets of spinners and weavers in the country, the Ministry of Economic Affairs promoted weaving with Chinese looms, advocated for a local variety of cotton, and sent 64 instructors to 16 provinces to train the Thai population in weaving.⁹⁷ The Ministry of Economic Affairs also oversaw the distribution of yarns and dyes, finance, acquisition of products, and sales.⁹⁸ These efforts yielded some results; however, Thailand was still far from self-sufficient in textiles, as evidenced by large quantities of textile imports in the 1930s and subsequent shortages under Japanese occupation (chapters 4 and 5).

Gunny sacks, bags used to transport rice, were crucial for the Thai export industry. Though no large-scale production took place in the pre-war period, the government laid some of the groundwork for establishing a domestic gunny bag industry by encouraging jute and kenaf cultivation, hiring consultants, and purchasing hemp. Thai officials began encouraging peasants to grow jute and kenaf in 1939. In October 1940, the Departments of

⁹⁶ Thomas H Silcock, 'Promotion of Industry and the Planning Process', in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 258–88, p.259.

⁹⁷ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/4, 'โครงการส่งเสริมการทอผ้าแบบที่กะตุก (Promoting weaving with looms),' 1946, p.7.

⁹⁸ NAT, 'Promoting weaving with looms,' p.5.

Agriculture and Fishery conducted a preliminary survey and found that citizens in Ayutthaya, Suphan Buri, Nakornsawan, and Sukhothai were already growing hemp along the rivers. Thai officials hired an expert, Dr Robert L. Pendleton, who reported that peasants lacked technical knowledge but expressed hope for a local gunny sack industry. The Ministry of Economic Affairs set aside 42,000 baht to purchase raw hemp from farmers, only for the Ministry of Agriculture to report there was simply not enough hemp in the country.⁹⁹ It is difficult to determine if a gunny bag industry would have developed in the early 1940s if the Japanese had not invaded. Partly reinforced by a shortage of gunny sacks under the Japanese occupation, the post-war government pushed and successfully began producing gunnies domestically (chapter 8).

The third example of a sector with state involvement is tobacco. Despite some attempts in establishing a state-run enterprise, the government eventually bought and nationalised a foreign-owned factory. After the 1926 treaty revision, Thailand imposed a 25 per cent duty on tobacco, causing imports to drop and domestic manufacturing to rise.¹⁰⁰ There are records of the Ministry of Finance and the Excise Department establishing a factory, and importing and distributing seeds to farmers.¹⁰¹ In 1941, the state finally acquired a tobacco factory from the British American Tobacco Company, which had a local source of Virginia Tobacco and a functioning operation.¹⁰²

The Thai state was also trying to establish its own sugar mill. Issues in the sugar sector highlight strengths and weaknesses of industrialisation in Thailand. An important advantage was the abundance of land in rural areas, as farmers were able to drastically

⁹⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.4/3, ‘โครงการส่งเสริมปลูกปอกระเจา (Project to promote hemp cultivation) 21 Oct 2483-28 Apr 2484,’ 1941, pp. 2, 5, 6.

¹⁰⁰ Ingram, *Economic Change*, p.136.

¹⁰¹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.2.1, ‘อุตสาหกรรมยาสูบ (The tobacco industry),’ 1942, p.2.

¹⁰² Ingram, *Economic Change*, p.137.

increase output to meet demands of a new factory without any technological improvement. On the other hand, the main weaknesses included inefficient capital in the indigenous private sector, a bottleneck in the process due to limited machinery, and a lack of expertise in managing large industrial enterprises.

The Thai government struggled raising funds for the initial investment, as well as managing the sugar mill once it was built. From the start, a lack of capital for the Siam Sugar Factory was the main obstacle. In September 1935, private citizens purchased only 12 per cent of the 75 per cent shares available to them in the IPO, leaving 63 per cent in the government's hands. While the Danish company East Asiatic had expressed interest in purchasing 45 per cent of stocks, the government was reluctant to let a foreign power hold so many shares in a Thai enterprise and disliked having 'less power to help cane growers.' On 21 October 1936, the cabinet agreed to establish an entirely state-owned enterprise and began construction in Lampang province in the north. The citizens of Lampang had been growing cane since at least the 1880s – the province had surplus sugar of 1,000 tons in 1933, and 1,500 tons in 1935. Officials, however, would still need to promote cane production as the mill required 500 tons of cane each day for 120 days of operation. An estimated 16 kilometre² (10,000 *rai*) of land was necessary. The Siam Sugar Factory in Lampang was built in 1937.¹⁰³

After a year, the factory faced managerial problems. The mill was unable to store processed sugar properly due to high price fluctuations and mismanagement of officials.¹⁰⁴ In April 1939, the cabinet inspected the accounts and directories of the Siam Sugar Factory in Lampang and found that more than eight million kilograms of sugar were unaccounted

¹⁰³ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/5, 'โครงการอุตสาหกรรมทำน้ำตาล ตอน รัฐบาลจัดทำเองที่จังหวัดลำปาง (The government's sugar industry in Lampang province),' 1939, pp. 30-31, 138.

¹⁰⁴ NAT, 'The government's sugar industry in Lampang province,' pp.67-72.

for. Factory workers explained that the missing product may have ‘fallen or evaporated in transport,’ implying petty corruption.¹⁰⁵

Despite these issues, the Siam Sugar Factory appeared to be on the right path. In 1939, it made a profit even though a flood had reportedly destroyed large amounts of sugarcane.¹⁰⁶ Perhaps encouraged by this success, in the same year, the state established another sugar mill in Uttaradit Province, also in the northern region of the country; machines were imported from the Philippines and Java.¹⁰⁷ Though the state succeeded in establishing sugar refineries in the pre-war period, local sugar was still insufficient fully to replace imports. My estimate of domestic sugar production in 1938 is roughly 16 per cent of total consumption (chapter 8).

Semi-government industrial attempts

In addition to state-owned sugar mills, the sugar industry is an example of the Thai government’s cooperation with private entrepreneurs, and clearly demonstrates the lack of capital as an important obstacle to establishing factories in 1930s Thailand.

Many Thai entrepreneurs endeavoured and failed to establish domestic sugar refineries, largely due to a lack of capital and inability to compete with imports. These industrialists thus required state assistance, which the government could not afford. For instance, in 1921, Phraya Mahaisawan, a respected civil servant and member of the nobility, proposed to build a sugar refinery in Chonburi province. Mahaisawan sought the help of foreign experts, invited the government to purchase shares in his refinery, and

¹⁰⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/10, ‘รายงานการตรวจบัญชีการเงินโรงงานน้ำตาลไทยจังหวัดลำปาง (Auditing the accounts of the Thai Sugar Factory in Lampang),’ 1939, p.4.

¹⁰⁶ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/11, ‘เรื่องงบดุลย์ของโรงงานน้ำตาลไทย (ลำปาง) (The budget of the Thai Sugar Factory (Lampang)),’ 1941.

¹⁰⁷ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/12, ‘สร้างโรงงานน้ำตาลจังหวัดอุตรดิตถ์ (Building a sugar refinery in Uttaradit province),’ 1949, pp.8, 16-17.

asked the state for protection against imports.¹⁰⁸ After a national survey, the Ministry of Economic Affairs rejected Mahaisawan's proposal to impose high tariffs on imported sugar as Thai consumers depended on it, but the ministry agreed to offer financial assistance.¹⁰⁹ In 1935, despite extensive government assistance, Mahaisawan and his business partners exited the sector and sold all their shares to the Ministries of Finance and Economic Affairs.¹¹⁰

Another failed attempt at a sugar refinery was made in 1933 by Mhom Luang Issarasena. He submitted a letter to the cabinet asking for assistance, claiming that sugarcane farmers had nowhere else to unload their produce. 'If left like this, people will stop growing cane altogether' was the reason he gave before requesting his factory to be exempt from taxes while it was still in early stages of operation. The government did not grant his demands and the refinery was never built.¹¹¹

These problems with Mahaisawan's and Issarasena's factories emphasise the difficulties in starting a capital-intensive business in pre-war Thailand. The private sector, even someone who was part of the nobility like Issarasena, did not have enough capital to carry a factory through its infancy. The lack of indigenous commercial banks and credit made the task even more difficult. The only other viable option for entrepreneurs was to seek governmental assistance, either in terms of funding, tax breaks, or market regulation.

¹⁰⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/1, 'โรงงานทำน้ำตาล ตอน พระยามโหศวรรย์เริ่มก่อการจัดตั้งที่เมืองชลบุรี (Phraya Mahaisawan to establish a sugar refinery in Chonburi), 1936; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/4, 'โรงงานทำน้ำตาล ตอน พระยามโหศวรรย์เริ่มก่อการจัดตั้งที่เมืองชลบุรี ตอน 2 (Phraya Mahaisawan to establish a sugar refinery in Chonburi, part 2),' 1937, pp.2-6.

¹⁰⁹ NAT, 'Phraya Mahaisawan to establish a sugar refinery in Chonburi, part 2,' pp.14, 17-19.

¹¹⁰ NAT, 'Phraya Mahaisawan to establish a sugar refinery in Chonburi, part 2,' pp.74, 90-93, 117, 119, 129-130.

¹¹¹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/3, 'หม่อมหลวงอิสรเสนา ขอความช่วยเหลือในการตั้งโรงงานน้ำตาล (Mhom Luang Yuang Issarasena asks for help in establishing a sugar refinery),' 1933.

1.5 Thailand and Japan's Greater East Asia Co-Prosperity Sphere

This section explores Japan's motivation for creating a wartime empire, as well as the role that Thailand would play in it. As Thailand was an independent country and not a European colony, the kingdom formed a distinctive relationship with Japan and was able to cushion itself from some of the perils of occupation.

Japan envisioned its empire, the Greater East Asia Co-Prosperity Sphere, as a self-reliant politico-economic bloc. Having colonised Manchuria, Korea, and Taiwan, the Japanese looked to Southeast Asia as a source of raw materials and reasonable extension of the domain.¹¹² The *Outline of economic policies for the Southern Areas* clearly stated that an 'emphasis [was] placed on the acquisition of resources especially those essential to the prosecution of war.'¹¹³

Japanese interest in Thailand was both economic and strategic. While Thailand's demands for Japanese exports were small, Japan became increasingly dependent on rice imports from Southeast Asia as the home islands as its east Asian colonies shifted from agriculture to manufacturing.¹¹⁴ Rice from Thailand and Indochina, and to a smaller extent due to transport difficulties, Burma, could be utilised to feed the vast population of Japan's wartime empire (Image 1.1). Consequently, Japan did not invest in Thai manufacturing unlike in Korea and Taiwan (chapter 4). Thailand's strategic position in the centre of continental Southeast Asia, however, was the most important factor: the kingdom was necessary for launching attacks on British Malaya and Burma, and for the management of the entire Greater East Asia Co-Prosperity Sphere.¹¹⁵

¹¹² Allen, *Burma : The Longest War 1941-45*, p.5.

¹¹³ Harry J. Benda, James K. Irikura, and Koichi Kishi, eds., *Japanese Military Administration in Indonesia: Selected Documents* (New Haven, 1965), p.17.

¹¹⁴ Alan S. Milward, *War, Economy and Society, 1939-1945* (London, 1977), p.257.

¹¹⁵ Tarling, *A Sudden Rampage : The Japanese Occupation of Southeast Asia, 1941-1945*, p.83, E.B. Reynolds, *Thailand's Secret War : The Free Thai, OSS, and SOE during World War II* (Cambridge, 2005), p.245.

To be fully incorporated into Japan's sphere of influence, Thailand's close ties with Britain needed to be severed. This was partially achieved with the imposed regional autarchy of the Greater East Asia Co-Prosperity Sphere. An additional step was to eliminate western financial influence in Thailand by closing down exchange banks, and establishing a Thai central bank that was embedded in the monetary system of the Japanese empire (chapter 3).

Part of Japanese propaganda for the Co-Prosperity Sphere was the attempt to win over the hearts and minds of indigenous Southeast Asians with a rhetoric of overthrowing the Europeans and establishing 'Asia for the Asiatic.'¹¹⁶ Indeed, the superintendent of the Japanese Military Administration Headquarters in Singapore was explicitly instructed not to offend indigenous Southeast Asians 'since winning the hearts of the people under [Japanese] rule [was] extremely vital to the prosecution of the war.'¹¹⁷ For instance, Japan capitalised on existing Burmese nationalism and anti-British sentiments and supported revolts and espionage against the protectorate since before the outbreak of the war.¹¹⁸

In contrast to other Southeast Asian countries except the Philippines, the rhetoric of overthrowing European colonisers was not as effective in Thailand, as it was already an independent country.¹¹⁹ Instead, Japan played to Phibun's nationalism and irredentism. In 1939, Phibun changed the name of the country from Siam to Thailand, meaning a country

¹¹⁶ W.L. Swan, 'Japan's Intentions for its Great East Asia Co-Prosperity Sphere as Indicated in its Policy Plans for Thailand', *Journal of Southeast Asian Studies*, Vol. 27 (No. 1, 1996), p.139.

¹¹⁷ Telegram on the administration of occupied southern areas. To: Superintendent of the Singapore Military Administration Headquarters. From: Vice-Minister of the Army, Tokyo. Number: Army, Asia, Secret Telegram No. 1482. Received: Dec 5, 1942 in Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*, p.47.

¹¹⁸ Burma Intelligence Bureau, *Burma during the Japanese Occupation* (1vols., Simla, 1943), p.18.

¹¹⁹ Reynolds, *Anomaly Or Model? Independent Thailand's Role in Japan's Asian Strategy 1941-1943*, p.251.

of the Tais (ethnic Thais). The change was meant to inspire nationalism and signify to Indian and Chinese immigrants that they did not belong. Additionally, Tai peoples populated areas in Laos, Cambodia, and the Shan states, which were outside of Thai territory. Renaming the country signalled Phibun's vision of uniting these people under one flag and helping the Lao and Khmer people who were considered 'subgenres of a greater Thai race' to reconnect with their fellow ethnic Thais.¹²⁰

The opportunity for this reunification arrived when France, and consequently French Indochina, fell to the Axis in May 1940.¹²¹ Phibun realised that Japan's rising influence in the Pacific Theatre could be utilised as leverage against France. Thailand began a border war with Indochina in 1941, hoping to regain territories that Thailand lost to France in waves in 1867, 1893, and 1904. While the French had a superior military and destroyed the Thai navy, France did not want to engage in a full-blown battle and the fighting died down to a stalemate. Japan, which was already seeking 'a special political understanding' with Thailand, mediated the conflict and succeeded in convincing French Indochina to return to Thai territories along the Mekong river, including Luang Phrabang and Pakse.¹²² Thailand regained 6.4 kilometre² of land and owed this territorial expansion to Japan. In 1942, Japan also gave Thailand the Shan States from Burma, and in 1943 Kedah, Perlis, Kelantan, and Trengganu from British Malaya – the territories Thailand lost to Britain during the era of imperialism. (While the Indochinese and Burmese territories were meant to win over the 'hearts and minds' of the Thai population at the start of war,

¹²⁰ Batson, 'Siam and Japan', p.274; Shane Strate, *The Lost Territories: Thailand's History of National Humiliation* (Honolulu, 2015), p.48, 119.

¹²¹ Reynolds, 'Anomaly or Model?', p.246.

¹²² Nicholas Tarling, *A Sudden Rampage: The Japanese Occupation of Southeast Asia, 1941-1945* (London: London: Hust, 2001), p.63; Stein Tønnesson, *The Vietnamese Revolution of 1945: Roosevelt, Ho Chi Minh and De Gaulle in a World at War* (London, 1991), p.38.

the Malayan provinces were largely for placating the people of Thailand when in 1943 circumstances started to turn against Japan.¹²³)

Indeed, Thailand's sovereignty was one of the country's strongest assets. It is true that Thailand could not defend itself against inflation as a result of Japanese occupation costs (chapter 3) or the shortage of necessities caused by forced autarchy of the Greater East Asia Co-Prosperity Sphere (chapters 2 and 5). Having an independent administration through which to govern, however, the Japanese saw no necessity of fully dominating or exerting violence in Thailand. The Thai government cooperated sufficiently with Japan such that the latter did not need to install a puppet government. This arrangement not only freed Japan from handling domestic matters unrelated to the war effort, but also spared its limited resources and manpower. The Thai Prime Minister's cooperation, thus, was ideal for the Japanese and allowed Phibun to the limit detrimental effects of occupation (chapter 2).

1.6 Social and political reaction to the Japanese occupation

This section describes Phibun's response to Japanese aggression, and other Thai citizens that opposed the Japanese both in politics and on the ground. While one can reasonably understand Phibun's rationale for trying to avoid a war with the much-better equipped Japanese army, his political opponents found Allied support. The people of Thailand naturally disliked the presence of the Japanese army, leading to petty crimes and conflict between occupying soldiers and indigenous civilians.

At the outbreak of the Pacific War and the war in Europe, Thailand declared neutrality. Despite his own personal admiration for the Japanese, Phibun secretly sought help from both sides.¹²⁴ After failing to receive confirmation of aid from the British, he

¹²³ Reynolds, 'Anomaly or Model?', p.268.

¹²⁴ Reynolds, p.246.

understood the harsh reality: neutrality was untenable and, in order to survive the war, Thailand needed to choose a faction.¹²⁵ With the Japanese troops on Thai soil and no Allied aid, Phibun allowed Japanese passage through the country to attack Malaya and Burma, and promised Japan full material support on 8 December 1941. A treaty of alliance was signed at end of December, and in January 1942 Thailand declared war on Britain and the United States. Thailand surrendered its political allegiance and economic resources to Japan.

Many Thai citizens, including government officials, resented this forced collaboration. Pridi Phanomyong, member of the National Assembly, articulated these sentiments:

‘Suppose we do have “Asia for the Asiatic,” what then? ... What has Siam to gain from such a policy? As it is now, open to all countries, we have the benefit of the culture, social, and economic advantages through intercourse with western nations! And what is more, we have freedom!’¹²⁶

Resistance to the Japanese manifested itself in a variety of ways. The most prominent opposition to the Japanese was the Free Thai Movement, consisting of mostly western-educated civilians who disliked Phibun’s fascist tendencies. Among them were prominent politicians like Pridi Pranomyong, and the Thai ambassador to the United States, Seni Pramote. Pramote almost singlehandedly convinced the United States government that the Thai people had been ‘betrayed’ by their government. Similar to Charles de Gaulle, Pramote broadcast a speech to fellow Thai citizens to fight for their country. These individuals eventually banded together to form the Free Thai Movement, those living

¹²⁵ Thitinan Pongsudhirak, ‘World War II and Thailand after 60 Years: Legacies and Latent Side Effects’, ed. David W. H. Koh, *Legacies of World War II in South and East Asia* (Singapore, 2007), 104–14, p.107.

¹²⁶ *ibid.*, p.61.

abroad worked with Allied soldiers and agents in Thailand to form a secret organisation to fight and undermine the Japanese from within.¹²⁷

The Free Thai Movement's significance did not end with the Japanese defeat. Rather, the group's formation and Thailand's recovery of territories from France and Britain altered Thailand's relationship with the world's superpowers. While Thailand was never technically a colony, French aggression in the 1800s, which resulted in Thailand 'losing' territory to France, had driven Thailand into Britain's sphere of influence. While, like other western nationals, the British enjoyed commercial privileges and extraterritoriality in Thailand, Britain's main influence was exerted through trade and through policy-making formulated by British advisers to the country's newly emerging bureaucracy. Thailand pegged the baht to sterling, had sterling as important currency reserves, and traded mainly with the British Empire. To Thailand, Britain was a friendlier western superpower than France. After the 'alliance' with Japan, Britain eyed the Thailand with suspicion; and the border crisis with France confirmed the British perception of the Phibun government's fascist tendencies and of Thailand as an active Axis member. Allowing the Japanese army 'passage' through Thailand meant that the forces could easily attack Malaya and Burma – both British colonies. Consequently, Thai-British relations deteriorated. On the other hand, the United States more readily supported Pramote and refused to declare war on Thailand.¹²⁸ This shift would later have implications on the kingdom's post-war relations with western powers.

For most of Thailand's population, the Second World War was 'an impersonal, largely incomprehensible, but palpably dangerous event.'¹²⁹ Thai peasants have been

¹²⁷ Reynolds, *Thailand's Secret War*, pp.9-27.

¹²⁸ Richard J Aldrich, *The Key to the South : Britain, the United States, and Thailand during the Approach of the Pacific War, 1929-1942* (Kuala Lumpur, 1993), pp.48, 368-72.

¹²⁹ Batson, 'Siam and Japan', p.284.

described by American intelligence officers as ‘complacent’ and ‘easy-going;’ and though Thai civilians disliked the Japanese, this dislike was insufficient for a political uprising.¹³⁰ In fact, Thai people were well aware of the fact that they were being oppressed, and that their distress was caused by occupying forces. This sentiment is evident in the *Thai thib* movement (literally the Thai kick movement), which was widespread outside the capital and stole goods and artillery from the Japanese Imperial Army to sabotage their war efforts.¹³¹ Dislike of the Japanese also manifested in almost daily hostilities between Thai civilians and Japanese soldiers (chapter 6).¹³²

Conclusion

The economic, social, and political situation of pre-war Thailand served as the basis of Thailand’s experience under Japanese occupation. That Thai peasants were largely self-sufficient served as possibly the most important buffer against the Japanese occupation and Second World War. The rise of a nationalist government in 1932 led to a ‘special’ relationship with Japan, which saw the opportunity to help Thailand acquire territory in exchange for influence over the Phibun regime. At the same time, economic nationalism pushed for Thai industrialisation. The war would not only force the Thai government to look inwards to develop the manufacturing sector, but also allowed the state more effectively to intervene in the economy. The other consequence of the nationalist government was the persecution of the Chinese. Despite discrimination, the Sino-Thai community remained economically important, and formed an uneasy relationship with Japanese officials. Thailand’s export-oriented economy, lack of capital, and small manufacturing sector set the stage for wartime shortages of necessary consumer goods and

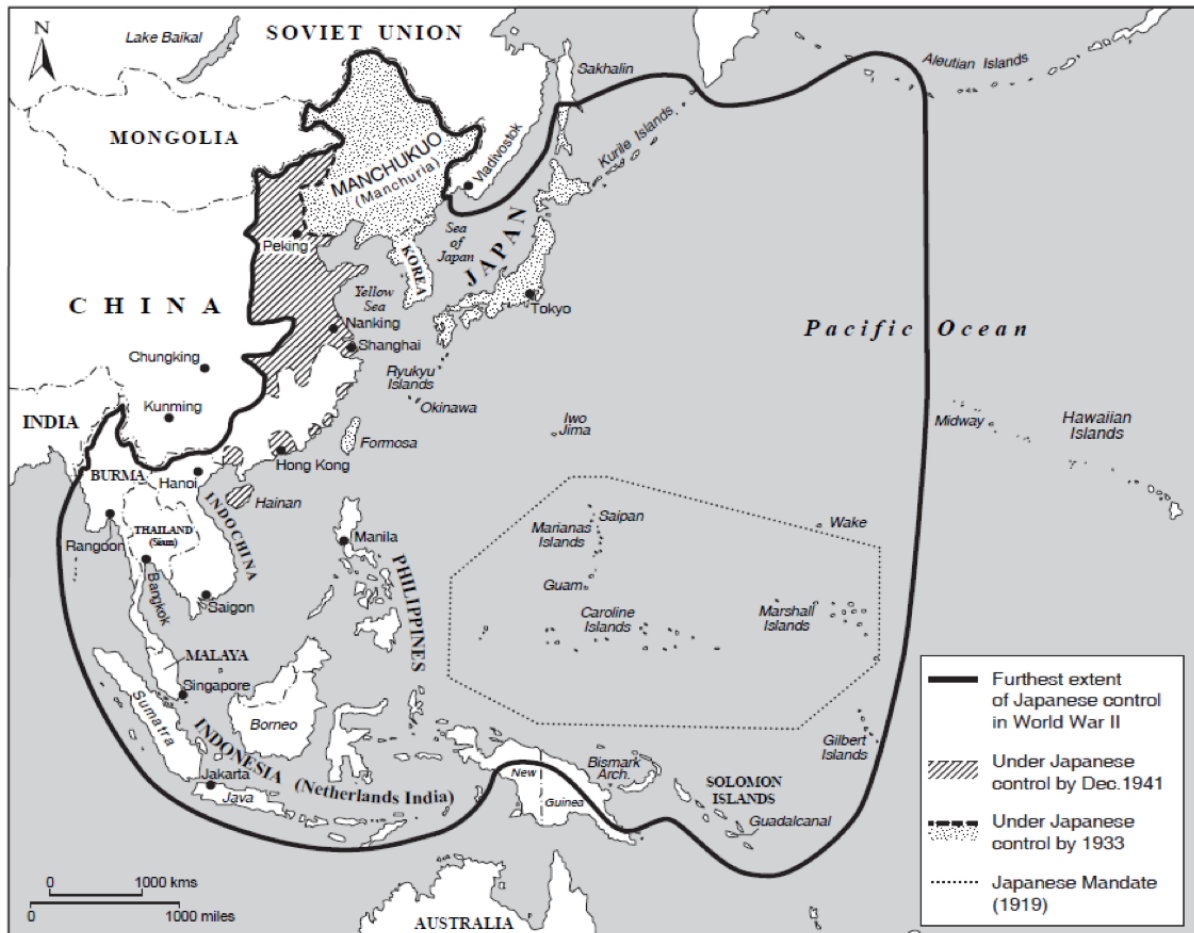
¹³⁰ OSS, *Social conditions*, pp.7, 13.

¹³¹ Winai Pongsripian, ed., *230 Years of Rattanakosin: Memorial Heritage of Bangkok (230 ปี ศรีรัตน โกสินทร์ มรดกความทรงจำกรุงเทพมหานคร)* (Bangkok, 2013), p.292.

¹³² Reynolds, ‘Anomaly or Model?’, p.261.

the inability to domestically produce them. These conditions would shape Thailand's economic growth long after the Japanese surrender.

Image 1.1 Map of Greater East Asia Co-Prosperity Sphere



Source: John Dower, *Embracing defeat: Japan in the aftermath of World War II* (London, 1999), p.20.

Chapter 2 Macroeconomic consequences of the war

Introduction

The Japanese occupation altered every facet of Thailand's economy. Japan envisaged the Greater East Asia Co-Prosperity Sphere as a self-sufficient bloc, and to that end, imposed regional autarchy within its wartime empire. This policy disrupted Thailand's rice trade and stopped imports of consumer goods, creating shortages that remained with the kingdom even after the war. Yet, historians have always claimed that Thailand survived the Japanese occupation relatively unscathed, a statement which is accurate only in comparison with its neighbours such as Burma or Indochina.

In this chapter, I will demonstrate that there is truth to both perspectives by exploring the macroeconomic consequences of the Japanese occupation. I argue that while Thailand did suffer during the war, the kingdom's political status, economic structure, and the resilience of its rice industry cushioned the blow of the war. The fact that certain political and economic buffers were in place in Thailand contributed to the kingdom's quick recovery after 1945. These findings not only fill a gap in the historiography on Thailand's experiences under the Japanese occupation, but also bridge this episode in Thai history with post-war Thailand.

This chapter is divided into two sections. The first of these describes the reduction in Thailand's wartime GDP, focusing on the rice industry and commercial sectors. The second section places this fall in GDP in comparative perspective with Thailand's neighbours, arguing that the decline was less drastic due to a variety of cushions, including its nominal independence, economic structure, state support of the rice industry, and the high demand for Thai rice in neighbouring countries.

2.1 Wartime GDP reduction

Before the war, Thailand's GDP was chiefly determined by the rice industry and international trade. Government spending and private investment were small (chapter 1). At the beginning of the occupation, forced regional autarchy within the Greater East-Asia Co-Prosperity Sphere, a loss of industrial capacity, and Japanese appropriation of buildings and transportation caused GDP to fall sharply. From 1943 onwards, per capita income declined further, largely because of the breakdown of transportation systems within the Japanese Empire and Allied air raids. By 1944, per capita GDP had dropped by some 20 per cent. Legal exports had fallen drastically, along with the rice industry's contribution to GDP; however, paddy production did not decrease during the war, due to support programmes implemented by the Thai government and rice smuggling to Malaya. Few necessary manufactured goods – such as textiles and medicine – reached Thai consumers, causing local consumption to fall. Thailand depended on imported machinery, fuel, and raw materials, the lack of which hindered manufacturing and reduced living standards (chapters 4 and 6).

Table 2. 1 Thailand's index of GDP per capita, 1939-1950

<i>Year</i>	
<i>1939</i>	100
<i>1940</i>	102
<i>1941</i>	102
<i>1942</i>	90
<i>1943</i>	98
<i>1944</i>	92
<i>1945</i>	83
<i>1946</i>	87
<i>1947</i>	94
<i>1948</i>	101
<i>1949</i>	100
<i>1950</i>	101

Source: Van der Eng 'Thailand Estimates of GDP.'

2.1.1 1941-1942

At the beginning of the Japanese occupation, from 1941 to 1942, Thailand saw a large drop of per capita GDP – a 12 per cent decrease (Table 2. 1). One of the main reasons for this reduction was unrelated to the war: In 1942, floods damaged over a third of Thailand's rice areas and paddy production fell by about 23 per cent (Table 2. 2 and Table 2. 3). Paddy production is not the complete picture – rice needs to be milled before consumption or selling. Little evidence exists on the operation of rice mills during the war; however, many small mills in the country relied on steam engines, and would have been able to continue production even as fuel became scarce.¹³³ Although steam engine mills were able to function, without machinery and parts for repair, they would have lost capacity over the course of the war. Rice exports fell from over 1,000 tons to 760 tons between 1941 and 1942. The export proportion over these years remained steady at about 30 per cent, suggesting that decrease in tonnage was more likely due to reduced supply in Thailand than to the shock of the Japanese occupation.

Imports – and consequently local consumption – fell drastically (Table 2. 4). In 1938-1939, textiles accounted for a quarter, and fuel for one-tenth of total import expenditures. Metal manufacturing and machinery together comprised roughly 20 per cent of Thailand's import spending. The country also imported large quantities of sugar and molasses. From 1942 onwards, the imported volumes of these commodities decreased rapidly. For instance, in 1942 cotton imports were a mere 24 per cent of their 1940 volume. Even more dramatically, the import of machinery had fallen to 13 per cent, and metal manufacturing to three per cent, of pre-war levels. The resulting lack of equipment, fuel, and raw materials was also a major obstacle to the government's industrialisation

¹³³ NARA, NND 867726, RG469 Entry 1383 Box 10 Mission to Thailand Executive Office subject files (central files) 1950-1954 COMMODITIES – RICE, 'Marketing of rice in Thailand by Graham S Quate, agricultural attaché,' 30 June 1952.

efforts (chapter 4). At first, the rate of imports fell more quickly and drastically than did GDP per capita, as goods imported earlier remained available and could be consumed in Thailand in 1942. As the war continued and supplies were depleted, consumption and per capita GDP continued to fall in parallel.

Table 2. 2 Thai rice production and export destinations, 1939-1945 (thousand metric tons)

Year	1939/40	1940	1941	1942	1943	1944	1945
Paddy production	4605	4972	5171	3907	5758	5158	4928
Milled rice*	2924	3157	3283	2481	3656	3275	3129
Singapore	719	416	199	38	146	137	127
Malaya	57	74	66	23	49	41	15
Hong Kong	329	261	263	0	0	0	32
China	39	96	167	66	30	13	0
Dutch East Indies	31	10	1	7	2	3	0
Japan	138	193	448	527	251	14	0
Other	598	172	30	99	67	105	23
Total exports	1911	1222	1175	760	545	313	197
Total exports as percentage of production	65	39	36	31	15	10	6

Source: Thailand, *Statistical Yearbook 1939-1944*, p.274.

*1 tonne of paddy is roughly 0.6349 metric tons of milled rice¹³⁴

Table 2. 3 National areas of rice planted, damaged, and harvested, 1941-1944

Year	Area planted	Area damaged		Area harvested	
		Amount	Ratio to planting (%)	Amount	Ratio to planting (%)
1941	24,807,839	2,136,049	8.61	22,671,790	91
1942	27,491,411	9,400,572	34.19	18,090,839	66
1943	26,967,013	2,323,766	8.62	24,643,247	91
1944	26,502,319	1,732,450	6.53	24,770,869	93

Source: Statistical yearbook 1944, p.471

¹³⁴ P. Gourou, *The Standard of Living in the Delta of the Tonkin (French Indo-China)* (New York, 1945), p.1.

Table 2. 4 Main import commodities by volume and percentage of pre-war average, 1941-1945

Commodities	Pre-war average (1938-1940)		1941		1942		1943		1944		1945	
	Thousand	%	Thousand	%	Thousand	%	Thousand	%	Thousand	%	Thousand	%
Cotton manufactures** (kg)	13328.7	100.0	14333.1	107.5	3292.5	24.7	3900.6	29.3	809.4	6.1	45.2	0.3
Yarns (kg)	3601.9	100.0	5546.8	154.0	593.6	16.5	290.3	8.1	64.4	1.8	11.9	0.3
Kerosene (litre)	39439.6	100.0	20044.2	50.8	11626.6	29.5	8055.1	20.4	2093.1	5.3	721.9	1.8
Benzene (litre)	30634.4	100.0	28810.6	94.0	2480.9	8.1	14658.1	47.8	6736.1	22.0	2595.7	8.5
Other petroleum products (litres)	78909.4	100.0	57034.4	72.3	13673.9	17.3	19131.1	24.2	11886.2	15.1	3301.8	4.2
Metal manufacturing (kg)	57279.4	100.0	25803.0	45.0	1972.5	3.4	2301.6	4.0	1975.0	3.4	340.6	0.6
Machinery (kg)	8029.8	100.0	5651.0	70.4	1052.7	13.1	1399.0	17.4	367.0	4.6	480.6	6.0
Sugar and molasses (kg)	33496.6	100.0	42830.0	127.9	6819.5	20.4	10932.1	32.6	4469.8	13.3	4545.4	13.6
Chemical products (kg)	10979.3	100.0	9352.2	85.2	2365.5	21.5	3502.4	31.9	493.3	4.5	284.1	2.6

** The volume of cotton import produced here only consist of those that were listed in kilograms in the Statistical Yearbook. Textiles imported by corges and other units were excluded.

Source: Thailand, *Statistical Yearbook 1939-1944*, pp.216-233; *Statistical Yearbook 1942-1945*, pp.234-251

Table 2. 5 Percentage of Thailand's total imports 1939-1940 by country

Country	Percentage
United Kingdom	40.8
Japan	9.6
China	8.9
India	8.2
United States	6.8
Penang	5.3
Netherlands India	5.0
Germany	3.3
Netherlands	2.6
Denmark	2.0
Switzerland	1.3
Others	6.2
Total	100

Source: Thailand, *Statistical Yearbook 1939-1944*, pp168-173.

Table 2. 6 Percentage of Thailand's total imports 1939-1940 by wartime affiliation

Country	Percentage
Countries within the Japanese Empire	28.8
Countries outside the Japanese Empire	71.2
Total	100

Source: Thailand, *Statistical Yearbook 1939-1944*, pp168-173.

In 1941 and 1942, the primary reason for decreased international trade was regional autarchy imposed upon the Greater East Asia Co-Prosperity Sphere, which prevented Thailand from importing from many of its most important trading partners (Table 2. 5 and Table 2. 6). Thailand consequently looked to Japan as a new source of imported goods. The war, however, prompted the Japanese to redirect their limited resources away from manufacturing 'non-essentials' and towards arms and ammunition production. Japan had next to no consumer goods to spare for export, and was required to ration most necessities in the home islands.¹³⁵ It was also Japanese policy to not send goods to Southeast Asia.

Another contributing factor to GDP reduction at the beginning of the war was the loss of industrial capacity. Other than rice milling, most industries in pre-war Thailand

¹³⁵ Booth, *Colonial Legacies: Economic Development in East and Southeast Asia*, p.153.

were in the hands of foreign companies, which were effectively expelled when the kingdom became an ally of Japan. The rest of Thai manufacturing also depended on imported machinery, fuel, and raw materials, which Thailand did not receive. For example, shortage of coal halted production in a Siam Cement Group plant.¹³⁶ Chapter 4 discusses Thailand's attempts to industrialise during the war and the several barriers to this while chapter 8 shows how wartime experience of shortages of imported goods and frustrated industrialisation efforts left important legacies that shaped 1950s Thai industry.

The final factor in the fall of GDP between 1941 and 1942 was the appropriation of transportation systems by Japanese occupying forces, making it more difficult for products to reach consumers in rural areas and further hindering production.¹³⁷ Japanese policy stated that 'occupation forces shall maintain control of railroads, shipping, harbors, aviation, communications, and postal services.'¹³⁸ Houses and luxury spaces, such as sports clubs, horse racing tracks, and tennis courts were also appropriated.¹³⁹ The seizure of railways and vehicles disrupted internal trade and transportation, and exacerbated the shortage of goods in many areas.¹⁴⁰ M. Sivaram, an Indian veteran journalist, described his visit to occupied Thailand:

¹³⁶ National Archives of Japan, 'Political and economic conditions of Thailand 1941,' p.160-162.

¹³⁷ Reynolds, 'Anomaly or Model?', p.253.

¹³⁸ 'Principles government the administration of occupied southern areas, adopted at the Liaison conference between Imperial Headquarters and the government, Nov 20, 1941' in Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*, p.2.

¹³⁹ National Archives of Japan, Diplomatic Archives of the Ministry of Foreign Affairs, Documents relating to Greater East Asia War, B02032441400, 'Imperial Japan and Greater East Asia co-prosperity sphere countries and territories occupied by Imperial Japan /Documents relating to handling of enemy asset and takeover of interests in Thailand and French Indochina,' 1942.

¹⁴⁰ Elizabeth M Collingham, *The Taste of War : World War Two and the Battle for Food* (London, 2011), p.235.

‘Gone were the signboards in English at the main stations of the Thai State Railways. At every place, there were two “stations” – the Japanese military station and the Thai station – with the Japanese in control of the entire traffic schedule and the Thais carrying on the local services, besides operating the military traffic for the Japanese.’¹⁴¹

The southern region of Thailand, where the Japanese first landed, suffered most.

According to a government emergency report, many channels of transportation and communication in the south were either destroyed or appropriated by the Imperial Army. While most town centers could still connect with the capital through telegram, many nonetheless experienced difficulties. The railway between Songkhla and Bangkok was cut, and Phatthalung officials could not communicate with nearby provinces due to the destruction of telegram and telephone apparatus. Chumphon’s main roads were taken over by Japanese soldiers, who then refused to let any cars through, even to delivery rice.¹⁴²

2.1.2 1943-1945

In 1943, per capita GDP recovered by eight per cent. This rise corresponded to an increase in rice cultivation and international trade. Though rice exports fell by 30 per cent, paddy production increased from 1942 by over 20 per cent, once again resembling 1941 levels. This upturn was in part because rice growers attempted to recover from the floods of the previous year. The other reason for increased cultivation despite the fall in exports was that the Thai government was purchasing paddy from peasants (section 2.2). Imports also increased: From 1942 to 1943, the volume of benzene imported rose from just over 2,000,000 litres to over 140,000,000, and the import of other petroleum products doubled. More cotton and machinery flowed into Thailand, which in turn increased consumption, allowed for some local manufacturing, and contributed to the rise of 1943 per capita GDP.

¹⁴¹ M. Sivaram, *The Road to Delhi* (Rutland, 1966), p.100.

¹⁴² NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.98/12, ‘รายงานคณะผู้แทนรัฐบาลในการไปเยี่ยมข้าราชการและประชาชนภาคใต้ยามฉุกเฉิน (Government reports from emergency visits to bureaucrats and citizens in the South)’, 1941.

The recovery was short-lived. After 1943, Thailand's per capita income continually fell, such that between 1941 and 1945, the kingdom's per capita GDP had fallen by 19 per cent. From 1943 onwards, legal rice exports decreased, from over 500,000 tons in 1943 to 100,000 in 1945. Paddy production, however, did not mirror this drop in exports, partly because of state intervention, but also – and more importantly – due to rice smuggling into Malaya (discussed further in section 2.2). At the same time, imports fell drastically. Imported cotton, yarns, and metal manufacturing in 1945 were less than one per cent of their pre-war volumes. By then, too, any existing goods which had already been in the country would have been significantly depleted or entirely used up, resulting in lower overall consumption and bringing local manufacturing to a virtual halt.

A main reason for this sustained decline in GDP was that Japanese merchant shipping capacity was drastically reduced, and along with it Thailand's ability to trade and access to manufactured goods. Japanese commercial shipping faced increasing destruction from Allied submarine attacks. In 1942, over 20 per cent of Japan's tonnage was sunk by enemy submarines. The number of destroyed ships doubled in 1943, losing nearly half of Japanese shipping capacity. Losses continued to rise. Japan was unable to construct enough vessels to replace those lost. By 1945, Japanese shipping capacity was reduced to a little over 500,000 tons, a mere 10 per cent of its 1941 tonnage (Table 2. 7).¹⁴³ This complete breakdown of international transport prevented Japan from shipping any goods to or between its occupied territories by the final stages of the war.¹⁴⁴ The number of ships cleared at the port of Bangkok fell by over 95 per cent between 1941 and 1945 (Table 2. 8) and Thailand's trade with Japan became negligible by the end of the war (Table 2. 9).

¹⁴³ Gyorgy Ranki, *Economics of the Second World War* (Vienna, 1993), p.159.

¹⁴⁴ Benjamin A. Batson, 'Siam and Japan: The Perils of Independence', in Alfred McCoy (ed.), *Southeast Asia Under Japanese Occupation* (New Haven, 1980), pp.276-277.

Table 2. 7 Japanese merchant shipping, 1941-1945 (000 gross metric tons)

<i>Year</i>	<i>Built</i>	<i>Sunk</i>	<i>Net change</i>	<i>Operable ships</i>
1941	68	272	127	5,296
1942	362	1,270	-511	5,348
1943	1,094	2,560	-1,366	4,712
1944	1,590	3,481	-1,840	3,411
1945	179	1,051	-972	557

Source: Ranki, *Economics of the Second World War*, p.159.

Table 2. 8 Cargo ships cleared at the port of Bangkok, 1941-1945

<i>Year</i>	<i>Inwards</i>		<i>Outwards</i>	
	<i>Number</i>	<i>Tonnage</i>	<i>Number</i>	<i>Tonnage</i>
1941	406	519,867	533	790,565
1942	55	133,881	89	253,866
1943	86	132,516	113	187,972
1944	47	35,496	74	51,383
1945	18	7,198	14	3,245

Source: Doll, *Report of the Financial Adviser*, p.17.

Table 2. 9 Thailand's trade with Japan, 1942-1945 (baht)

<i>Year</i>	<i>Imports</i>	<i>Exports</i>	<i>As percentage of Thailand's total trade</i>
1942	68,640,594	105,182,787	72.9
1943	134,107,315	61,882,656	61.5
1944	70,860,944	33,980,322	41.8
1945	1,397,229	808,677	1.1

Source: Doll, *Report of the Financial Adviser*, pp.12-14.

Thailand reportedly had only eight operable commercial ships during the Second World War. The kingdom did not have much merchant shipping to begin with, and some of their vessels were appropriated by the Japanese. All eight vessels were almost always at sea during this period, stopping in southern Thailand before making their way up the peninsula to Bangkok. The Thai Ministry of Commerce and the Japanese government were aware that Indonesia had large quantities of goods needed in Thailand, specifically molasses. Japanese officials and merchants often explained that they could not spare a ship for the long travel to Java. Japan's air force was reportedly hesitant to air drop products, and claimed – most likely accurately – that it had no planes to spare. Though Thailand had its own navy and there is no evidence of Japanese confiscation of military ships, the Thai government was hesitant to utilise these vessels to transport goods. Not only was the navy

unsure of how to transform a warship into a cargo ship, officials were also uncertain whether the benefit of importing goods from Java was worth the potential loss of one of its few ships. The Thai navy reasoned that it could not send ships to Indonesia without a Japanese convoy. Until the Japanese navy committed to the voyage, its Thai counterpart could not properly consider, let alone begin the journey.¹⁴⁵

The final reason for sustained GDP decline was destruction from Allied air raids. There was a total of 23 air raids, concentrating on cities like Bangkok and Chiangmai, and on railways and roads. These attacks destroyed important infrastructure, such as many electric power stations, Makkasan railway station, hospitals, and markets. Reconstruction of infrastructure played an important part in Thailand's immediate post-war experience. Additionally, the small quantities of goods that did reach the port of Bangkok could not travel efficiently across the country, because domestic transport systems – both on land and by water – were destroyed by air raids.¹⁴⁶ ‘Allied demolition of refineries, pipe lines, river launches, railways, bridges, and locomotives resulted in a virtual cessation of internal transport.’¹⁴⁷ Consumers in the countryside, therefore, had even fewer goods to consume than their urban counterparts (see also above, p.34 on ecclesiastical expenditures).

2.1.3 Japanese extraction of resources

Important to the decline of national income was that the Japanese directly extracted non-market resources from Thailand during its occupation, including living off the land,

¹⁴⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98/32, ‘เบ็ดเสร็จเรื่องการค้าและการขนส่งสินค้าระหว่างไทยกับญี่ปุ่น (Comprehensive data on trade and transport of goods between Thailand and Japan),’ 1942, pp.82-83, 101-102, 113, 118; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98/43, ‘รายงานเรื่องเรือดำน้ำข้าศึกโจมตีอ่าวไทย (รวมทั้งเรือบินและเรือรบ) (Report on enemy submarines attacking the Thai harbour (including planes and ships),’ 1944, pp.5-6.

¹⁴⁶ J.C. Ingram, *Economic Change in Thailand, 1850-1970* (Stanford, 1971), p.86, Andrus, *Burmese Economic Life*, p.341.

¹⁴⁷ *ibid.*, p.335.

mobilising labour, and appropriating equipment and Allied assets. These methods are difficult to quantify, especially in determining year-to-year changes and the effects on fluctuations of per capita GDP during the war. All, however, involved Thailand losing resources to the occupying forces at the expense of the kingdom.

Japanese soldiers stationed in Southeast Asia lived off the land and consumed local resources. This practice was the result of Japan's own food scarcity, attempts to alleviate the shortage in the Japanese home islands, and the growing number of military personnel. Indeed, the Imperial Army not only instructed soldiers to make use of local resources, but also even sent soldiers on missions with less than half the necessary food rations, with the expectation that soldiers would simply plunder and/or take control of enemy supply in the future.¹⁴⁸

The most infamous case of labour extraction was the construction of the Thailand-Burma railway, which recruited roughly 300,000 Asian workers – mostly Chinese coolies residing in Thailand – and claimed the lives of half, along with those of 15,000 prisoners of war.¹⁴⁹ Few ethnic Thais were sent to work on the railway, as the government did not want ethnic Thais to suffer and the Japanese preferred Chinese coolies because they were 'better' labourers. While the construction of the railway contributed to the Thai GDP, the extraction of labour and loss of lives stifled Thailand's economy in other sectors.

Finally, the Thai government had difficulties regaining control of Allied assets in the kingdom from the Japanese army. These assets included shipping companies like the British East India Company, newspapers such as the Bangkok Times Press, engineering companies like the International Engineering Company, as well as most European

¹⁴⁸ B.F. Johnston, *Japanese Food Management in World War II* (Stanford, 1953), p.152; Collingham, *The Taste of War : World War Two and the Battle for Food*, p.274.

¹⁴⁹ Charles A. Fisher, 'The Thailand-Burma Railway', *Economic Geography* 23, no. 2 (1947): 85–97, p.92.

concessions for tin and teak, for instance the Bombay Burma Trading Company. On paper, the Japanese insisted to Thai officials that the Imperial Army would ‘always respect the sovereignty of our ally, Thailand.’¹⁵⁰ In private communications, however, Japanese officials stated that Thai officers must have the impression that they were in charge, but the needs of the Japanese army and its war effort must take precedence. For instance, Japan was adamant that it should retain control of the Bangkok Times newspaper, and was prepared to buy out other holders for complete ownership. Tin mines and the facilities of the Standard Oil Company, both beneficial to the war effort, remained under the Japanese army’s control and could be used by Japanese private companies or Japanese-Thai joint ventures for a fee. Thai companies could not access these facilities directly.¹⁵¹ These various forms of appropriation of local Thai resources by the Japanese occupying forces, while difficult to quantify, doubtlessly contributed to the reduction of GDP of Thailand.

2.2 Why was wartime GDP not lower?

Compared to other Southeast Asian countries, not only did Thailand’s GDP suffer less of a decline during the Japanese occupation, but it also recovered more quickly than that of its neighbours. While Thailand’s GDP per capita had fallen by 19 per cent by 1945, this decline was markedly less than in other Southeast Asian countries, many of which saw their GDP fall by roughly 50 per cent in the same time period. (Table 2. 10). Despite some political instability, in the form of several *coups d’état*, Thailand had regained pre-war levels of output by 1948. Indonesia, the Philippines, and Indochina saw their national income halved under Japanese occupation, and were still in the process of recovering in

¹⁵⁰ National Archives of Japan, Diplomatic Archives of the Ministry of Foreign Affairs, B02032441400, ‘Documents relating to handling of enemy asset and takeover of interests in Thailand and French Indochina,’ 1942.

¹⁵¹ National Archives of Japan, National Institute for Defence Studies, Ministry of Defence, C01000940700, ‘Disposal of enemy property in Thailand,’ 1942.

1950. These statistics suggest that Thailand did not suffer as much as its neighbours during the Second World War.

Three main reasons account for Thailand's relatively benign experience of the Second World War: First, as the only independent country in Southeast Asia, the Thai government could make self-preservation a priority, avoiding destructive warfare and curtailing Japanese domination in Thai domestic affairs. Secondly, though Thailand's economic structure led to shortages of necessary consumer goods, the high specialisation in rice and its production by small farms not only prevented the Japanese from extracting too many resources, but also meant that a large part of the country was at least able to feed itself during the occupation, while many of its Southeast Asian counterparts experience widespread starvation during the Second World War. Finally, the rice industry in Thailand did not collapse thanks in part to government support and a booming black market demand for Thai rice in Malaya and Singapore.

Table 2. 10 GDP per capita relative to 1938 (%) in Southeast Asia, 1939-1950

<i>Year</i>	<i>Thailand</i>	<i>Burma</i>	<i>Malaya</i>	<i>Indonesia</i>	<i>Indochina</i>	<i>Philippines</i>
1939	100		99	98	107	105
1940	102		130	104	97	105
1941	102			110	92	
1942	90			88	84	
1943	98			70	79	
1944	92			55	62	
1945	83			48	49	
1946	87			50	57	45
1947	94			57	60	61
1948	101			66	62	69
1949	100		125	72	68	71
1950	101	53	132	74	79	74

Source: Huff and Majima, p.951.

2.2.1 Nominally independent government

The factor which contributed to Thailand's survival of the war was its unique political status as the lone independent country in Southeast Asia. Thailand was able to

protect itself from engaging in direct conflict, maintained relative political stability, and could limit the economic exploitation through negotiations with Japanese officials. Thailand's independent government could therefore insulate its citizens from the disorder that usually accompany war and occupation. When faced with the initial Japanese invasion, none of the European powers in the region were prepared to give up their colonies without a fight. The most prominent example was Burma: Anglo-Indian and Anglo-Burmese forces fought against the Japanese when they invaded Burma in January 1942.¹⁵² Upon the British defeat, the Burma Independence Army (BIA) rose to fill the temporary power vacuum. The BIA distributed arms to villages to be used for 'defence' and chaos reigned. The Burmese Intelligence Bureau records '...the criminal element...took full advantage of conditions of the service weapons which fell into their hands and indulged wholesale in dacoity [banditry] and other crimes of violence.'¹⁵³ During this time, 400,000 people, most of whom were Indian, fled the capital.¹⁵⁴ To make matters worse, the British regained control of Burma in 1945 through violent conflict, turning the country into a battlefield for the second time in three years.¹⁵⁵ Unlike Britain's imperial interests in the region, Thailand's main concern was the wellbeing of its own citizens. Determined to keep fighting off the country's soil, Phibun acquiesced to Japanese demands, eradicating any perceived need for the Japanese to dominate the country by force. While Allied air raids did eventually destroy much of Thailand's infrastructure and residential buildings, Thailand did not see much fighting on the ground throughout the war largely due to its fortunate geographic location of being in the middle of continental Southeast Asia. Battles in Southeast Asia mostly occurred on islands, such as the

¹⁵² Christian, *Burma and the Japanese Invader*, p.337.

¹⁵³ Burma Intelligence Bureau, *Burma during the Japanese Occupation*, pp.1-4.

¹⁵⁴ Christian, *Burma and the Japanese Invader*, p.348.

¹⁵⁵ J.M. Pluvier, *South-East Asia from Colonialism to Independence* (Kuala Lumpur, 1974)pp. 347, 389, 393.

Philippines, and to the west or south of the country, in Burma and Malaya. Thanks to all these factors, the Thai government remained intact, kept order, and prevented anarchy from arising.

After the initial invasion, Thailand's nominally independent government was able to hold its position throughout the entire Second World War, which prevented a total Japanese takeover and cushioned the kingdom against the effects of the occupation. The Thai government was able to negotiate with the Japanese on monetary matters (chapter 3), held back the influence of Japanese merchants, and supported the continued rice production (see below). Additionally, the fact that the Thai government remained at least nominally in power during the war also ensured a relatively smooth transition into the post-war period. Despite some political turmoil, no bloodshed or violent revolutions took place in Thailand after 1945, unlike most of its neighbours, which experienced radical disruption as part of a process of decolonisation and fighting for independence.

2.2.2 Economic structure

The nature of Thailand's economy imposed significant limitations on resource extraction as well as saving the population from starvation. Unlike the Nazi-occupied industrialised Europe, agrarian Southeast Asia had relatively little to offer the Japanese war effort in terms of industry and manufactured goods. Regardless of powerful extractive schemes, Thailand's highly specialised economy meant the resources available for extraction were rice, rubber, tin, and teak.¹⁵⁶

As an almost entirely peasant economy, a large part of the country was able to feed itself, unlike many of its Southeast Asian counterparts which faced serious wartime food shortages. Indeed, roughly 80 per cent of the Thai population grew rice; and most of the country's cultivated land was dedicated to rice crops (chapter 1). Though the Thai

¹⁵⁶ Anne Booth, *Colonial Legacies: Economic Development in East and Southeast Asia* (Honolulu, 2007), p.158.

government did struggle to regulate the flow of grain, there is no evidence of famine in Thailand. Indeed, the only foodstuff rationed by the government was sugar.

Thailand's rice-exporting neighbours had more integrated economies, leading to localised food shortages and famine during the war. Peasants living in central and upper Burma relied on foodstuffs from lower Burma, leaving these people vulnerable to hunger with limited access to their staple food.¹⁵⁷ The famine in northern Indochina is believed to have killed one million people.¹⁵⁸ Though rice produced in southern Indochina would normally have been sufficient to feed the entire country, a combination of poor harvests, Allied bombing of transportation links, stockpiling of rice by French and Japanese soldiers, and breakdown of law and order in rural areas hindered food from reaching those in the north.¹⁵⁹

Non-rice producing countries, such as Indonesia and Malaya, suffered further under Japanese occupation. Wartime famine in Java resulted in some 2.4 million excess deaths. The breakdown of transport and poor Japanese management of supplies left many in Jakarta, Surabaya, and other big cities facing acute food shortages. Children born in Jakarta in 1944-1945 were significantly smaller than those born before 1940.¹⁶⁰ Malaya was a rice-deficit country and therefore depended on rice imports from Thailand and Burma. By 1945, the availability of rice in Malaya had fallen to a mere 17 per cent of its

¹⁵⁷ Burma Intelligence Bureau, *Burma during the Japanese Occupation*, vol. II (Simla, 1945), pp.173, 184.

¹⁵⁸ David G. Marr, *Vietnam: State, War and Revolution (1945-1946)* (Berkeley, 2013), p.365.

¹⁵⁹ Le Manh Hung, *The Impact of World War II on the Economy of Vietnam* (Singapore, 2014), pp.255-6.

¹⁶⁰ Pierre van der Eng, 'Food Supply in Java during War and Colonisation, 1940-1950', *Munich Personal RePEc Archive* 8852 (2008), <https://mpra.ub.uni-muenchen.de/id/eprint/8852>, pp.8, 37-38.

pre-war level. Severe malnutrition was widespread.¹⁶¹ Malaya's dire need for foodstuffs supported Thailand's rice industry during the war, as discussed further below.

2.2.3 State support of key industries

Thanks to Thailand's independence and relative political stability, the Thai state was able to intervene to keep some of Thailand's most important sectors – rubber, tin, and, most importantly, rice – from collapsing. The Thai government purchased surplus products, regulated prices, and redistributed rice to non-producers. There are no reliable statistics regarding the total funds or amount of goods bought by the state, and consequently, this section is based on scattered qualitative data collated from the holdings of the National Archives of Thailand.

Prior to the war, Thai-produced rubber and tin were largely purchased by Chinese traders or European companies. At the immediate onset of the war, most rubber plantation workers and miners lost their main source of income, as Westerners were driven out of the country by the Japanese. Though there were fewer British- and Australian-operated mines in pre-war Thailand, they were larger, more productive, and employed more workers than Chinese-operated mines. In 1936/37, slightly less than two-thirds of total tin output was generated by British and Australian companies.¹⁶² Although Japan did need some rubber and tin for its war effort, the post-1943 breakdown of transport within the Japanese Empire limited the ability to import these commodities. To sustain the economy of the south, Thai government officials purchased tin in bulk at 0.8-1.3 baht per kilogram, to prevent the economy of these provinces from collapsing. The pre-war price of tin was roughly 2.8-2.9

¹⁶¹ Aiko Kurasawa, 'Transportation and Rice Distribution in Southeast Asia during the Second World War', in *Food Supplies and the Japanese Occupation in Southeast Asia*, ed. Paul H. Kratoska (New York, 1998), 32–66, pp.50, 55-56.

¹⁶² Ingram, *Economic Change*, p.100.

baht per kilogram; the low purchase price by the government still led to a significant drop in miners' incomes, but did succeed in alleviating some suffering.¹⁶³

During the war, the numerical contribution of rice to GDP decreased by 28 per cent, but paddy production remained relatively stable. One reason for this was extensive governmental programmes to absorb the surplus of rice and some less important commodities like rubber that could not be exported. The other, most likely more important, factor was the high demand for rice in Malaya (discussed below).

Though Japan initially imported rice from Thailand, the volume of Thai rice exports fell by roughly 83 per cent from 1940 to 1945, due to loss of commercial shipping.¹⁶⁴ To sustain rice production, officials regulated prices. While higher prices put wage earners and those who purchased food at a disadvantage, officials decided that rice buyers were in the 'minority' and that assisting rice farmers was the higher priority.¹⁶⁵

The Thai Rice Company, founded by the Phibun administration in the 1930s to counter the hold of Chinese millers and traders on the rice industry, was the government's most powerful tool. The Thai Rice Company continued to purchase paddy and milled rice from farmers, and sold the product to small Thai vendors at a slight discount, to facilitate distribution throughout the country.¹⁶⁶ The company distributed grain in deficit areas, extended credit to farmers, and influenced prices. Up until at least 1944, officials allowed rice to be exchanged for other agricultural or artisanal goods.¹⁶⁷

¹⁶³ NAT, 'Government reports from emergency visits,' pp.11-28.

¹⁶⁴ Ingram, *Economic Change*, p.38.

¹⁶⁵ NAT, Department of the Secretariat of the Cabinet, (3) สร 0201.29.1/28, 'ราคาข้าวในตลาดกรุงเทพฯ และที่ส่งออกนอกประเทศ (Rice prices in the Bangkok market and exports)', 1943, pp.9-12.

¹⁶⁶ NAT, Department of the Secretariat of the Cabinet, (3) สร 0201.29.1/27, 'รายงานการจัดตั้งซื้อข้าวเปลือกตามตำบลต่างๆของบริษัทข้าวไทย (Thai Rice Co. reports on purchasing paddy in various districts).'

¹⁶⁷ NAT, Department of the Secretariat of the Cabinet, สร.0201.45.2/4, 'จัดตั้งให้ร้านจำหน่ายสินค้าย่อยของคนไทย (Promoting Thai goods in retail shops),' 1944, pp.50, 74.

Governmental cooperatives also purchased paddy from their members, despite having no outlet for the product. Instead of rice passing through middlemen to reach consumers, much of the rice purchased by officials was stored in governmental warehouses, as local consumption could not possibly have risen enough to compensate for the large quantities being exported prior to the war.¹⁶⁸ Through these mechanisms, the Thai government helped sustain rice production and was therefore able to maintain per capita GDP at a relatively high level.

Similar rice purchasing programmes were also put in place in Indochina and Burma. French administrators mandated state purchase of rice, and production in Indochina was relatively stable until 1944, when the country suffered severe weather and bad harvests.¹⁶⁹ The comparison with Indochina suggest that state intervention could be an effective strategy and contributed to high levels of paddy production despite the loss of shipping in 1943; Thailand was simply more fortunate than northern Vietnam and did not endure bad harvests in 1944. The Burmese attempts were, however, far less effective, partly because farming cattle was commandeered by the Japanese, and because peasants abandoned their land in fear of the danger posed by the Japanese or other armed groups active in the countryside. Rice production in Burma, thus, began declining in 1942 and continued to do so over the course of the war.¹⁷⁰ Burma's situation demonstrate that the Thai government's ability to achieve relative political stability and peace in the countryside was crucial to the success of the rice purchasing scheme.

¹⁶⁸ NAT, Ministry of Foreign Affairs, (2)กต 1.1.1.2/3, 'ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณาครั้งที่ 1/2488-15/2488 (Agenda for the Cabinet Meeting 1/2488-15/2488),' 1945, p.60.

¹⁶⁹ Hung, *The Impact of World War II on the Economy of Vietnam*, pp.230, 253.

¹⁷⁰ Burma Intelligence Bureau, *Burma during the Japanese Occupation*, pp.185-6.

2.3.4 Rice trade and smuggling to Malaya

A further reason for the smaller reduction in Thai GDP and stable paddy production was the illegal rice trade between Thailand and Malaya. It is true that the black market had existed since the beginning of the war; as early as 1942, a Malay source reports Sino-Thai traders selling contraband rice and foodstuffs.¹⁷¹ The loss of Japanese commercial shipping, however, significantly exacerbated smuggling.

After Japanese merchant shipping collapsed in 1943, local entrepreneurs and trading bodies began shipping rice from southern Thailand to Malaya.¹⁷² For instance, Japanese sources found that Yu Lee & Co, a trading company based in Bangkok which had extensive connections with Malay Chinese merchants in Penang and Syonan (Singapore), was delivering unspecified large quantities of rice to Malaya.¹⁷³ In 1944, Malay Chinese traders in Syonan formed the Syonan Rice Import Association to transport rice from Thailand.¹⁷⁴

While some of this rice trade was legal, smuggling was more prevalent and lucrative. According to official statistics, in 1944, Malaya and Singapore imported 140 tons of rice from Thailand, replacing Japan as the largest importer of Thai rice (Table 2. 2). In the same year, smuggled rice reportedly grew from just under 300,000 kilograms in June to roughly 2,000 tons in September.¹⁷⁵ This difference can be explained by the high price discrepancy between black market and legally imported rice. In 1944, the

¹⁷¹ Kee On Chin, *Malaya Upside Down* (Singapore, 1946), p.36.

¹⁷² Paul H. Kratoska, *The Japanese Occupation of Malaya: The Social and Economic History* (London, 1998), pp.249-255.

¹⁷³ Shigeharu Matsu'ura, Naosaku Kirita, and Masaji Nagamori, 'Rice Imports to Malaya, with Special Reference to Syonan Municipality, September 1944', in *World War II Singapore: The Chōsabu Reports on Syonan*, by Gregg Huff and Shinobu Majima (Singapore, 2018), 432–82, p.455.

¹⁷⁴ Matsu'ura, Kirita, and Nagamori, p.437.

¹⁷⁵ Matsu'ura, Kirita, and Nagamori, p.482.

retail price of rice was 15 baht per kilogram; however, black market prices could be as high as 35 baht.¹⁷⁶

Along with extensive government intervention, this illegal trade between Thailand and its southern neighbours provided an export channel for Thai rice, helped sustain paddy production, and prevented Thailand's GDP from shrinking further.

Conclusion

Ultimately, the Greater East Asia Co-Prosperity Sphere did not deliver on its promises for any party involved. The Co-Prosperity Sphere positioned Japan as the sole possible supplier of manufactured products to agrarian Southeast Asian countries, which then had to identify new outlets for large quantities of their primary exports. The complete breakdown of Japanese shipping capacity towards the close of the war badly affected both sides of the occupation. Thailand lost the inflow of necessary imports and most of the legal market for its agricultural produce. The kingdom was exploited by the occupying forces, including through the conscription of labour, soldiers living off the land, and the appropriation of resources.

These statistics indicate that Thailand suffered considerably less damage than its neighbours. Its nominally independent government could work to mitigate Japanese exploitation and was largely responsible for keeping order throughout the period. The high specialisation in rice and shortage of shipping not only limited Japan's ability to extract resources, but also saved most of Thailand's population from starvation. The rice industry was sustained by both government intervention and the black market in Thailand's southern neighbours.

¹⁷⁶ NAT, Ministry of Foreign Affairs, (2)กต1.1.1.2/2, 'ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณา ครั้ง ที่5/2487-11/2487 (Agenda for the Cabinet Meeting 5/2487-11/2487),' 1944; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.6/12, 'การลักลอบสินค้าออกนอกประเทศ (Reports on international smuggling),' 1951, pp. 1-39.

Chapter 3 Wartime finance and occupation costs

Introduction

Even though the effect of the Japanese occupation was less severe than anywhere else in Southeast Asia, it nevertheless profoundly affected the Thai economy. This chapter continues the narrative of disruption by focusing on how Japan financed its occupation of Thailand and so contributes to the dissertation's main aim: To explore for the kingdom the consequences of Japanese occupation. The methods and economics occupation finance and governmental reaction to these will be discussed. Of particular importance, are the Japanese financial strategy by which Thailand found itself financing its own occupation and the mechanisms of deficit finance and rapid money creation through which this largely occurred. The chapter utilises primary sources from the National Archives of Thailand and the Bank of Thailand libraries, along with data from the Statistical Yearbooks of Thailand and various governmental reports from financial advisers and the IMF.

The Japanese devised powerful tools of financial extraction in the form of bilateral agreements and near unlimited credit schemes. These agreements, negotiated with the Thai government and more or less forced upon it, led to a swift expansion of base money supply and so inevitably to high inflation. Owing to pre-war Thailand's strict adherence to the gold-exchange standard and conservative monetary policies, rapid price rises were a phenomenon previously unknown in Thailand and a matter of considerable disquiet to Thai officials as well as disturbance to the economy.

By the end of the war in Thailand, prices had risen at only about the same rate as additions to the money supply. Although that outcome is consistent with the prediction of the quantity theory of money in which the velocity of circulation is assumed constant, this assumption is generally not expected to hold in the face of high inflation: people have an incentive to divest themselves of cash as quickly as possible before its purchasing power is

further eroded by rising prices. However, in Thailand most people did not try quickly to rid themselves of money. Despite monetary expansion, inflation did not skyrocket, in contrast to the spiralling prices or hyperinflation in other parts of occupied Southeast Asia. The chapter analyses this Thai exceptionalism in terms of a framework of the demand for money and argues that relatively low Thai inflation is explained mainly by a nominally independent Thai administration and so a currency essentially unchanged in appearance, Thailand's largely self-sufficient economy and, in particular, the behaviour of the kingdom's peasant rice growers.

Current scholarship on Asian wartime finance is slight, and has addressed neither the full financial effects of Thailand's incorporation into the Japanese Empire, nor how these effects influenced subsequent economic change. Although I draw on Ingram's and Huff and Majima's work on the financing of Japanese occupation, the present chapter aims for a wider perspective on the war, including the Thai government deficits and Japanese methods of resource extraction.¹⁷⁷ William Swan's research on the Thai-Japanese financial relationship adds important contribution to understanding occupation finance. Yet, his research mostly relies on Japanese sources, focuses on the lengthy negotiation process for an initial financial agreement, stops only at 1942, and claims that 'the Thais could keep track of their financial affairs thus allowing them to pursue active policies to remedy their economic and monetary problems brought on by the war . . . [Thais] could negotiate to ameliorate their situation.'¹⁷⁸ I expand the time period and study the Thai-Japanese financial relationship for the entirety of the Second World War, as well as draw extensively on Thai sources to throw light on the Thai perspective. Due to this wider

¹⁷⁷ Huff and Majima, 'Financing Japan's World War II Occupation'; Gregg Huff and Shinobu Majima, 'The Challenge of Finance in Southeast Asia during the Second World War', *War in History* 22, no. 2 (2014): 191–210; Ingram, *Economic Change*, p.163-5.

¹⁷⁸ Swan, 'Japan's Economic Relations with Thailand: The Rise to "Top Trader" 1875-1942'; Swan, 'Thai-Japan Monetary Relations at the Start of the Pacific War', p.346.

scope, the chapter explores the implementation of the policies detailed in the financial agreement, and finds that Thailand had less *de facto* control over its finances than Swan claims.

The chapter is organised as follows: The next section outlines Japanese financial policies for Thailand and examines how Japan used bilateral agreements to control Thailand's monetary system. Section two discusses Thai money creation to finance the Japanese occupation and to cover its own budget deficits which consequently led to high inflation and other currency problems. The third section argues that inflation was not higher in Thailand because of government attempts to increase confidence in the currency and, more importantly, because Thai economic structure and war conditions discouraged spending. These factors slowed down money velocity and kept price rises parallel with increases in money supply, preventing inflation from skyrocketing.

3.1 Japanese financial policies towards Thailand

Japan explicitly stated that it aimed to 'bring about the reorganisation of Thailand's economic system as a member of the Greater East Asia economic bloc.'¹⁷⁹ However, the actual purpose was to finance Japan's occupation, to ease the extraction of Thai resources, and to incorporate Thailand into the yen bloc. Additionally, Japan wanted to rid Thailand of western influence, especially Britain's. In 1943, Prime Minister Tojo stated that through the Greater East Asia Co-Prosperity Sphere, Thailand had 'cast off her many years of complex and delicate relations with the United States and England' and that Thailand was working towards more integration with the Japanese Empire.¹⁸⁰

This integration, however, depended partly on respecting Thailand's sovereignty; thus, the Japanese did not and could not explicitly seize control of the Thai monetary

¹⁷⁹ Swan, 'Japan's Intentions', p.141.

¹⁸⁰ 'Premier Tojo's address before the 82nd extraordinary session of the imperial diet, June 16 1943' in Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*.

supply.¹⁸¹ Policy instructed Japanese armed forces to utilise local currency ‘as much as possible,’ and only introduce scrip when necessary.¹⁸² The Japanese therefore negotiated two bilateral agreements to achieve their goal and finance their occupation of Thailand. While these bilateral agreements were better than Japanese-printed military scrip, the terms of the treaties were still extremely unfavourable to Thailand. The first was the baht-yen parity agreement, which devalued the Thai currency by roughly a third and allowed Japan to acquire goods at a cheaper rate. The second was the ‘special yen’ scheme, which necessitated the Bank of Thailand to print notes for Japanese use and to receive compensation only in ‘special yen’ credits; the yen were ‘special’ because Thailand could not use these yen to purchase Japanese imports without permission. The special yen agreement, along with the difficulties in spending these credits undermine Swan’s claim that ‘Thailand’s monetary system remained in Thai hands.’¹⁸³ Rather, the kingdom had little say in how much currency was being printed and how they could spend their yen credits.

Prior to the adoption of the bilateral agreements, Japan borrowed funds from Thailand to pay for exports. Thailand was thus already Japan’s creditor for 65 million baht before the occupation.¹⁸⁴ On 21 December 1941, as part of their military alliance, the two governments agreed upon specific lending terms for another loan: from the date of the contract to June 1942, Japan’s Yokohama Specie Bank was to borrow 80 million yen (50 million baht) from the Banking Bureau of the government of Thailand at the pre-war exchange rate. The Yokohama Specie Bank was to repay as much of the loan as possible

¹⁸¹ Swan, ‘Thai-Japan Monetary Relations at the Start of the Pacific War’, p.314.

¹⁸² ‘Principles government the administration of occupied southern areas, adopted at the Liaison conference between Imperial Headquarters and the government, Nov 20, 1941’ in Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*, p.2.

¹⁸³ Swan, ‘Thai-Japan Monetary Relations at the Start of the Pacific War’, p.346.

¹⁸⁴ Swan, p.140.

in baht by 1 July 1942; the remaining balance would be paid in gold at the official American market rate on the day of settlement.

The Japanese were unhappy about this arrangement, especially regarding gold repayments and pushed for a policy change. The first bilateral agreement was the baht-yen parity contract, which was adopted on 22 April 1942. Prior to the occupation, 100 baht could purchase 155.7 yen.¹⁸⁵ In accordance with Japan's vision of an integrated wartime empire, contemporary Thai and Japanese newspapers reported that the parity would improve the country's status as a trading centre and tighten its economic relationship with other countries in the yen bloc, as the currencies of the rest of Japan's wartime empire were pegged to, and on parity with, the yen.¹⁸⁶

The new exchange rate was in effect for only a month when Japan proposed the special yen agreement, rendering the parity practically obsolete. This new agreement was signed in May 1942, allowing Japan to pay for its Thai transactions in 'special yen' instead of gold.¹⁸⁷ Japan already had similar arrangements with Indochina and Germany.¹⁸⁸ The process was as follows: when Japan required money for Thai goods or services, the Yokohama Specie Bank would credit the accounts of the Bank of Thailand with the necessary amount of special yen. The BOT, then, had to print the equivalent quantity of baht for the Japanese to spend on these commodities. The baht-yen parity agreement prohibited any adjustment to the exchange rate, and thus the Thai government could not modify the exchange rate to reduce money creation.¹⁸⁹ This scheme was an extremely

¹⁸⁵ W. A. M. Doll, 'Report of the Financial Adviser Covering the Years BE 2484 (1941) to BE 2493 (1950)', 1951, p.53.

¹⁸⁶ Swan, 'Thai-Japan Monetary Relations at the Start of the Pacific War', p.333.

¹⁸⁷ Swan, 'Japan's Intentions', pp.325, 338.

¹⁸⁸ Swan, 'Japan's Economic Relations with Thailand: The Rise to "Top Trader" 1875-1942', p.198.

¹⁸⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.3/22, 'คลังเสนอรฐานะการการเงินของประเทศไทย รฐานะการคลัง และเรื่องเงินเพื่อและแถลงการณ์ (Ministry of Finance report on the national fiscal

powerful tool for resource extraction, giving the Japanese purchasing power that was only limited by Thailand's physical capability to provide goods and services. After months of negotiation, Thai officials were able to persuade Japan to periodically convert 10 per cent of credits into gold which was held in Tokyo.¹⁹⁰ Even so, it is apparent that Thailand was at a disadvantage. The Japanese were essentially dictating Thai currency terms for their war effort.¹⁹¹

An important aspect of special yen was that they were only usable with Japanese permission, which was near impossible to obtain. Private exporters were required to obtain 'export bills' from the Yokohama Specie Bank in Japan, which would send the bill to its Bangkok branch for collection. Once goods have been sold and the exporter has received profits in baht, he still had to settle the export bill through the Bangkok office of the Yokohama Specie Bank. The Thai Ministry of Finance stated that

'exportation of goods from Japan without export bills [was] prohibited by the Foreign Exchange Control Law of Japan, as it prohibited in Thailand by the Ministry of Commerce, except the case when previous special permit [was] accorded. It [was] not only very difficult but also very troublesome to obtain said permit.'

This specific permit was what the Thai Government would have to obtain if it wanted to pay for imported goods directly from its special yen account, as that transaction was considered an exportation of goods without the ordinary export bill.¹⁹²

Many people lodged complaints with the Ministry of Finance after Japanese companies refused to accept payment in yen credits, which was apparently a common

situation, treasury, and inflation),' 1953, pp.14-16, 55; Doll, 'Report of the Financial Adviser', pp.53-55.

¹⁹⁰ Huff and Majima, 'Financing Japan's World War II Occupation', p.941.

¹⁹¹ Mark Peattie, 'The Japanese Colonial Empire 1895-1945', ed. Peter Duus, vol. 6, The Cambridge History of Japan (Cambridge, 1989), 217-70, p.255.

¹⁹² NAT, Department of the Secretariat of the Cabinet, สร0201.33/59, 'การซื้อของจากต่างประเทศในเวลามีสงคราม และการชำระเงินค่าสิ่งของเป็นเงินเยน (Purchasing Imported Goods during Wartime and Paying for Commodities in Japanese Yen),' 1943.

occurrence and indicative of Japanese merchants' awareness of the worthlessness of the 'special yen.' In March 1943, for example, the Thai Ministry of Defence attempted to purchase ammunition and airplane parts with yen credits; however, the seller demanded settlement in baht and still refused special yen payment even after series of negotiations.¹⁹³ Similarly, in September 1943, the Ministry of Commerce reported that it tried to purchase medical supplies from a Japanese company, Takeda, which too would only accept settlement in baht.¹⁹⁴ Unable to use the 'special yen,' Thailand was essentially handing goods to Japan for nothing. Doll, the Financial Adviser to the Thai parliament, remarked, 'This was Co-Prosperity with a vengeance, Japan getting the prosperity and leaving Siam with only the co-.'¹⁹⁵

3.1.1 The creation of the Bank of Thailand

As necessitated by the special yen agreement, Thailand established a central bank in 1942. The need to establish a central bank to print notes for the Japanese coincided with Thai officials' near decade-long wish for such bank. However, whether a bank would have been founded so quickly or in the same form without the pressure of occupation seems unlikely. The establishment of the Bank of Thailand is an example of how the Japanese occupation both helped Thailand to realise a pre-war ambition and probably also contributed to shaping its outcome.

While Thailand wanted a central bank before the war, Thai officials did not have the knowledge to operate one. The idea was delayed as there was no immediate need for a

¹⁹³ NAT, Department of the Secretariat of the Cabinet, สร0201.33/33, 'การซื้อของจากต่างประเทศใน เวลาสงคราม (Purchasing goods from foreign countries during wartime),' 1943, pp.28-54.

¹⁹⁴ NAT, Ministry of Foreign Affairs, (2)กต1.1.1.2/1, 'ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณา ครั้งที่1/2487-4/2487 (Agenda for the Cabinet Meeting 1/2487-4/2487),' 1944.

¹⁹⁵ Doll, 'Report of the Financial Adviser', p.53.

central bank (chapter 1).¹⁹⁶ The Ministry of Finance issued currency, and a domestic bond market was extremely small as the indigenous commercial banking sector was still in its infancy (chapter 1). Japan, however, encouraged the establishment of a central bank to ‘bring about a firm and organically connected monetary base with [the Japanese] empire.’¹⁹⁷ Through the negotiations of the special yen agreement, Japanese officials proposed a Japanese-founded and -operated central bank for Thailand to handle yen credits, to which Thai negotiators strongly objected. The Thai government, thus, founded the Bank of Thailand on its own and named Prince Wiwat as the first director. Japan could now easily integrate Thailand further into the yen bloc, and to fund its occupation of the kingdom. Swan described the establishment of the central bank as ‘the last piece in Japan’s reorientation of Thailand way from the pre-war, British-centred economic order.’¹⁹⁸

The Bank of Thailand was thus created as a tool for Japanese extraction. The main functions of a central bank include issuing notes, ensuring stability of the monetary and banking system, implementing monetary policies, as well as lending to governments and commercial banks. At its conception, the Bank of Thailand performed only two of these roles – printing money and lending to the state – without autonomy and under Japanese orders. In its immediate purpose, the Bank was clearly a product of Japanese needs.

3.2 Occupation costs and consequences

Any occupying power assumes control of a territory under two expectations: that the occupied region will bear the cost of its presence, and that exploitation of the

¹⁹⁶ Hossain, *The Evolution of Central Banking and Monetary Policy in the Asia-Pacific*, p.460; Swan, ‘Japan’s Economic Relations with Thailand: The Rise to “Top Trader” 1875-1942’, pp.217-8; Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.27.

¹⁹⁷ ‘Outline of economic policy toward Thailand’ via Swan, ‘Japan’s Economic Relations with Thailand: The Rise to “Top Trader” 1875-1942’, p.250.

¹⁹⁸ Swan, p.220.

subjugated economy is advantageous.¹⁹⁹ Thailand was unsuccessful in raising taxes and selling bonds, and resorted to money creation to fund the Japanese occupation. The Bank of Thailand printed notes for Japanese use under the special yen scheme and to cover its own budget deficits, resulting in high inflation as well as issues of stolen currencies and illegal scrips.

3.2.1 Difficulties in raising taxes and issuing bonds

In every Southeast Asian country, money creation was utilised to pay for the war and Japanese occupation costs (expenses incurred by the occupying country in conjunction with its occupation).²⁰⁰ Three options exist to make, as Thailand did, an occupied country to finance its own occupation: raising taxes, issuing bonds, and money creation. The former two, which require a developed finance sector and administrative support, were not viable in Thailand.

Raising taxes was difficult, especially on most Thai civilians who were engaged in agriculture. Thailand's real GDP (in 1950 baht) fell 19 per cent between 1941 and 1945, shrinking the tax base even further.²⁰¹ Import and export duties made up almost a third of government revenues before 1942. Since trade with usual partners was prohibited under the Co-Prosperity Sphere, revenues from customs declined sharply (Table 3. 1). The Thai government tried to compensate for this loss by increasing excise on alcohol, matches, cement, and other consumer goods.²⁰² These measures were, however, insufficient to meet the increased need for finance.

¹⁹⁹ Milward, *War, Economy*, p.132-135; Huff and Majima, 'The Challenge of Finance', p.192.

²⁰⁰ Huff, 'Finance for War', p.79.

²⁰¹ Van der Eng, 'Thailand Estimates of GDP.'

²⁰² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.3.1/8, 'รายงานงบประมาณประจำปี2484-2487 (Annual budget report1941-1944),' 1944.

Table 3. 1 Revenues of the Thai government, 1937-1944 (nominal baht)

Year	1 Customs collection (million)	2 Total tax revenues (million)	3 Total revenues (million)	1 as percentage of 2	1 as percentage of 3	2 as percentage of 3
1937/38	32.1	55.0	109.4	58.3	29.3	50.3
1938/39	36.4	62.5	118.2	58.2	30.8	52.8
1939	18.9	28.8	59.6	65.5	31.7	48.4
1939-40	40.7	65.6	141.3	62.0	28.8	46.4
1940	14.2	20.0	37.0	71.1	38.4	54.0
1941	45.5	76.1	161.3	59.8	28.2	47.2
1942	19.5	57.5	133.2	33.8	14.6	43.2
1943	24.9	100.1	311.6	24.9	8.0	32.1
1944	16.1	117.1	288.9	13.7	5.6	40.5

Note: Other revenues consisted of fees for various services such as licenses, railway and postage, as well as fines for lawbreakers

Source: Thailand, *Statistical Yearbook 1939-1944*, pp.384-7.

The Thai administration attempted to borrow from the public by issuing bonds and marketing them as a patriotic duty. The country's financial structure was, however, still in its infancy. The majority of commercial banks in pre-war Thailand were European, which were shut down by the Japanese.²⁰³ Part of the reason why Japan did not want to utilise European banks to fund their occupation was an aversion to European influences in Thailand.²⁰⁴ Even if the European banks were kept open, they would likely have been largely useless in selling bonds, as Thai peasants had little to no contact with these banks, and there was no real tradition of purchasing bonds in the kingdom. Consequently, selling bonds to the public did not raise sufficient funds for the Thai government. For instance, the state issued 30 million baht of gold bonds with three per cent interest, and sold roughly two-thirds of it to the public. 'Bonds for industrialisation' worth 18 million at 4.5 per cent interest were issued, of which the public only bought 6.7 million. Thai citizens only

²⁰³ Huff and Majima, 'The Challenge of Finance', p.193.

²⁰⁴ 'Premier Tojo's address before the 82nd extraordinary session of the imperial diet, June 16 1943' in Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*.

bought 2.8 million of the 12-million-baht worth of bonds for cooperatives at 4.5 per cent interests.²⁰⁵

To partly overcome this issue, the government introduced ‘savings cards’ (บัตรประหยัดทรัพย์). Such cards were essentially obligatory bonds, yielding little if any interest. Every citizen was required to purchase a yearly savings card in the amount that he or she normally paid in income tax. Furthermore, interest from the savings cards was lower than inflation rates, and thus provided an additional method of taxation. According to officials, these cards were advantageous not only because they guaranteed revenues from even the poorest tax-paying citizen, but they also ‘taught’ the public how to save their money.²⁰⁶ This measure somewhat slowed down the velocity of money, but was still insufficient in paying for occupation costs, as Thai peasants were not paying much tax in the first place.

3.2.2 Wartime inflation

The only option left to the Thai government was printing large quantities of notes. From 1941 to 1945, the government printed over 1.8 billion baht to finance the Japanese occupation and its budget deficits (Table 3. 2).

The largest contributor to wartime inflation was the special yen agreement, which obligated the Bank of Thailand to print 1.5 billion baht between 1942 and 1945 for Japanese use. As the war continued and goods became scarcer and more expensive, the Japanese continually required more baht.²⁰⁷ During the last six months of the occupation, Japanese army expenditure demands reportedly rose to roughly 100 million baht per month.²⁰⁸

²⁰⁵ BOT, *Yearly Report 1943* (Bangkok, 1944), p.6; BOT, *Yearly Report 1944* (Bangkok, 1945), p.15; BOT, *Yearly Report 1945* (Bangkok, 1946), p.24.

²⁰⁶ NAT, ‘Ministry of Finance Report,’ pp.23-32, 40, 53-73.

²⁰⁷ Huff and Majima, ‘Financing Japan’s World War II Occupation’, p.941.

²⁰⁸ BOT, *Yearly Report 1945*, p.24.

The other main cause of wartime inflation was the Thai government's increasingly large budget deficits, for which the central bank had to issue over 300 million baht from 1942 to 1945. In 1942 and 1943, the government settled these arrears with treasury reserves, which were quickly being depleted; eventually, money creation by issuing non-interest bearing bonds to the Bank of Thailand became a last resort.²⁰⁹ While high levels of spending were part of the occupation costs and undoubtedly related to Japanese presence in Thailand, state expenditures were separate from printing money for special yen credits.

Records of government spending can be found both in the Statistical Yearbooks and the Bank of Thailand yearly reports. This dissertation will rely on the Bank of Thailand yearly reports for big picture analysis, and on the Statistical Yearbooks for more detailed revenues and expenditures such as for various ministries and other governmental bodies. Between 1941 and 1945, expenditures exceeded revenues by over 350 million baht, including the 80 million loaned to the Japanese army (Table 3. 3).²¹⁰ The largest contributor to the deficit was large sums of extraordinary expenditure spent on national defence. In 1943, 56 million out of 70 million of the extraordinary budget was spent on defence; in the following year, the amount was 73 out of 164 million. During the months of 1945 before the Japanese surrender, Thailand spent a staggering 99 million of its 112 million baht extraordinary expenditure on defence.²¹¹ The details and clear definition of 'national defence' were not stated in the account books. The Ministry of Defence expenditure on the army, navy, and air force was already included in the 'ordinary expenses' budget.²¹² 'National defence' was therefore likely spent on air raid protection,

²⁰⁹ NAT, 'Ministry of Finance Report,' pp.14-16; BOT, *Yearly Report 1943*, p.6; BOT, *Yearly Report 1944*, p.15; BOT, *Yearly Report 1945*, p.24.

²¹² NAT, 'Annual budget report 1941-1944.'

compensation to victims, and payments to Thai military forces. There is no evidence on how much the Thai army expanded during the war years, though the draft would have considerably increased military spending.

Along with base money, wider measures of money supply also increased. The Japanese invasion temporarily drove out European capital and commercial banks, allowing indigenous ones to rise in their places. During the war, four Thai commercial banks were founded, bringing the total number to eight commercial banks in 1945.²¹³ Between the end of 1940 and 1942, commercial banks saw an influx of cash and increased their security by 209 per cent (Table 3. 4). As evidenced by the 28 per cent increase in loans between December 1942 and January 1943, profit-oriented banks did not see any reason to turn away people seeking loans, though the practice increased money supply.²¹⁴ The Bank of Thailand attempted to limit this behaviour and passed an Emergency Degree for the Control of Credit in 1943 to discourage loans, and encourage banks and insurance companies to hold government bonds.²¹⁵

All official data and other estimates show that the wartime expansion of notes in circulation was accompanied a rapid rise in the cost of living. All of the indices, however, record official and not black market prices and thus probably underestimate the surge in living costs.²¹⁶ Huff and Majima find that average monthly inflation during the last year of the occupation was 5.4 per cent.²¹⁷ Manarungsan reports that the money supply increased tenfold, and inflation nine-fold between 1938/39 and 1945.²¹⁸ Suehiro gives comparable figures, asserting that using 1938 as a base of 100, the cost of living in 1942 was 222; and

²¹³ BOT, *Yearly Report 1945*, p.30.

²¹⁴ NAT, 'Ministry of Finance report,' pp.14-16.

²¹⁵ Silcock, 'Money and Banking', p.192.

²¹⁶ A.R. Prest, *War Economics of Primary Producing Countries* (Cambridge, 1948), p.5.

²¹⁷ Huff and Majima, 'Financing Japan's World War II Occupation', p.953.

²¹⁸ Manarungsan, *Economic Development*, p.188.

in 1946 it was 1072.²¹⁹ Doll, the Financial Adviser to the Kingdom, asserted that the cost of living rose 726 per cent from 1941 to 1945.

This dissertation relies on the official cost of living index from the Bank of Thailand. Its data, close in magnitude and pattern to other available figures, show that the CPI rose over eight-fold, practically doubling every year from 1942 onwards (Table 3. 5).²²⁰ As the occupation continued, scarcity of consumer goods became more acute and monetary expansion accelerated, fuelling the rapid rise in retail prices. Inflation continued after the war and the increase was so alarming that in 1946 the Bank of Thailand did not disclose the figures to the public.²²¹

Table 3. 2 Currency notes printed by purpose, 1942-1945 (million baht)

Year	Budget deficit	Payments to Japan	Total
1942		24.0	24.0
1943	147.9	192.7	340.6
1944	20.0	514.0	534.0
1945	132.6	799.4	932.0
Total	300.5	1,530.1	1,806.6

Source: Doll, *Report of the Financial Adviser*, p.54.

Table 3. 3 Annual governmental budget, 1941-1945 (million baht)

Year	Revenues	Ordinary expenditure	Extraordinary expenditure	Budget deficit
1941	160.9	146.9	52.0	198.9
1942	147.3	134.4	65.6	200
1943	210.6	140.8	120.3	261.1
1944	286.0	226.0	164.8	390.8
1945	314.7	312.9	112.3	425.2

Source: Doll, *Report of the Financial Adviser*, pp.1-3.

²¹⁹ Suehiro, *Capital Accumulation*, p.135.

²²⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.4/14, 'ข้อมูลเกี่ยวกับดัชนีราคาสินค้าและค่ายังชีพ' ('Statistics on Price Indexes and Costs of Living'), 1945, pp.2-15.

²²¹ BOT, *Yearly Report 1945* p.26.

Table 3. 4 Assets of commercial banks, 1940-1943

	1. Dec 1940 (baht)	2. Dec 1942 (baht)	Percentage change from 1. to 2.	3. Jan 1943 (baht)	Percentage change from 2. to 3.
Cash	24,662,000	37,299,000	+51	27,299,000	-27
Loans	36,237,000	27,218,000	-25	34,916,000	+ 28
Security	8,629,000	26,663,00	+209	28,527,000	+ 10

Source: NAT, 'Ministry of Finance report,' pp.14-16.

Table 3. 5 Thailand base money supply and cost of living index, 1941-1950 (million baht)

<i>Year</i>	<i>Volume of money</i>	<i>Cost of living index</i>
1938	-	100
1941	322.2	112.9
1942	466.2	132.9
1943	842.8	291.56
1944	1,454.4	481.25
1945	2,560.6	825.61

Source: Volume of money from Doll, *Report of the Financial Adviser*, pp.55-56; Cost of living index from BOT, *Yearly Report 1945*, p.26.

3.3.3 Further currency issues

Printing large amounts of notes led not only to inflation, but also to a host of problems. Prior to the war, the Thai government printed notes with Thomas de La Rue, a manufacturer based in England. After the Japanese invasion, business with the company was terminated. Instead, the Japanese firm Mitsui Bussan printed notes for the Thai state. When commercial shipping between Japan and Thailand broke down, Thailand relied on notes printed in Indonesia, and locally at the cartography department at the Royal Thai Army and the hydrography department of the Royal Thai Navy. Without the right equipment, currency printed at these places was of low quality. Notes manufactured in Indonesia were also more susceptible to theft and fraudulence. For instance, the Japanese once claimed that notes were burned while being airlifted to Thailand. Border officials later found that they had been smuggled into the country. Similarly, a total of 11,026,800 baht worth of notes were stolen in transit from Java, and was found circulation in Bangkok sometime later. Since the notes printed during this time were of low quality and easy to counterfeit, the Bank of Thailand was still battling forgery well in the late 1940s. In 1947,

the central bank declared that 20- and 50- baht notes printed during the war were no longer legal tender, and had to be exchanged for authorised currency.²²²

Illegal tender printed by the Japanese were smuggled across the southern and western border. This fact adds another caveat to Swan's claim that Thailand had control over its finances. In 1941, for instance, the Japanese forces printed their own five and ten baht notes, which the Thai government called the 'Japanese army dollar scrip (ธนบัตรดอลลาร์ของทหารญี่ปุ่น).' These notes were widespread in the south, where the Japanese army first entered the country, especially Songkhla province, and even spread to Malaya. The Thai government had to act quickly and loaned Thai baht to Japanese troops instead. The printing ceased in 1942 due to requests from Thai officials, but the Japanese army reportedly continued to circulate and use their scrip in many southern provinces, such as Phuket. Japanese soldiers also brought in illegal rupees from British colonies.²²³

3.3 Government attempts to limit inflation

The wartime Thai administration was acutely aware of the detrimental effects of inflation, and did its best to limit them. Thai administrators had, of course, little control over monetary expansion, the root cause of high inflation, since monetary policy was fundamentally dictated by the Japanese. Nevertheless, the Thai government instituted three main policies to try to check inflation and, crucially, prevent it from turning into hyperinflation.

²²² NAT, Department of the Secretariat of the Cabinet, สร 0201.3.4/3, 'เรื่องธนบัตรปลอมหรือหายไป (Counterfeit or missing bank notes),' 1945, p.53; NAT, Supreme Headquarters, บก สูงสุด. 2.6.9/2, 'การรับแลกธนบัตรดอลลาร์ญี่ปุ่นที่ใช้กันในจังหวัดภาคใต้ในประเทศไทย (Exchanging Japanese scrip in southern provinces of Thailand),' 1947.

²²³ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.99-102; BOT, *Yearly Report 1947* (Bangkok, 1948), p.15.

The first of these policies, to increase the available supply of consumer products, although theoretically attractive, was essentially a non-starter. Even under peacetime conditions a sevenfold increase in goods to match wartime money supply expansion was impossible. During the war, even a moderate addition to the availability of goods was out of reach, because Japan had determined to export almost nothing to Thailand and because the country lacked the raw materials, funds, equipment, and knowledge to produce enough even to come close to making up for pre-war imports, let alone produce more (chapter 4).

The other two policies, however, were in areas where the Thai government had at least some control and efforts in these met with limited success. One policy was government measures was to reduce the budget deficit directly to diminish the need for further money creation and so inflation. The most straightforward means to cut the deficit was to decrease expenditure and to increase revenues. One strategy to accomplish this was to reduce spending, which the government did by discharging and placing officials on unpaid leave, as well as by refraining from any additions to staff. Furthermore, despite high inflation, civil service nominal wages were not increased. The implied drastic cut in real wages left legacies of greater corruption as officials sought to protect their living standards through bribes, and low post-war civil services remuneration, since wage parity with pre-war levels was not restored after 1945(chapter 6).

The other deficit-reduction method was to increase revenue through more taxation. Insofar as new taxes could be collected, they had the added benefit of soaking up purchasing power and so reducing money in circulation. The state raised taxes on hotels and shops, stamps, financial institutions, and commodities such as alcohol and opium. The administration also heightened fees for various governmental services, including postage, telegrams, and trains as well as expanding the lottery. Another, non-tax method was to sell

government holdings in private companies.²²⁴ The expenditure cuts, new duties and the sale of state assets did not, however, make up for the collapse in import and export customs, the government's main revenue sources before the war, and failed to sufficiently fund the deficit (section 3.2).

The third main group of policies to try to keep inflation in check was to limit private spending. Rationing was one way to reduce spending, since it reduced how much people had to spend for many basic necessities. Probably, however, rationing was more directed at maintaining some basic standard of living for most people than holding spending in check: money not needed for some goods freed cash to bid up the price of others. A more effective line of attack, though hardly a comprehensive one, given Thailand's still largely rural and traditional economy, was to try to regulate business and extract funds from the financial sector and wealthier Thai, the bulk of whom lived in Bangkok. The government placed restrictions on real estate, increased banks' reserve ratios, and required both citizens and financial institutions to purchase government bonds and savings cards. The extent to which such policies restricted inflation is unclear but it is apparent that the effect cannot have been great since Thailand lacked a well-developed capital market able to buy bonds and the purchasing power of most Thai was restricted by wartime constraints.

3.4 Inflation, money demand and circulation velocity

Although wartime Thailand had high inflation, both its magnitude and relationship to monetary money supply increase stands in sharp contrast to the usual Southeast Asian experience. In Thailand, the ratio of prices at the end of occupation to prices at the beginning (6.9) was almost identical to the same temporal ratio for money supply (7.1). In contrast, prices in Indonesia rose three times as fast as money supply, while by 1945 prices

²²⁴ NAT, 'Ministry of Finance Report,' pp.23-32, 40, 53-73.

in Burma, Malaya and the Philippines were large multiples of their 1942 levels and had far outdistanced monetary expansion (Table 3. 6).

Table 3. 6 Inflation in Southeast Asian countries, 1942-1945

	<i>Thailand</i>	<i>Burma</i>	<i>Malaya</i>	<i>Indonesia</i>	<i>Philippines</i>
<i>Ratio of prices at the end of the occupation to prices at its beginning</i>	6.9	1,856.5	11,226.5	32	889.3
<i>Ratio of quantity of currency at the end</i>	7.1	16.4	25.1	11	28

Source: Huff and Majima, p.953

Inflation decreases the real value or purchasing power of money. An expected response to high inflation is, therefore, to seek to spend money as quickly as possible to avoid its further loss of value and obtain in exchange as large a quantity of goods or tangible assets as possible. When that happens, the demand for money falls and its circulation velocity increases. And yet in Thailand, despite high inflation with prices doubling every year after 1942, the demand for money held up well; the velocity at which money circulated remained approximately constant and skyrocketing inflation, let alone hyperinflation, was avoided. Holdings of money rose at nearly the same rate as prices which is to say real balances (the nominal value of money divided by the price level and so adjusted for inflation) remained almost constant.

Why, then, in Thailand, despite swift wartime monetary expansion did inflation increase no faster than money and, unlike the typical Southeast Asian experience, the quantity theory of money continued to hold? Why did the Thai continue to demand money to the extent they did when its value was being comprehensively debauched? It is argued that a continued high demand for money, and so Thai exceptionalism, was owing to a combination of four reasons. One was the lack of good substitutes for the baht and a second that money continued to have considerable transactional benefits. Third, a wartime

baht little different in appearance from its pre-war counterpart contributed to continued confidence in the currency, dissuading a divestment of money by the public. Fourth, and crucially, Thai peasants continued to regard money as a store of value.

Good money substitutes were not available to the people of Thailand. They could not buy foreign currencies, as for example the citizens of today's high inflation countries do when often purchasing US dollars in reaction to high inflation. Nor was barter a viable currency substitute. Most Thai produced rice as a principal economic activity, limiting its exchange value since the bulk of the population already had rice.

Second, there were strong transactional motives for holding money. Wages were paid in baht and goods bought with them. Everyone in Thailand needed baht to obtain rationed items including food and clothing, and for any other market transaction. Furthermore, the Thai governments helped to sustain the demand for money through its policies to support rice and tin producers by buying their output.

Third, the wartime issue of the baht by Thai authorities and its nearly identical appearance to the pre-war baht bolstered confidence in the currency and so a store of value motive for high real balances. There was no possibility that after the war the baht would be repudiated as the country's legal currency. The Thai currency was quite unlike the cheap military scrip of totally different design used by the Japanese in Burma, Malaya, Indonesia, and the Philippines. These military scrips were of such low quality, and eventually even without serial numbers, that they were called 'banana money' and 'Mickey Mouse money' by indigenous Southeast Asians.²²⁵

The fourth and principal explanation for a continued high demand for money in Thailand lies in Thai peasant behaviour. High real balances in Thailand are explained mainly the dominance in Thailand's economy of numerous small peasant rice growers and

²²⁵ Huff, 'Finance for War', p.79.

a rural economy, uniquely in Southeast Asia, that was essentially self-sufficient. Approximately 80 per cent of peasants were part of a mainly self-subsistent economy.²²⁶ That limited the need, for the great bulk of the population, to chase goods at a time of escalating prices and further bid them up. Most Thai had the option to hold money as a store of value. Small rural cultivators, like those in Thailand, tend to hoard money, even in the face of inflation. Under inflationary conditions, Keynes observed, as ‘more money flows into the pockets of the peasants, it tends to stick there’.²²⁷ That observation held true in wartime Thailand where only 20 percent or 25 percent of notes in circulation were in Bangkok; ‘The rest are in the provinces, where they largely disappear into farmers’ hoards: and the demand of the provinces for fresh supplies of notes is a never ceasing one’.²²⁸

This behaviour of the Thai peasantry had a clear rationality and is not fully explained by peasant money illusion (mistaking nominal for real values). Peasant demand for money in wartime Thailand was underpinned by the reality of limited spending opportunities and the rationale of long-term expectations.²²⁹ Japan sent few goods to Thailand and local production amounted to no more than small quantities of inferior substitutes for pre-war imported manufactures. Peasants likely realized that manufactured goods would become more abundant after the war and prices would fall dramatically, allowing more goods to be obtained for the same money outlay. Although gold or jewellery might have been thought superior stores of value, these items, in Thailand’s fragmented wartime economy, were not always easily available outside Bangkok. Moreover, the same behaviour of hoarding money, not the purchase of gold, was repeated

²²⁶ de Young, *Village life*, p. 193.

²²⁷ J. M. Keynes, J. M., *A tract on monetary reform*, in *The collected writings of John Maynard Keynes*, vol. 4 (London: Macmillan for the Royal Economic Society, 1971), p. 66.

²²⁸ Thailand, *Report 1941-1950*, p. 55.

²²⁹ Cf. Milton Friedman, ‘The quantity theory of money: a restatement’ in Milton Friedman, ed. *The optimum quantity of money and other essays* (London: Macmillan, 1969), p. 66.

in Thailand's 1949-1951 inflation. Despite a large increase in money supply, prices did not rise to any comparable extent. Rather, 'a large volume of notes were simply hoarded, mainly by up-country producers'.²³⁰

Conclusion

This chapter has utilised new primary sources to show that, even though Thai officials were involved in the negotiations for the baht parity and special yen bilateral agreements, Thailand nevertheless suffered considerable financial dislocation under the Japanese occupation. Through the special yen scheme, Thailand was made to print notes and hand goods to Japan essentially for nothing, since the special yen Japan gave in exchange for baht could be used to buy goods to only a very limited extent. Payments to Japan and finance for governmental deficits contributed over 1.8 billion baht to the quantity of money in circulation, leading to high inflation and a rising cost of living. Although the economic structure of Thailand and peasant behaviour prevented inflation from skyrocketing, its financial repercussions were severe. As shown in the following chapters, the financial dislocation from the Japanese occupation adversely affected the economy, and impacted on the standard of living of Thai people during the war and after. High wartime inflation created a legacy which almost certainly shape the attitudes of post-war Thai financial officials and hastened Thailand's return to financial conservatism.

²³⁰ Prince Wiwat, *Wiwatthanachaiyanuson* (Prince Wiwat memorial volume), Bangkok, 1961, p. 268.

Chapter 4 Wartime substitution and industrialisation

Introduction

The acute shortage of nearly all consumer and capital goods ranked among the most serious consequences for Thailand under the Japanese occupation. Even at the start of the war, Japan supplied Thailand with no more than small quantities of manufactured goods; and as the war increasingly turned in favour of the Allies, Japanese provisions continued to decrease. Even so, no study has been conducted on Thailand's response to this shortage.

This chapter utilises new archival sources to fill this gap in the historiography. I find that, in response to the collapse in imports, the Thai government attempted to promote import substitution and domestic industrialisation; however, manufacturing proved difficult, often impossible. State-affiliated enterprises faced the near insurmountable obstacles of a lack of machinery, fuels, raw materials, and technical knowledge, along with poor human capital and government corruption. The Japanese did not assist Thai industrialisation; some Japanese factories even competed with indigenous ones, and excluded Thailand's population from purchasing their commodities. Private industries were small and fell far short of compensating for imports. Domestic manufacturing thus did little to remedy shortages, which were an integral part of the Thai experience under the Japanese and would later inspire state-led industrialisation in the post-war period.

This chapter is organised as follows: The first section outlines the Japanese policy for Thai industrialisation, which was not a priority for the imperial headquarters. This section also discusses Japanese investment that, in line with policy, mostly involved trade and commerce instead of manufacturing. At the same time, many Japanese factories solely produced for the Japanese armed forces and competed with Thai businesses for limited resources. The second section explores various ways in which Thailand's population attempted to find substitutes for imports. Section three throws light on the indigenous

private manufacturing sector, and concludes that it was small and unable to compensate for the loss of imports. The fourth and fifth sections offer, for the first time, a glimpse into state-led attempts to industrialise in several key sectors and an analysis of the difficulties these faced, followed by an evaluation of state performances.

4.1 Japanese policy and investment in Thai industrialisation

Wartime industrialisation in Thailand was left largely in the hands of the Thai government. Apart from some investment in trade and shipping, and small assistance at the beginning of the occupation, the Japanese followed a clear policy of non-intervention in the Thai manufacturing industry, and kept at a distance during the occupation.

As the only industrialised country in the Greater East Asia Co-Prosperity Sphere and occupier, Japan was the sole possible provider of industrial support for Thailand during the war. Japanese policy, however, was to prioritise itself and the Co-Prosperity Sphere over economic development in individual countries. With some industrial capacity in the home islands, Taiwan, Manchuria, and Korea, Southeast Asia was mostly seen as a source of raw materials.²³¹ Industrial expansion in Thailand was thus not a Japanese priority. While Japanese officials gave small assistance to some sectors for economic development, the Japanese army constructed many factories that only produced goods for Japanese armed forces, competing with Thai businesses for limited raw materials and machinery and excluding Thai consumers from their products. At the same time, Japanese private companies began joint ventures with the Thai government to produce goods for its citizens. These ventures, however, were not entirely successful and did not survive the war due to issues of shipping and lack of machinery.

²³¹ A.J. Grajdanzev, 'Japan's Co-Prosperity Sphere', *Pacific Affairs* 16, no. 3 (September 1943): 311–28, p.320.

Japanese policy towards Thai industrialisation was explicitly defined in two key policy documents. The first was the ‘Outline of Economic Policies for the Southern Areas,’ which states,

‘As a basic principle, no manufacturing industries shall be promoted in the areas concerned with the exception of certain industries (such as shipbuilding, and maintenance industries required for the upkeep of equipment needed in the development of resources). This rule, however, shall not apply to industries whose products would significantly decrease transport tonnage, thereby alleviating the strain on transportation, and for which production facilities already exist.’²³²

The second is ‘Matters concerning policy towards Thailand,’ which was adopted in 1942:

‘Because of the need to economize on shipping as well as the need for secondary industries to develop Thailand’s natural resources, we will make plans for the establishment and expansion of manufacturing and processing industries which are locally advantageous and which we consider appropriate. To the extent that there is no conflict with our industrial planning for the Greater East Asia Co-Prosperity Sphere, local enterprises and handicraft industries which produce commodities for daily life will be left to the ingenuity of the Thais, and our Empire will assist these to the minimum degree necessary.’²³³

Japan deemed trade and transportation as the most essential sectors, which would not only be taken over by the imperial headquarters, but also take precedence over manufacturing concerns.²³⁴ Local manufacturing of other goods were mostly in the hands of the Thai government, and would receive ‘minimum’ assistance from Japan.

This view predated the war and was reflected in Japanese spending and investment. In 1941 prior to the invasion, Japanese companies spent a total of 182 million baht in Thailand, of which only 3.8 per cent or seven million yen was taken up by manufacturing. In contrast, 152 million or over 83 per cent of this sum was spent in trade. By 1944, a Japanese government survey reveals that roughly 50 Japanese private companies had

²³² Benda, Irikura, and Kishi, *Japanese Military Administration in Indonesia: Selected Documents*, pp.20-21.

²³³ ‘Outline of economic policy toward Thailand,’ 29 September 1942, via Swan, ‘Japan’s Economic Relations with Thailand: The Rise to “Top Trader” 1875-1942’ p.252.

²³⁴ Swan, ‘Japan’s Intentions’, p.142.

invested in and begun operations in Thailand. Some 60 per cent were trading and shipping companies, and 20 per cent were manufacturers; the rest were involved in insurance, forestry, husbandry, and communications.²³⁵ The dates of these companies' arrival in Thailand are not available, so it cannot be determined how many of these had been operating prior to the war. However, the first Japanese company, Mitsui Bussan, opened an office in Thailand in 1906.²³⁶ This early date and the increase to some 50 Japanese companies in less than 40 years demonstrates a vibrant Japanese commercial interest in Thailand.

At the beginning of the occupation, Japan provided some small industrial assistance. For instance, the Japanese Association Movement encouraged textile production in a variety of ways: introducing and distributing new cotton seed varieties, helping peasants purchase land from absentee landlords, providing wooden looms for training, and converting 9.6 kilometre² of forests into cotton fields.²³⁷ The Japanese government offered to finance training in pottery and alcohol making, while the Imperial University sent technicians to help Thai citizens with their own industrial ventures. Japan invited Thai officials to visit Japanese factories, Red Cross, and husbandry farms.²³⁸ The Japanese planned also to import machines into Thailand to start a rubber factory, sawmills,

²³⁵ National Archives of Japan, Diplomatic Archives of the Ministry of Foreign Affairs, B05013070100, 'Survey on the enterprises established in French Indochina (present Vietnam) and the Thailand/Part 1,' 1944; National Archives of Japan, B05013070200, 'Survey on the enterprises established in French Indochina (present Vietnam) and the Thailand/Part 2,' 1944.

²³⁶ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, p.29.

²³⁷ National Archives of Japan, 'Political and economic conditions of Thailand 1941,' pp.146-150.

²³⁸ National Archives of Japan, Diplomatic Archives of the Ministry of Foreign Affairs, B02130201600, 'Thailand/ Clause 4 Documents relating to supply for conveniences,' 1942, pp.156-7.

alcohol distilleries, and slaughterhouses.²³⁹ There is no evidence these plans were brought to completion. As the war wore on and Japanese resources dwindled at home, investing and developing industries in the rest of the empire became less of a priority. These efforts were not sustained throughout the occupation.

At the same time, several joint ventures between the Thai government and private Japanese companies were established. For instance, the Thai Rubber Company was a cooperation between the Thai government and Mitsui Bussan, and the Thai Tin Company was partially funded and controlled by Japanese capital. In 1943, Japanese companies also negotiated a joint paper company with the Thai government.²⁴⁰ While these joint ventures would later have post-war significance (chapter 8), during the occupation they frequently encountered issues in the shipment of machinery; as merchant shipping began to collapse in 1943, transporting machines for foreign factories was not a top priority for Japan. These plants, thus, frequently struggled to begin operations and would shut down after the war. For instance, the machinery for the Thai Rubber Company was not shipped until late in the war; and the enterprise failed in 1945. Similarly, the first large-scale weaving factory in Thailand was founded by the Thai army in 1943. The factory attempted to buy machines from a Japanese company, which refused to sell unless it could own shares. After agreeing to form a joint venture, the machines were only shipped in 1944 – too late to prevent the company's subsequently closure in 1945.²⁴¹ The Thai government, thus, was largely left to its own devices to make up for the loss of imports and develop its manufacturing sector.

²³⁹ National Archives of Japan, 'Political and economic conditions of Thailand 1941,' pp.158-159.

²⁴⁰ OSS, Reel 13 Item 11: R&A No. 2368 'Japanese Domination of Thailand,' 18 Sep 1944.

²⁴¹ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.154-7.

Despite providing little support for indigenous industrial development, many Japanese factories were established in Thailand to produce goods solely for the Japanese army. There appear to be no records of such factories during the war; only in September 1945 did the consultant to the Japanese embassy, Mr Nero, write to the Thai cabinet about maintaining such enterprises:

‘These are...factories of private nature, but in the view of fact that their manufactured goods are exclusively for the use of Japanese forces, they have, so far, been excepted from registration or taxation by the Thai government...There is no reason why they should abandon their operations. It is expected that imports from abroad to Thailand will not take place for some time in view of the shortage of shipping prevailing in the world...It is, therefore, considered advisable to encourage these facilities to continue.’²⁴²

Such facilities included 7 food processing factories, 17 chemicals plants, 6 tanneries, 2 sawmills, 13 spinning and weaving factories, and 18 enterprises producing basic consumer goods, such as shoes, ropes, and paper.²⁴³ Despite contributing to wartime GDP and leaving an important legacy in post-war Thai manufacturing in bequeathing Thailand with machineries (chapter 8), these plants represent a form of wartime resource extraction and exploitation by the Japanese, and may throw light on another reason why Thai factories suffered during the war. These Japanese plants used Thai raw materials and power and even employed Thai labour, without paying taxes to the government and excluding Thai consumers from purchasing the finished products. As industrial inputs grew scarce during the war, such factories undermined the capacity of Thai companies and enterprises by competing for the same raw materials. Indeed, these Japanese factories would often purchase raw materials at prices so high that they crowded out local companies.²⁴⁴

²⁴² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98/5, ‘โรงงานญี่ปุ่นซึ่งสร้างขึ้นในประเทศไทยระหว่างสงคราม (Factories that the Japanese built in Thailand during the war),’ 1945.

²⁴³ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, p.158-168.

²⁴⁴ Bualek, p.157.

4.2 Import substitution through indigenous goods

One solution to the lack of goods attempted by the government during the war years was to substitute much needed imports with local goods. This solution, while perhaps sufficient for short-term and small scale uses, failed to adequately compensate for the loss of imported goods.

The sources utilised for this section are transcripts of government radio broadcasts, along with government accounts and American intelligence reports. Radio broadcast scripts are useful because wireless radio was the main form of direct communication between the administration and the people. The Department of Advertisement (while its main work is to spread state propaganda, the agency is officially called Department of Advertisement or กรมโฆษณา) broadcast not only progress in research and industrialisation, but also disseminated ideas and methods for substituting imports with existing local goods. Although evidence that these suggestions were actually implemented is scarce, local leaders were legally required to have one functioning radio within their town centre, and to switch it on for every broadcast by the Department. The Phibun government even established a special budget to pay for the expense and transport of batteries for wireless radios (a total of 38,255 baht in October 1944).²⁴⁵ American intelligence documents confirm that there were about 30,000 radios in Thailand in 1939, and that almost every town had at least one set around which people would gather to listen in the evenings.²⁴⁶ The scripts of these transmissions were circulated within the government before being aired. Their contents reveal some of the ways Thai people sustained themselves during a time of little to no foreign trade.

²⁴⁵ NAT, 'Agenda for the Cabinet Meeting 5/2487-11/2487,' p.57.

²⁴⁶ United States Office of Strategic Services (OSS), Research and Analysis branch, Reel 13 Item 06, *Social conditions, attitudes and propaganda in Thailand with suggestions for American Orientation toward the Thai* (Washington DC, 1942), p.17.

One of the most important imported goods was fuel, for which few substitutes were available in the Greater East Asia Co-Prosperity Sphere. By 1945, fuel imports were close to zero, compared to pre-war imports of 100 million litres annually (chapter 2). Castor oil could be used as motor oil for aircrafts. The Japanese were aware of this fact and planned to cultivate 250 kilometre² of castor in Malaya and Sumatra.²⁴⁷ In Thailand, three castor oil distilleries were in operation in April 1942, but their collective output was far from sufficient to compensate for loss of imports.²⁴⁸ A Japanese company was able to successfully extract a lubricant substance from rubber, which was to be produced at a large scale in eastern Japan.²⁴⁹ The Thai government placed rubber oil under restriction and tried to expand domestic production. The state also found that coconut oil was compatible with diesel engines and thus prohibited coconut oil from being exported from the country.²⁵⁰ In March 1943, the Thai Ministry of Industry mentioned the possibility of distilling fuel from coal, although results were inconclusive.²⁵¹

The state attempted to devise substitutes for products necessary to Thai livelihoods. On 12 March 1942, for example, the Departments of Fishery and Advertisement broadcast that they were aware of the steep prices and scarcity of wires, ropes, nails, and fuel, all of which were important for fishery. The government suggested using rattan as wires and ropes, and metal or copper craps as hooks. Sailing was encouraged as an alternative to motorboats. A few months later, the Department of Forestry broadcast its suggestion to

²⁴⁷ NAT, Ministry of Foreign Affairs, (2)กต 1.1.1.1/4, ‘รายงานการประชุมประจำกระทรวงต่างประเทศครั้งที่ 12/2486-14/2486 (Reports of the Ministry of Foreign Affairs meetings),’ 1943, p.19.

²⁴⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.3/1 ‘เรื่องการบันทึกการประชุมการสร้างอุตสาหกรรมแห่งชาติ (National Industrial Development Committee meeting minutes),’ 1943, p.86.

²⁴⁹ NAT, ‘Reports of the Ministry of Foreign Affairs meetings,’ p.19.

²⁵⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.3/3, ‘เรื่องรายงานการส่งเสริมอุตสาหกรรมต่างๆ ตอน1 (Reports on governmental support for various industries part 1),’ 1943, p.9.

²⁵¹ NAT, ‘National Industrial Development Committee meeting minutes,’ p.58.

grow bamboo, which could be used to make rafts or carts, and various tools for fishery, hunting and agriculture. Since animal feed was lacking, it was proposed that any leftover fish or sea food could be dried and fed to livestock.²⁵² Officials also suggested using flint as a substitute for matches.²⁵³

None of these local substitutes adequately replaced their previously imported counterparts. While rattan stems are durable when woven into furniture, they are ineffective at securing fishing equipment. Motorboats have the advantage of speed over sailing boats or any bamboo rafts. Using flint is a return to a less effective way of igniting fire. While all such attempts may have offered hope to peasants listening on the radio, these local goods were poor substitutes and inadequate for alleviating the need for consumer goods; it was therefore imperative that manufacturing be developed quickly if the gap created by the cessation of imports was to be filled.

4.3 Indigenous private industries

There is little information about private industries – those operating without state support – and their activities under the Japanese occupation. As stated in chapters 1 and 2, most rice mills, sawmills, tin mines and rubber processing plants were either owned by the Chinese, British, or Australians. The only large-scale private industries in Thailand were the Siam Cement Company and Boon Rawd Brewery.²⁵⁴ Much development or growth beyond that in the 1930s was highly unlikely, as pre-war obstacles either persisted or worsened during the occupation. The small amounts of qualitative data from governmental

²⁵² NAT, Ministry of Foreign Affairs, (2) กต2.5/235, ‘คำบรรยายเกี่ยวกับกิจการของกรมเกษตรและการประมง (Description of the affairs of the Agricultural and Fishery Departments),’ 1943, p.65.

²⁵³ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.3/5, ‘เรื่องรายงานการส่งเสริมอุตสาหกรรมต่างๆ ตอน 2 (Reports on governmental support for various industries part 2),’ 1943, p.20.

²⁵⁴ Jack Shepherd, *Industry in Southeast Asia* (New York, 1941), p.131; Mitchell, *Industrialization of the Western Pacific*, pp.170-172.

reports and surveys suggest that smaller private industries did exist and, despite some struggle, operated through the war. Their outputs, however, were unreliable and of low quality. Indigenous private industries were thus unable to compensate for the loss of imports or to be competitive with state-run industries.

The government's Industrial Development Committee reported on private factories producing various consumer goods. A few toothpaste factories manufactured products of varying quality. The Thai Industrial Factory produced celluloid combs, but the majority was still imported from China and Hong Kong. According to government registration, only 26 firms produced soap. Another small company called Silaphan produced various kinds of earthenware, such as tiles and bricks; however, their quality was poor.²⁵⁵ Similarly, a 1941 survey found that 20 companies were engaged in making machines and tools, 29 blacksmiths, and 78 in various ironworks.²⁵⁶ These were all small companies that were operating at various points under the Japanese occupation, and would have fallen far short of compensating for the loss of imports.

4.4 State-led attempts at industrialisation

With little Japanese assistance, a lack of substitutes, and a small indigenous sector, wartime industrialisation to compensate for lost imports of consumer goods was largely left in the hands of the Thai government. As one of the main consequences of the occupation, a study of wartime state-led industrialisation throws light on the obstacles faced by the domestic manufacturing sector, and shows how these attempts laid the basis for post-war industrial development.

Government-led industrialisation expanded considerably under Japanese occupation. The Division of Industrial Promotion was upgraded first to a department in

²⁵⁵ NAT, 'Reports on governmental support for various industries part 2,' p.16.

²⁵⁶ NAT, 'National Industrial Development Committee meeting minutes,' p.64.

1941, then a ministry, in 1942. It conducted research, offered loans to small industries, and operated new businesses.²⁵⁷ In 1939, there were 16 state and semi-state operated enterprises. By December 1943, the government either completely owned or held shares in a total of 27 businesses (in addition to the 66 provincial corporations), ranging from the Thai Soap Company to the Thai Navigation Company. Of all the government-owned enterprises, only the Thai Salt, the Thai Mineral and Rubber, and the Thai Rice Companies did not have monopolies in their respective sectors.²⁵⁸ These many state-controlled monopolies gave the government significant control over the market, and thus Thai manufacturing, as a whole.

The importance of industries to the government was reflected in its expenditures. The Phibun administration regularly spent 9 per cent to 14 per cent of its extraordinary budget on the manufacturing sector or to purchase stocks in various companies (Table 4.1). A drop in 1942 was due to a temporary reallocation of funds towards defence, as in January Thailand had declared war on both the United States and the United Kingdom. That year, the government spent 56 million baht – over 50 per cent of its total extraordinary expenditure – on the ‘defence of the kingdom.’ Detailed expenses of specific ministries are not found in the records. It is likely, however, that the Ministries of Commerce or Industry also purchased shares of private corporations or funded small manufacturers out of ministerial budgets. These figures, thus, are a lower-bound.

²⁵⁷ Silcock, ‘Promotion of Industry and the Planning Process’, p.259.

²⁵⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร.0201.22.4/9, ‘เรื่องบริษัทที่รัฐบาลมีหุ้นหรือองค์การดำเนินงานของรัฐบาล และ โบราณ (Governmental shares in companies and commercial organisations),’ 1945, pp.6, 65-66.

Table 4. 1 Government extraordinary expenditure in industry and business, 1941-1944

	1941	1942	1943	1944
1. Total extraordinary expenditure (baht)	51,859,516.63	72,125,942.15	127,140,778.60	178,705,040.47
2. Amount spent on industry and business (baht)	4,706,511.46	2,240,337.79	18,277,739.27	17,245,044
3. Percentage (2) of (1)	9.07	3.10	14.37	9.65

Source: NAT, 'Annual budget report 1941-1944.'

With little surviving quantitative records, it is difficult to know how funds were spent and what came of them. I therefore utilise previously unused primary sources from the National Archives of Thailand and the Japan Centre for Asian Historical Records to throw light on governmental ventures and the difficulties they faced. Firstly, I outline the state's attempts to develop infrastructure and heavy industries, on which other manufacturing could rely. These attempts, however, were largely unsuccessful. The rest of the section describes selected commodities which the Thai government attempted to produce and the difficulties it faced during the war. Textiles, matches, and sugar are studied in detail because they were important pre-war imports and had already attracted some state attention in the pre-war period. Additionally, textiles, matches, and sugar were the only goods rationed nationwide, and in the post-war period the state would continue to intervene in their production. Tobacco and paper are included in this study as examples illustrating the inefficiencies and corrupt practices in the Thai government and some of its state-run enterprises. The agricultural raw materials for textiles, sugar, cigarettes, and paper – namely, cotton, sugar cane, tobacco leaves, and certain types of hemp and fibres – had already been grown in Thailand before the war, and, as production in these sectors did not require large capital goods, their continued operation during the occupation was theoretically feasible. Finally, the state had been attempting to establish local textile, sugar, and tobacco industries since the 1930s (chapter 1); the war did not end state investment in

these sectors. I find that the main obstacles were a lack of capital and capital goods, and, to a lesser extent, insufficient skilled labour.

4.4.1 Infrastructure for industrialisation

The first major obstacle for Thai industrialisation was lack of infrastructure and power for factories. The wartime government attempted to embark on hydroelectricity and encourage coal production. Both were, however, extremely costly; and there is no evidence of completion.

Given the abundance of rivers in the central plain, hydroelectricity was seen as a promising sector. The lack of timeline of the hydroelectric industry makes it difficult to ascertain whether this project was already under development before the war. In 1942, the Ministry of Economics announced an auction for the construction of a power plant in Kanchanaburi either along the Kwaie Yai and Kwaie Noi Rivers. This plant was intended to supply electricity to Bangkok, Thonburi, and villages within a 75-mile radius (in addition to the existing Samsen plant in Bangkok).²⁵⁹ Though evidence on the construction of the plant is scarce, the limited amount of machinery and construction material likely posed a significant obstacle.

Outside the Greater Bangkok Area, hydroelectricity had limited reach; coal was more significant. Firewood was a common source of heat and power in the provinces; and its prices as well as transport costs had risen since the beginning of the war. Historically, King Rama VI supported coal as an alternative to firewood and even founded a mining company, the Thai Quarry Company (บ่อถ่านศิลาไทย). In 1921, he reserved over 3,000 kilometre² of land for the company in Suratthani Province, which was believed to hold over 500 million tons of lignite. The company was later abandoned in the 1930s. The Phibun government sought to revive the industry and company's assets in Suratthani, as

²⁵⁹ National Archives of Japan, 'Political and economic conditions of Thailand 1941,' p.157.

coal was not only cheaper than firewood, but also beneficial to other types of manufacturing. Transport was not assumed to be an issue as Suratthani had a functioning railway station; furthermore, the Tapi River, which linked to Bangkok, ran through the province. The coal industry required an estimated 2,500,000 baht of investment. No other surviving records of the Thai Quarry Company or coal development are found. Not only would the Thai government have trouble funding the enterprise at its current financial situation (chapter 3), transport would have also become difficult with Japanese appropriation of ships, destruction of railways and bridges from Allied air raids, (chapter 2) and the lack of fuels.

4.4.2 Heavy industries

Thailand struggled to import metal manufacturing and chemicals during the war (chapter 2). These two ‘heavy industries’ thus received particular attention from the state, as they were the necessary basis for other types of manufacturing. Most of these enterprises simply failed to come to fruition due to a shortage of inputs and proper research on existing raw materials in the country. Consequently, the lack of machinery and necessary chemicals became an insurmountable obstacle for other sectors, as will be discussed below.

To develop metal manufacturing, the Siam Cement Group was granted a mandate to conduct research and survey the possibilities of establishing an iron refinery. The Group reported that there was enough good quality iron ore in Lopburi Province, and was ready to start construction of a factory there. Initial output was estimated at 100 tons per day.²⁶⁰ Over a year later, the Siam Cement Group was unable to deliver its previously estimated output due to lack of machinery, despite the abundance of magnetite, an important raw material for production. The government considered securing a portion of the forest

²⁶⁰ NAT, ‘National Industrial Development Committee meeting minutes,’ pp. 1-250.

around Pa Sak River to supply fuel for the refinery; however, the state ran into trouble with locals who had legal rights and needed to use wood for survival.

The administration also sought to develop metalworking as a household industry. In January 1943, Phibun wanted to set up furnaces in each provincial district and to open ironmongery classes to encourage local production of agricultural tools. The Ministry of Agriculture proposed a more practical solution of building one in each provincial centre, which was to be staffed by two or three expert ironmongers as trainers. In the same year, the Ministries of Industry and Interior also approved an 84,000-baht subsidy to blacksmith masters to commence their own business in order to supply local markets with steel. Due to the lack of appropriate raw materials, the quality of this steel varied greatly, and was often either too hard or too soft for making tools.²⁶¹

Similarly, the state wanted to improve the production of chemical products, a plan in process since before the war. For instance, on 1 October 1940, the Ministry of Interior proposed construction of a chlorine factory, requiring roughly 1.7 million baht of investment. The factory would also generate caustic soda and hydrogen, both significant pre-war imports but now unavailable.²⁶² In 1942, however, the industry was deemed impossible without necessary raw materials and machinery.²⁶³ Experiments were conducted in July 1943 to make celluloid out of Silesian wood instead of camphor, since that wood was relatively successful in making toothbrushes and combs. It was, however, reported that the government did not know how much Silesian wood was in the country or how long production can be sustained. Other chemical products that were under

²⁶¹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2/36, ‘กรมเลขาธิการคณะรัฐมนตรี เรื่อง ฟื้นฟูการทำเครื่องมือใช้สอยประจำบ้านและเรื่องสร้างโรงตีเหล็ก (Restoring production of household tools and construction of metal forges),’ 1944, pp.1-46.

²⁶² NAT, ‘Committee of Governmental Industry,’ p.61.

²⁶³ NAT, ‘National Industrial Development Committee meeting minutes,’ p.58.

experimentation were potassium, sodium hydroxide, barium chloride, sulphuric acid, and soda lime; but no clear progress was made.²⁶⁴

4.4.3 Textiles

As Thailand imported the majority of its textiles before the war (chapters 1 and 2), the government needed somehow to try to make up for the loss of goods with domestic production. Evidence shows that the state was successful in increasing cotton cultivation, but did not have the necessary machinery and human capital to produce enough textiles to significantly alleviate the shortage.

The first step in establishing a textile sector was to encourage cotton cultivation, in which the Thai government was relatively successful, as it was in the pre-war period. This project existed as early as 1941, when officials promoted production on 300 kilometre² of land across 15 provinces.²⁶⁵ In response to the construction of the Ministry of Industry's weaving and spinning factory, which would need a constant supply of raw materials, the Ministry of Agriculture developed another five-year programme to increase cotton production in October 1942. The Ministry of Agriculture encouraged Cambodian cotton cultivation in 16 provinces, and local cotton in ten. Though Cambodian cotton was superior to local cotton, as the latter could only be spun into large-fibre yarn and was unsuitable for weaving finer textiles, local cotton was the only variety that the government was able to acquire, probably due to transport difficulties. A Ministry official was stationed at each provincial farm to distribute seeds, offered advice on planting techniques and pest control, and kept detailed accounts. All the provinces combined grew cotton on an

²⁶⁴ NAT, 'Reports on governmental support for various industries part 2,' pp.14, 20, 22.

²⁶⁵ National Archives of Japan, 'Political and economic conditions of Thailand 1941,' p.147.

estimated 327 million square metres of land, which would produce roughly 19,000 tons of cotton. To incentivise farming, cotton prices were also kept artificially high.²⁶⁶

Though in 1942 a high portion of cotton was destroyed by rainfall, figures suggest that the government succeed in increasing raw cotton cultivation (Table 4. 2). While the increased production was not sustained after the war due to an influx of cheap imported textiles (chapter 8), expanded raw cotton production was one of the few successes of the Thai government in the occupation period.

Table 4. 2 Raw cotton production, 1937-1944 (metric tons)

Year	Raw cotton
1937-38	7,141.8
1938-39	4,551.2
1939-40	6,686.4
1940	7,911.7
1941	9,148.5
1942	11,162.3
1943	42,041.3
1944	36,032.4

Source: Thailand, *Statistical Yearbook 1939-1944*, p.466.

The next step in the process was turning raw cotton into textiles. At this stage, government's efforts were hindered by the lack of machinery and skilled labour. As Thailand was unable to produce its own machines, it relied on imported looms. Since the beginning of the war, Thailand attempted to purchase some machinery from Japan. In October 1942, the Industrial Development Committee approved of a project to build a factory with 100,000 spindles and 5,000 weaving machines from Japan to increase local manufacturing in Bangkok.²⁶⁷ Another factory was constructed in the province of

²⁶⁶ NAT, 'National Industrial Development Committee meeting minutes,' pp.58-60; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.1/14, 'องค์การส่งเสริมการปลูกฝ้ายหรือ บริษัทส่งเสริมฝ้ายไทย (Cotton support agency or Thai Cotton Support Company),' 1944, pp.1-3; NAT, 'Reports on governmental support for various industries part 2,' p.70.

²⁶⁷ NAT, 'Cotton support agency,' p.1.

Phitsanulok in the north, which was to be equipped with 10,000 spindles and 100 weaving machines, also from Japan.²⁶⁸

There are no extensive records of production statistics, however, qualitative evidence suggests that not all the ordered machines arrived from Japan, and that if they did there was a lack of skilled operatives. For instance, a sock and shirt weaving factory, Mongkolchai, operated with two sweater- and one sock-knitting machines, along with other decorative apparatus, with a total value of 4,400 baht. The state requested that the factory expand its production, as well as buy 20 additional machines from Japan. Mongkolchai ordered more machinery from Japan, but did not receive the entire order.²⁶⁹ Similarly, the Thai Weaving Factory tried to expand its production by adding two more shifts to its work schedule; however, the factory was lacking experienced manpower and was unsure if the Japanese were going to deliver more machines as previously negotiated.²⁷⁰ In 1943, the Department of Corrections stated that it possessed 600 looms; however, they were not operated to their full capacity due to an insufficiency of skilled spinners and weavers, and the reported daily output was as little as 11 kilograms of yarn and 300 metres of fabric.²⁷¹ These efforts, thus, were unable to compensate for the loss of imported textiles.

4.4.4 Sugar

Though there were sugar exporters in the Greater East Asia Co-Prosperity Sphere, shipping difficulties meant Thailand had to increase domestic cultivation or face an acute shortage of the product. The sugar industry faced more issues than textiles (for which the government succeeded in growing more cotton but struggled to turn it into clothing): Not

²⁶⁸ NAT, 'National Industrial Development Committee meeting minutes,' pp.59, 75, 80.

²⁶⁹ NAT, Reports on governmental support for various industries part 2, pp.46-48.

²⁷⁰ NAT, 'Reports on governmental support for various industries part 2,' p.70.

²⁷¹ NAT, 'Reports on governmental support for various industries part 2,' p.70.

only was cane cultivation low, but processing cane into sugar was also an obstacle. Despite government efforts, Thailand still suffered from a shortage of sugar.

Manarungsan estimated that the government was successful in increasing the amount of cane, palmyra, and coconut sugar production during the war (Table 4. 3). If his figures are accurate, Thailand would not have suffered any sugar shortage during the war. His estimates, however, were based on the multiplication of per capita consumption figures in 1907-1920 for cane sugar, and 1907-1913 for palmyra and coconut, with estimated population.²⁷² It is not only highly unlikely that pre-war trends would apply under wartime circumstances, but he also failed to take into account the fluctuations in the amount of imported milling and milling capacity from 1920s to 1940s.

Table 4. 3 Manarungsan's estimated sugar production and availability 1937-1945

Year	Estimated domestic production (tonne)	Imported (tonne)	Total available (tonne)	Population (thousand)	Per capita annual consumption (tonne)
1937	66,557	36,208	102,765	14,155	7.3
1940	86,650	47,420	134,070	15,296	8.8
1942	106,551	6,819	113,370	15,857	7.1
1945	116,112	4,545	120,657	16,737	7.2

Source: Manarungsan, *Economic Development*, p.104; Thailand, *Statistical Yearbook 1939-1944*, p.466; Van der Eng, 'Thailand Estimates of GDP.'

Moreover, primary sources point to a shortage of sugar. It was one of the few goods rationed nation-wide. The government estimated in 1942 that the country consumed an average of 125,000 tons of sugar each year. The Thai sugar industry could produce only 70,000 tons (10,000 of white and 60,000 of brown granulated sugar), leaving the country with an annual shortage of 55,000 tons, just roughly half of 1942 consumption.²⁷³

²⁷² Manarungsan, *Economic Development*, p.104.

²⁷³ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.3/4 'รายงานการส่งเสริมอุตสาหกรรมต่างๆ ตอน3 (Reports on governmental support for various industries part 3),' 1949, p.51.

Though there are no official records of cane yields, qualitative sources suggest that, in comparison to cotton, the government was less successful in encouraging peasants to grow cane. In May 1942, the Sugar Industry Committee reported to the cabinet that promoting and improving cultivation was needed, as local yields were still insufficient. One of the reasons peasants turned away from cane was that prices were kept artificially low to help refineries. For instance, 99 cane growers and small mill owners in Chonburi province wrote a letter of complaint to the Bangkok government that that costs of materials and living had gone up ‘almost daily,’ but farmers and millers were unable to increase sales or raise prices of their product because the government placed sugar and its prices under strict control. The letter concluded that the government should lift the price limits on brown sugar in Chonburi for the sake of the ‘livelihood of the people.’ Indeed, in September of the same year, the Ministry of Agriculture found that many farmers stopped growing cane and turned to cotton because of depressed prices.²⁷⁴

Despite unreliable sources of cane, the wartime government pushed forward with an expansion of sugar refineries. Like every other industry, the issue of disrupted equipment imports posed ongoing difficulties and caused many refineries to fail even before they could begin operation. A factory in Ubonratchathani was successfully constructed but operated with difficulties under the Japanese occupation. In March 1942, the Ministry of Industry planned to build a brown granulated sugar factory in Udonthani Province. The mill was to be equipped with machinery from a closed plant in the Philippines, but was never built.²⁷⁵ In July 1943, after Japanese shipping collapsed, the

²⁷⁴ NAT, ‘Promoting sugar cane,’ pp.47-51, 73.

²⁷⁵ NAT, ‘National Industrial Development Committee meeting minutes,’ p.37; NAT, ‘Reports on governmental support for various industries Part1,’ pp.94-95; NAT, ‘Reports on governmental support for various industries part2,’ p.17; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/15, ‘ส่งเสริมการปลูกอ้อย หรือ ตั้งโรงหีบอ้อยทำน้ำตาลทรายแดง และเรื่องส่งเสริมกับควบคุมน้ำตาลทรายขาว-แดง (Promoting sugar cane, or establishing a sugar refinery and promoting and controlling refined sugar),’ 1948, pp.4-6, 11-13; NAT, Department of

Ministry of Agriculture expressed a desire to expand its sugar refinery, but reported a lack of machines. The ministry also mentioned that tin containers of sugar were hard to obtain, posing issues for storage.²⁷⁶

4.4.5 Matches

During the war, the state attempted to produce matches, an important consumer good. Though the government acquired production facilities from private companies, it faced the bottleneck of a lack of necessary chemicals and could not produce enough matches to alleviate the shortage. The failed chemical industry, thus, had wide-reaching effects on wartime Thai manufacturing.

Before the war, multiple match factories were operating in Thailand, most of which belonged to either European or Chinese entrepreneurs. Domestic factories, however, were still dependent on imports for raw materials. After 1941, the chain of necessary supplies, especially potassium chlorate and phosphorus, was severed. The Swedish owned Thai Match Company, for example, shut down in January 1942 due to a lack of potassium chlorate. The government, seeing an opportunity, bought the Thai Match Company along with two Chinese factories, Tung-ah and Min-sae, but also ran into issues of lack of the two chemicals.²⁷⁷ Though potassium chlorate could be imported from Japan and the Ministry of Industry was conducting experiments to increase productivity, the prospect of the match industry in Thailand looked dim. Thailand would have needed 300-400 tons of the compound annually, but the Japanese were only able to supply about one fifth of the desired amount. While Thailand was attempting to establish a domestic chemical industry

the Secretariat of the Cabinet, (2) สร0201.22.2.7/18, การช่วยเหลือชาวไร่อ้อยและสร้างโรงงานน้ำตาลอำเภอชุมกวาศจังหวัดอุดรธานี ('Helping cane growers and building a sugar factory in Gumpawapee, Udonthani province), 1951, pp.2, 6-31, 64-69, 73-74, 76; National Archives of Japan, 'Political and economic conditions of Thailand 1941,' p.157.

²⁷⁶ NAT, 'National Industrial Development Committee meeting minutes,' p.37; NAT, 'Reports on governmental support for various industries part1,' pp.94-95; NAT, 'Reports on governmental support for various industries part 2,' p.17.

²⁷⁷ NAT, 'Reports on governmental support for various industries part 2,' p.20.

(section 4.4.2), factories in Thailand could produce a mere three to four tons of potassium chlorate annually – only one per cent of pre-war import levels.²⁷⁸ In September 1943, the Ministry of Industry surveyed the country's inventory and found sufficient raw materials to continue producing matches only for two months.²⁷⁹ Though no precise production statistics exist, it is likely that due to the lack of necessary raw materials, these factories did not produce enough matches for Thai consumers and might have shut down altogether after 1943.

4.4.6 Tobacco

Tobacco was a common consumer good in pre-war Thailand, and the Thai government had been attempting to produce and distribute tobacco products since before the war. The wartime tobacco industry demonstrates not only that the lack of machinery hindered industry, but also the inefficiency and corruption that accompanied the Thai government's involvement.

In 1942, the Ministry of Commerce and the cabinet made lofty plans to establish cigarette shops in every *tambon* (district). There were detailed plans for each year, stating that cigarettes could only be imported if domestic supply was insufficient. Officials would need to plant 438 kilometre² of foreign tobacco, and 80 kilometre² of the local variety. To make a profit, the ministry strategised that the product should not be too expensive because it was 'not a necessity' for non-addicts; cheaper cigarettes would also increase demand.²⁸⁰ The government bought machinery from the Japanese company, Mitsui Bussan

²⁷⁸ NAT, 'Reports on governmental support for various industries part 2,' p.111.

²⁷⁹ NAT, 'Reports on governmental support for various industries part 1,' p.8.

²⁸⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.2/3, 'โครงการยาสูบ 5 ปี (Five year tobacco project),' 1942, pp.3-11.

Kaisha, for just under 1.5 million baht in January 1943, though there is no evidence of shipment.²⁸¹

During the war, mismanagement by both government and private individuals led to significant losses. In April 1944 – the final stretches of the occupation and during which shortages were worst – the Tobacco Factory under Sanguan Tularak acquired some Pirate Brand cigarettes from Mitsui Bussan Kaisha. The factory agreed to sell 17 million cigarettes to Somdej Pranang Intarasaksachi on credit without any form of bidding. Intarasaksachi was the former queen to King Vachiravudh and oversaw a distribution network which could be used to sell said cigarettes to a wide range of people. Selling scarce goods on credit broke state policies; and the Tobacco Factory was eventually placed under investigation when Intarasaksachi left the cigarettes in the factory until their expiration date. Tularak was let off with a warning; the cabinet saw that he was acting with the interests of the Tobacco Factory at heart by seeking to sell products as quickly as possible. The state attorney filed a lawsuit against Intarasaksachi, asking for damages of over 500,000 baht. Intarasaksachi agreed to distribute cigarettes of the Tobacco Factory to settle her debts in December.²⁸²

Tularak and Intarasaksachi's light punishment despite the severity of their blunder – wasting 17 million cigarettes in a time of scarcity – demonstrates the ineffectiveness of Thai government accountability. Perhaps Tularak gained good favour of the cabinet members by prioritising cabinet for consumer goods or Intarasaksachi used royal status to her advantage. That Tularak broke the Tobacco Factory policy to sell cigarettes on credit to Intarasaksachi, a member of the royal family, demonstrates nepotism and clientelism

²⁸¹ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.2/4, 'เรื่องซื้อเครื่องจักรม้วนบุหรี่ และเครื่องอุปกรณ์เครื่องใช้ต่างๆของโรงงานยาสูบ (Purchasing cigarette-rolling machines and machinery for the tobacco factory),' 1949, p.1.

²⁸² NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.2/7, 'บุหรี่ปิเรตเสีย (Pirate Cigarettes spoiled),' 1943, pp.4, 20-21, 35-36, 39-40.

within the bureaucracy and monarchy. A middle-class commoner running a similar business would not have received the same treatment. Intarasaksachi herself, who was arguably more at fault, was not only spared from criminal charges, but was allowed to retain her business and continued to work with the government. Her former royal title likely offered her protection. This is also possibly a symptom of the Phibun administration's economic nationalism. The cabinet might have been reluctant to prosecute Intarasaksachi because she was one of the few ethnic Thais who were wealthy and influential in the sector.

4.4.7 Paper

Finally, the wartime paper industry is an example of how the Thai government attempted to use local raw materials to produce an imported commodity. These local substitutes and machine acquisition, however, ran into the familiar problem of a lack of necessary chemical inputs that faced the production of heavy industries and matches. Like tobacco, state involvement in paper also demonstrates inefficiency and corruption.

Various government agencies supported local paper as a substitute. The Survey Department discovered in March 1943 that mulberry paper could be used to provide a livelihood to people as well as to supply factories. Hemp was also grown in various provinces in the north and could be used as raw materials for paper.²⁸³ The Thai government acquired factories at low prices from private citizens, who were either pressured into selling or wanted to avoid operating a business at a loss during the war.²⁸⁴

Despite local efforts to produce paper, Thailand still faced a large shortfall. In 1943, the Department of Industry reported that the country needed 800 tons to 1000 tons of

²⁸³ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.3/34, 'กระดาษสา (Mulberry paper),' 1944, pp.7, 35.

²⁸⁴ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.3/36, 'กระดาษอัดสำเนา และเรื่องโรงงานกระดาษอัดสำเนา (Copy paper and copy paper factory),' 1949, pp.28, 36-38.

paper each month, but could only domestically produce 200 tons monthly as sodium hydroxide and other chemicals were lacking. Here, one learns of the priorities of the wartime government. Consistent with the large budget allocation to education, students' need for materials took precedence, but they were encouraged to use 'local paper as much as possible.' Similarly, when the Department of Industry suggested reducing quotas for newspapers by half, Phibun disagreed, stating that newspapers were 'necessary' and again asked that the Department try to utilise local newsprint, which was also scarce.²⁸⁵ Though wartime flow of information was undoubtedly important, the government's tight control of newspapers may point to a self-serving motive. Phibun and his advisers most likely realised the 'necessity' of communicating with and shaping the opinions of the literate elites in Bangkok. Though readership numbers of newspapers in Bangkok are unavailable, reducing quotas to newspapers would have compromised the government's ability to influence the economically and politically powerful in the capital.

Records of the state-run paper industry reveal inefficiencies and corruption that hindered production and public access to the product. Thai Niyom Panit, a state-owned company, distributed the paper especially to newspaper publishers. While the company was undoubtedly benefiting from this patronage, it was also struggling to operate within the confines of bureaucratic rules and regulations. For instance, the company needed to seek cabinet approval before purchasing paper and was, in effect, barred from selling imported paper. A representative from Thai Niyom Panit claimed that it was losing money when selling to newspaper publishers, as the company was forced to do so at an artificially low price set by officials.²⁸⁶

²⁸⁵ NAT, 'Mulberry paper,' pp.23-24.

²⁸⁶ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.3/32, 'การกักงานซื้อและสั่งซื้อกระดาษเพื่อมิให้ขาดแคลน (Purchasing and ordering paper to prevent a shortage),' 1946, p.6.

As the war continued and supplies of paper continued to deplete, the president of the Committee to Control Paper Industry and Commerce cancelled Thai Niyom Panit's license to purchase paper in Thailand on 11 August 1945, just four days before the announcement of the Japanese surrender. Contradictions were found in the Thai Niyom Panit's report, raising suspicion from the Committee. For instance, the company could not sell large amounts of paper, but was still asking for permission to buy more.²⁸⁷ This revocation demonstrates that corruption detection still worked in the culture of favouritism in the Thai government. Thai Niyom Panit, however, was seemingly allowed to seek profit legally for nearly three years during which the country experienced a shortage of paper.

4.5 Evaluation of state-run enterprises

Despite the efforts by the Thai government, wartime and structural obstacles were difficult to overcome. Indeed, between 1941 and 1945, manufacturing's total output fell from 2.2 to 1.8 million baht – an 18 per cent decrease – demonstrating that manufacturing in Thailand suffered during the war despite extensive government intervention and the presence of Japanese-run factories.²⁸⁸ This section analyses the difficulties faced by Thai industries under the Japanese occupation, as well as examines the financial performances of state-run enterprises.

4.5.1 Main obstacles to wartime industrialisation

The description and projects outlined in government reports shed light not only on the government's vision for Thailand, but also help in understanding, as now discussed, the variety of reasons that made industrialisation almost impossible under the Japanese occupation.

Firstly, obstacles to pre-war industrialisation (chapter 1) - a lack of private capital, poor human capital, and corruption – persisted in wartime Thailand. The lack of private

²⁸⁷ NAT, 'Purchasing and ordering paper to prevent a shortage,' p.15.

²⁸⁸ Van der Eng, 'Thailand Estimates of GDP.'

capital is evidenced by the state's many attempts at allowing Thai citizens to purchase stocks in new companies with little response from the public. Consequently, the government ended up funding most of its wartime enterprises with its own limited funds, contributing to the worsening deficit and inflation (chapter 3). In addition, pre-war and wartime Thailand lacked another factor of production: skilled labour. Indigenous Thais had little experience or expertise in manufacturing, and industrialisation requires human knowledge to construct, operate, and maintain machinery. The shortage of engineers and skilled labour posed problems that the wartime administration struggled to overcome. According to the 1939-1944 Statistical Yearbook, only just over 12,000 Thai citizens completed secondary school and 5,000 had university degrees out of over 10 million people.²⁸⁹ Additionally, skilled labour involved in manufacturing was not immune to corruption and nepotism, as shown with Intarasaksachi and Thai Niyom Panit, leading to losses of already scarce products and inefficiencies.

Secondly, pre-war Thailand had little infrastructure as the basis for any industrial development. Thailand's difficulties in industrialising contrasts with the experiences of Latin American countries, such as Brazil, Argentina, and Mexico, whose manufacturing sectors grew during this period. The main reason for this difference is that Latin American countries had existing industrial capacities that they could utilise during the war. By the 1930s, these countries' economies were more integrated due to better infrastructure, had better credit, and already had some light industries such as textiles and light metal working.²⁹⁰ Thailand's economy was not as integrated nor as monetised, and did not have

²⁸⁹ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, p.74.

²⁹⁰ Colin M. Lewis, 'Modernisation and Industrialisation', in *A Companion to Latin American History*, by Thomas H. Holloway (Oxford, 2011), 285–306, pp.295-6; Joel Wolfe, 'Populism and Developmentalism', in *A Companion to Latin American History*, by Thomas H. Holloway (Oxford, 2011), 347–64, p.348; Enrique Cardenas, Jose Antonio Ocampo, and Rosemary Thorp, eds., *An Economic History of 20th C Latin America:*

a basis on which to build. In the 1930s, the country was largely agrarian with 80 per cent to 90 per cent of the population involved in rice cultivation and very low manufacturing output (chapter 1). The fact that the state needed to develop infrastructures of hydroelectricity and power plants demonstrates the monumental task ahead of the wartime administration. While in other instances new industries would have their own power sources, the Thai state attempted the bulk of the manufacturing and would have needed to develop such infrastructure first.

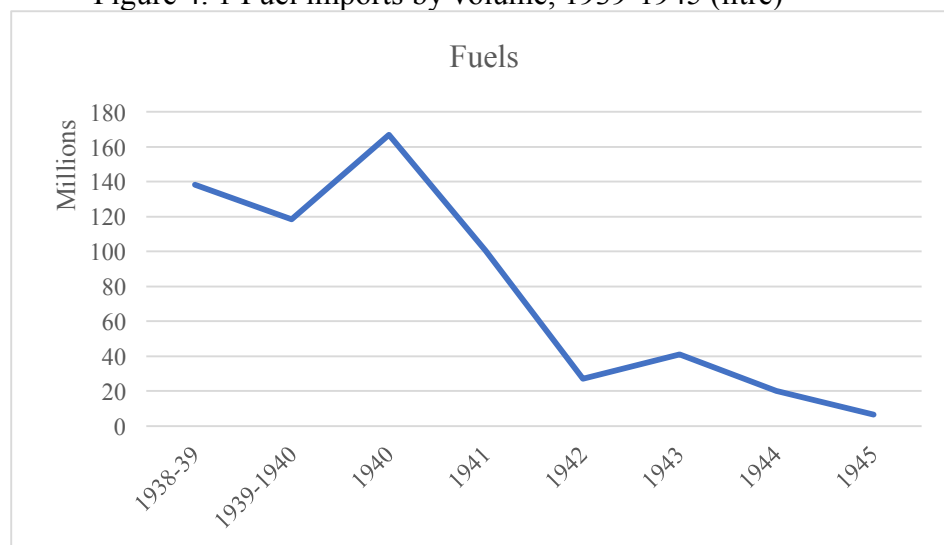
Thirdly, though the push to industrialise domestically was a reaction to import disruption, Thailand was unable to manufacture goods insofar as they necessitated imported raw materials and capital goods. The kingdom thus relied on imports obtained from Japan. While there is evidence of purchases of machinery at the start of the war, the collapse of Japanese merchant shipping after mid-1943 and Japan's own needs meant Thailand did not receive much-needed inputs for domestic manufacture. Raw cotton could not be woven and spun because of a lack of looms; matches lacked potassium chlorate; sugar refineries could not be constructed without imported machines.

Finally, though this was not explicitly mentioned in many industrial reports, Thailand lacked fuels and lubricants. They were not only crucial to manufacturing, but also essential for civilian and military transport uses (Figure 4. 1). There were no good local substitutes for fuels and lubricants. Fuel was one of the few goods that was rationed nationally and consistently throughout the occupation. The process of rationing fuel was overseen by the Department of Fuel, part of the Ministry of Interior. Those who required more fuel than the allocated quota, usually factory owners who needed to transport goods,

Industrialisation and the State in Latin America: The Postwar Years, vol. 3 (Basingstoke, 2000), p.9.

were able to apply for an allowance increase.²⁹¹ However, bootlegging posed a difficult problem (chapter 5). Many ‘businesses’ apparently applied for an augmented ration and resold this fuel in the black market.²⁹² The shortage of fuel, destruction of infrastructure by air raids, coupled with Japanese appropriation of railways and vehicles, was a significant hindrance on the government’s industrialisation efforts, as transportation was severely restricted.

Figure 4. 1 Fuel imports by volume, 1939-1945 (litre)



Note: Fuel statistics consist of benzine, kerosene, and other petroleum products
Source: Thailand, *Statistical Yearbook 1939-1944*, p.158.

4.5.2 Profits and losses of state-run enterprises

Along with the examination of struggles of state enterprises, it is important to determine whether these companies were generating income or were simply draining public funds. Self-reported accounts of state-affiliated enterprises reflect war conditions plus all the difficulties outlined above, and reveal that most wartime enterprises were not profitable and might not have survived the occupation without government assistance.

²⁹¹ NAT, Department of the Secretariat of the Cabinet, (3) สร0201.45.2/4, ‘จัดตั้งให้ร้านจำหน่ายสินค้าช้อยของคนไทย (Promoting Thai goods),’ 1944, p.30.

²⁹² NAT, Ministry of Foreign Affairs, (2)กต2.1.5/27, ‘การจำกัดน้ำมันเชื้อเพลิง (Fuel restriction),’ 1942, p.2.

The sources for this section are monthly, quarterly, or yearly reports submitted by the companies to the Ministries of Finance, Transport, Agriculture, Industries, and Commerce between 1942 and 1944. While useful for measuring the success of governmental business ventures, the reports may not be entirely reliable as businesses might have doctored their finances. For many companies, only net profits or losses were reported, making it difficult to ascertain the size of these numbers in relation to the business. Only some included income, expenses, investment, capital, and other assets. There are no other sources to check the accuracy of reported figures. Nonetheless, an examination of available statistics offers some much-needed insight into how state enterprises fared during the war.

The poor performances of Thailand's state-led industrialisation differ from those of South Korea. The main reason was that Thailand's government had less capacity. Timing is an important differentiating factor as well: South Korea's rapid economic growth occurred in the 1960s and 1970s, not during the war. State capacity and management of government-affiliated firms also played an important secondary role. The South Korean state penalised firms with poor performances and rewarded successful enterprises with subsidies.²⁹³ The Thai wartime government during the war had limited reach and ability to detect fraud, and circumstances made civil servants more prone to corruption (chapter 5). Thailand, thus, did not have the state capacity to effectively monitor or incentivise state-affiliated companies, leading to undesirable financial outcomes.

As a case study, enterprises under the Ministry of Finance will be surveyed. Such companies were Mae Klong Train (รถไฟแม่กลอง), Thai Paper Company (บริษัทเบ็ดเสร็จกระดาษไทย), Thai Electricity Corporation) ไทยไฟฟ้า(, Economic Insurance (เศรษฐกิจ

²⁹³ Alice H. Amsden, *Asia's next Giant: South Korea and Late Industrialisation* (New York, 1989), p.15.

ประกันภัย), Nima United Colours (สหสีนีมา), Suphan Commerce (สุพรรณพาณิชย์) , Christiani and Nielsen) คริสเตียนนิ และ นิลเสน(, Thai Construction (บริษัทไทยก่อสร้าง จำกัด), Transport Company (บริษัทขนส่งไทย), Burapha Neon Lighting (บุรพานีออน) Samakkhichai(สามัคคีชัย) , Srikrung(ศรีกรุง) , Siam Cement (ซีเมนต์ไทย), and Produce and Agriculture (พืชกสิกรรม). There is no evidence whether any had monopolies in their fields, and most companies were making net losses in thousands of baht. In 1942 and 1943 when the reports were submitted, the ordinary expenditures for the Ministry of Finance were roughly nine million baht. While thousands of baht for each company may seem small, the ministry oversaw more than a dozen enterprises. The losses compounded could make up a significant amount of the ministry's expenditures.

The few state enterprises that were making net profits were usually involved in construction, such as the Thai Construction Company, Christiani and Nielsen, and the Siam Cement Company. In March 1943, the Thai Construction Company reportedly oversaw a total of 1.2 million baht in construction projects. Though the enterprise was young and made a loss of over 20,000 baht in the last quarter of 1942, the company realized a net profit of roughly the same amount in the next quarter. The Ministry of Finance praised the company for its 'successful operation.' Christiani and Nielsen only submitted one report in December 1942, in which it reported proceeds of nearly 400,000 baht. Similarly, the Siam Cement Company registered a total of over 500,000 baht in profit in 1942. It oversaw digging for gypsum in Lampang and Uttaradit for the state and had begun shipping to Bangkok. The Siam Cement Company was not only under

governmental, but also royal patronage. The company's sustained income during the war, thus, should not be altogether surprising.²⁹⁴

The other companies struggled. In the reports, explanations almost always accompanied losses. For instance, in 1943, the Transport Company made a loss of over 26,000 baht or roughly 23 per cent of its revenue. The company enclosed a statement explaining that costs of equipment and fuels had been steadily increasing. Though statistics and records clearly demonstrate that fuels were indeed extremely scarce in Thailand towards the end of the war, Phibun was not sympathetic. He wrote back to the company, 'There would not be losses if you managed the company properly. If you don't manage well, then there will be losses. Use your intellect, brain, and labour. Nothing is impossible (จัดให้ดี ไม่ขาดทุน ถ้าจัดไม่ดีก็ขาดทุน ควรใช้ปัญญา สมอง และ ออกแรงบ้าง อะไรทำไม่ได้มันไม่มีเลย).' As amusing as this may be, it is difficult to imagine that Phibun was unaware of the acute shortage of fuels in Thailand or how improvement in managerial abilities could have overcome difficult wartime conditions. This harsh message was likely to motivate the company to attempt to reduce costs and increase profits as it was able, and offers a glimpse into Phibun's governing style. Indeed, the Transport Company 'used its intellect, brain, and labour,' and made a small profit on buses and aeroplanes in the following quarter; however, the company ran a deficit again in the next quarter due to increased costs and equipment prices.²⁹⁵

State enterprises in the transportation sector seemed to have suffered one of the largest shocks. By the end of 1942, the Mae Klong Train Company had an annual net profit of 245,022.30 baht; its net profit in 1943 was reduced to 156,308.25 baht, almost

²⁹⁴ NAT, Department of the Secretariat of the Cabinet, (2)สร0201.51/11, 'กระทรวงการคลัง รายงานกิจการของบริษัทที่รัฐบาลมีหุ้น (Ministry of Finance reports on the companies in which the government holds stocks)', 1944, pp.15, 21, 53, 108-109, 111-112.

²⁹⁵ *Ibid.*, pp.23, 29, 68, 88, 93.

100,000 baht and 36 per cent less than the previous year, with decreasing nominal value of money. This reduction was also likely due to the increasing costs of fuels, Japanese appropriation of train tracks and carriages, and loss of railways and bridges to Allied bombings. Nonetheless, the Ministry of Finance expressed confidence in the firm, stating that Mae Klong Train was ‘stable,’ as it had over 700,000 baht in assets both locally and in Hong Kong and Shanghai.²⁹⁶

Burapha Neon Lighting is an example of a state enterprise that struggled despite the advantage of working with the state, and this case demonstrates that government assistance was not always enough to overcome dire war conditions. Between 1941 and 1942, the company made a total net loss of 39,759.63 baht. Company reports speculated that air raids had discouraged people from using neon lights both in and outside of buildings. The lack of generators and Allied destruction of plants must have also played a role. In April 1943, Phibun suggested halting operation on Burapha Neon Lighting, as blackouts due to air raids were going to continue in the future. In October, the company was given permission to maintain existing rentals, but closed most of its other services.²⁹⁷ If there were private companies in the same sector without governmental assistance, it is unlikely that they would have remained in operation during the Second World War.

Conclusion

This chapter has demonstrated that Japanese policy and investment could not alleviate shortages of goods during the occupation. It shows not only how little industrialisation there was in Thailand, but also how the lack of machinery, fuels, and raw materials prevented the government from successfully expanding its manufacturing sector. This failure was reflected in the account books of state-affiliated companies, most of

²⁹⁶ *Ibid.*, pp.31, 57, 64.

²⁹⁷ *Ibid.*, pp.70, 96.

which were making losses, and the sector's wartime GDP, which declined despite the Thai government's best efforts. Indigenous Thai private industries were small during this time.

Failed attempts at industrialisation and acute shortages of consumer goods were one of the most significant wartime experiences for Thailand. Unsuccessful industrialisation required the government to begin rationing and price control policies, and affected the standard of living among the Thai population, as will be discussed in the following chapters. More importantly, this experience had long-term consequences, as argued in detail in chapter 8. In sum, wartime industrialisation failures left legacies by reinforcing the government's perception that developing and expanding the manufacturing sector was crucial. During the war, the state gained a firm foothold in the manufacturing sector, through setting up companies and establishing factories. While many of the wartime companies were closed between 1945 and 1946, the practice of state-funded and -affiliated industries had been established and resumed in 1947 when Phibun returned to power. Indeed, in the late 1940s, the government promoted and supported nearly all the same manufacturing sectors as it did during the 1930s and the war. The pattern that was established before the occupation was strengthened during the war years.

Though the Japanese offered 'minimal assistance' to indigenous Thai manufacturing during the occupation, the Japanese inadvertently left legacies for post-war industrialisation. While wartime joint-ventures between Japanese companies and the Thai state failed, machinery that had been shipped to equip these enterprises was never transported back to Japan. Similarly, Japanese-run factories that sold only to the Japanese army were abandoned in 1945. These circumstances gave Thailand a more trained labour force than had existed in pre-war Thailand and machinery that the kingdom could utilise in the post-war period – an important step in overcoming the shortage of capital goods.

Chapter 5 Coping with scarcity

Introduction

After 1941, Thailand became a so-called stock economy – an economy with no inflow of imported goods. Available products consisted of those already in the country, Japanese imports, and domestic production, none of which contributed much to wartime supplies. In December 1941, merchants held relatively few goods because they had depended on a constant flow of imports. Japan sent limited quantities of goods to Thailand, and from 1943 onwards the Japanese contribution dwindled even further due to reduced shipping capacity. As discussed in the last few chapters, Thailand relied on trade for many necessary consumer goods, and domestic production and substitutes did not compensate for pre-war imports. This chapter builds on chapter 4, and further explores how the government tried to counter scarcity and its problems. I argue that the measures put forth by the Thai government were ineffective at alleviating shortages due to not having enough goods to ration, the lack of ability to detect corruption and enforce rules, and product restriction inadvertently hindering production.

This chapter draws mostly on primary sources from the National Archives of Thailand. These sources include governmental reports and statistics, official communication, and other state documents, as well as some letters written by civilians to the government to ask for assistance or to air their grievances. Though more statistical analysis of consumption patterns and price data would be ideal, few such figures exist for Thailand in the 1940s. Qualitative data are used to illustrate a picture of wartime Thailand. Additionally, while there is not an even distribution of sources through the war years (from 1944 onwards, documentation became scarcer due to the lack of newsprint and political turmoil), these materials can still be utilised to offer a glimpse of how Thailand coped with the loss of imports under the Japanese occupation.

I acknowledge the lack of women and women's voices in this chapter. Evidence from western countries indicate that women, the primary buyers of consumer goods for households, were heavily involved in rationing schemes and black market dealings.²⁹⁸ Indeed, anthropological studies find that Thai women were in charge of buying and selling goods at their local markets, as well as keeping track of household finances.²⁹⁹ Thai women were thus as active participants in their families' consumption as their European counterparts. Women would have handled rationing coupons and participated in the black market when legal goods fell short. The lack of a female perspective is due to the availability of sources and because many of these official 'top-down' documents fail to capture women's activities and contribution in history.

The chapter is organised as follows: Section one discusses the administration and policies of rationing, price controls, and restrictions of the Thai government. The second section discusses the black market and smuggling of goods across borders. Thirdly, government policies are evaluated, and it is argued that they were ineffective due to the extreme scarcity of goods, corruption of officials, and poor management.

5.1 Administration and general policy

This section outlines the different policies and methods of rationing, price controls, and other restrictions utilised by the Thai government under the Japanese occupation. The different types of goods that the government regulated, along with rationing quotas and levels of prices for various products, are also examined.

²⁹⁸ Ina Zweiniger-Bargielowska, *Austerity in Britain: Rationing, Controls, and Consumption, 1939-1955* (Oxford, 2000), p.2; Kassondra Lea Hutchings, 'Moratorium on Morality: Rationing and the Black Market in Great Britain during and after World War II' (PhD dissertation, University of Arkansas, 2010), p.37; Jacqueline Morley, *Make Do and Mend: A Very Peculiar History: How We Won the Clothing Battle in World War II with No Added Stocking* (Brighton, 2015), p.46.

²⁹⁹ De Young, *Village Life in Modern Thailand*, p.24.

5.1.1 Rationing

The purpose of rationing is to manage situations in which demand greatly exceeds the supply of certain goods. As the government was not in possession of most consumer products and distrusted the existing distribution channels which were dominated by Chinese merchants, the state had to both assume control of the commodities and establish an effective rationing scheme that would reach the majority of the population.

A solution to the first obstacle was attempted in 1942 when Phibun ordered the Ministry of Commerce to purchase large amounts of necessities and to establish a governmental warehouse for these goods. The Thai Warehouse Company was set up in March 1943 and began competing with Japanese and private merchants to gain control of basic consumer products, such as sugar and matches.³⁰⁰ This manner of governmental intervention had precedents in other countries during times of hardship: during the First World War, the British government purchased all the supply for wheat, fixed its prices, and distributed it to members of the population.³⁰¹ During the Second World War, the British Ministry of Food also assumed ownership of all rationed foodstuffs.³⁰²

After accumulating some of the necessary goods, the Thai government adopted two types of rationing systems: certificate rationing and unit rationing. Certificate rationing allowed the government to reserve extremely limited commodities for those who needed them most, as each purchase required the approval of local authorities. This system was often utilised for various entrepreneurs and industrialists who required large amounts of certain raw materials.³⁰³

³⁰⁰ NAT, (2) สร0201.6/16, ‘เรื่องการจัดตั้งคลังสินค้าหรือบริษัทคลังสินค้า (Establishing a warehouse or a warehouse company),’ 1947, pp. 1-22.

³⁰¹ William H. Beveridge, *British Food Control* (London, 1928), p.183.

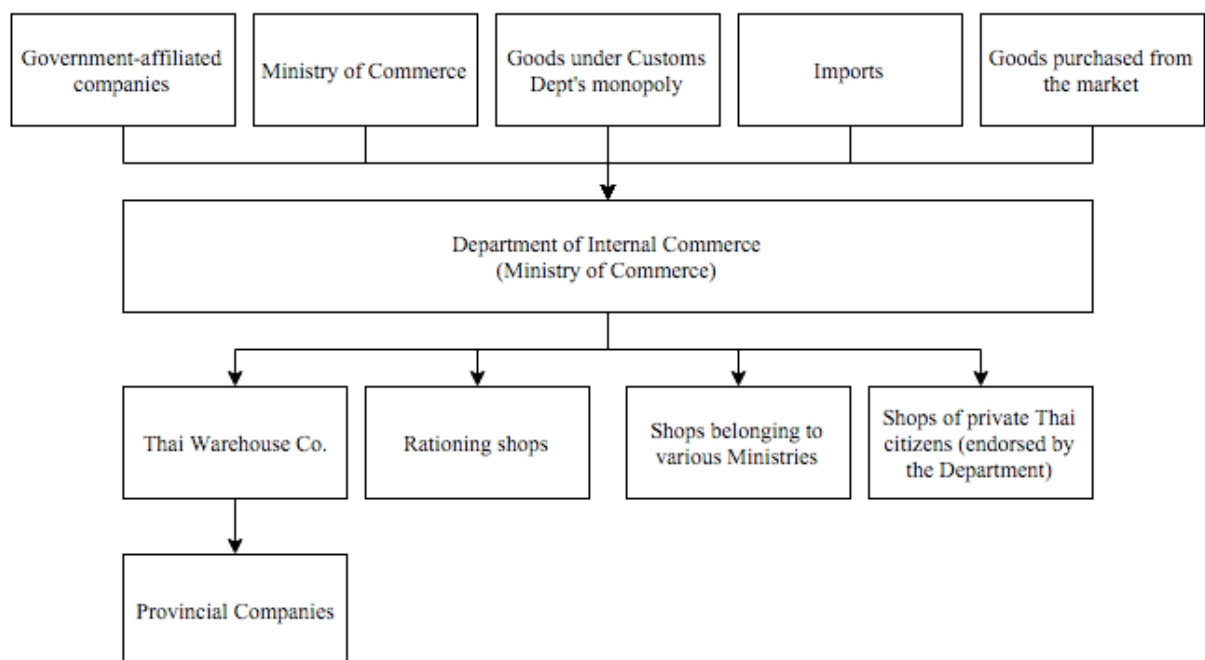
³⁰² Zweiniger-Bargielowska, *Austerity in Britain*, p.46.

³⁰³ Richard Glenn Gettell, ‘Rationing: A Pragmatic Problem for Economists’, *American Economic Association* 33, no. 1 (1943): 260–71, pp.266-267.

Under unit rationing, the administration distributed rationing currency, in this case coupons, to the entire population. Commodities in this system were sugar, matches, and fuels for the entire Kingdom, and textiles for the Greater Bangkok Area. Textiles did not need to be rationed in rural areas as people living outside the capital produced some of their own clothes (chapter 1). Coupons could then be exchanged for a unit of rationed goods.

The unit rationing system functioned as follows: Municipal governments distributed rationing currency, i.e. coupons, to heads of households. Each coupon was valid for six months, and could be redeemed for a quantity of matches, sugar, and fuels at an allocated government-approved shop, ‘rationing shop’ or provincial company.

Figure 5. 1 Flow of goods within municipal areas



Source: NAT, ‘Promoting Thai goods,’ p.40.

To distribute unit rationed goods, the wartime administration utilised stores owned by various ministries and private citizens, as well as rationing shops and provincial companies established by the Ministry of Commerce, as summarised in Figure 5. 1. In the

Greater Bangkok region, rationed goods were allocated through rationing shops. These rationing shops were not only part of the unit rationing system, but also an attempt to push local ethnic Thais into retailing and compete with Chinese merchants. Shops had to be owned by ethnic Thais and could either be an existing store or set up by local government for this specific purpose. The number of shops within a municipality corresponded to the size of its population. According to regulations, any migration between municipal areas had to be reported so that resources could be reallocated accordingly. Rationing shops were required to keep detailed accounts of how much they sold, and to whom, and were subject to monthly inspections by local authorities.

Strict quotas were to be observed; matches, sugar, and fuel were the only goods rationed nation-wide. Examples of the allocation can be seen in Table 5. 1. Each month, families of under five persons were given three boxes of matches; a family of more than five was allowed five boxes of matches; every family received $\frac{3}{4}$ of a litre of fuel; and no more than 0.2 kilograms of white granulated sugar were allowed per person. These quotas were changed in August 1943 to allow for more flexibility: a family with less than 5 members was rationed 3 boxes of matches, 6 to 11 members 6 boxes, 12 to 17 members 9 boxes, and more than 18 members 12 boxes. A person was to receive no more than 0.30 kilograms of sugar.³⁰⁴

Table 5. 1 Rationing quotas for matches, sugar, and fuel within municipal areas, 25 March 1943 (per household unless indicated otherwise)

	Matches	Sugar (per person)	Fuel
< 5 members	3 boxes		
> 5 members	5 boxes	0.2 kg	$\frac{3}{4}$ liters

Source: NAT, 'Rationing consumer goods,' pp.134-135, 142.

³⁰⁴ NAT, Department of the Secretariat of the Cabinet, (2)สร0201.98.6/8, 'การปันส่วนเครื่องอุปโภคบริโภค (Rationing consumer goods),' 1945, pp.134-135, 142.

Outside of the capital, individuals living in municipal areas were placed under the same rationing quota but received their allocation from provincial companies. These companies oversaw the wholesale distribution of various goods, which they received from the Thai Warehouse Company. Other responsibilities of these institutions included trading and keeping control of merchandise that was placed under governmental regulations, such as sugar, textiles, and paper; and functioning as the administration's representatives in local trade.³⁰⁵ For instance, the government sold cheap clothing to peasants outside the capital via provincial companies, which accepted produce as compensation from those living in poverty.³⁰⁶

An important distinction to be made was the reach of the administration within and beyond provincial centres. A lack of manpower and resources limited the government's ability to compile a comprehensive population survey of those in remote rural areas, or even to distribute goods effectively. Non-municipal villages, thus, received different and much less detailed quotas of rationed goods. Thai citizens living outside municipal areas were placed on a different rationing system. Instead of goods being allocated per individual, they were given fixed amounts per household: no more than three boxes of matches, three kilograms of sugar, and $\frac{3}{4}$ of a litre of fuel per month (Table 5. 2).³⁰⁷

Table 5. 2 Rationing quotas for matches, sugar, and fuel outside municipal areas, 25 March 1943 (per household)

Matches	Sugar	Fuel
3 boxes	3 kg	$\frac{3}{4}$ liters

Source: NAT, 'Rationing consumer goods,' pp.134-135.

³⁰⁵ NAT, Ministry of Foreign Affairs, (2)กต1.1.1.2/2, 'ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณาครั้งที่5/2487-11/2487 (Agenda for the Cabinet Meeting 5/2487-11/2487),' 1944, pp.41-42.

³⁰⁶ NAT, Department of the Secretariat of the Cabinet, (2)สร0201.22.2.5/9, 'การจำกัดการใช้เสื้อผ้า หรือควบคุมการขายผ้า ผ้าย ด้าย และเส้นใยพืช (Restricting the use and sale of textiles),' 1944, p.144.

³⁰⁷ NAT, 'Rationing consumer goods,' pp.134-135.

5.1.2 Price controls

Price controls are complementary to rationing, as there would be too much strain on the rationing system without the regulation of prices. The Thai government attempted to implement comprehensive price controls on textiles, sugar, fuels, matches, cotton, rice, some foodstuffs, yarn, medicine, dairy products, paper, newsprint, scrap metals, and fares of buses and ferries.³⁰⁸ Establishing price ceilings is a means for the state to regulate the supply and flow of goods when it does not own the products.³⁰⁹ Price ceilings were instituted for some restricted goods, for example paper, stationery, and pharmaceutical products.³¹⁰ Rents, as well as fares for both land and water transport, were also controlled.³¹¹ This practice was common in times of war: Britain, New Zealand, Canada, and the United States all regulated prices of goods during the Second World War. For instance, the Wartime Prices and Trade Board of Canada regulated prices by providing subsidies to manufacturers and fixing prices to stabilise the cost of living index.³¹²

The Thai government placed goods that were extremely scarce under both price control and rationing. For instance, in April 1942, the Committee to Control Consumer Goods (คณะกรรมการควบคุมเครื่องอุปโภคบริโภค) announced the following price ceilings for matches:

³⁰⁸ NAT, Agenda for the Cabinet Meeting 5/2487-11/2487, pp.1-208, p.109; NAT, Ministry of Foreign Affairs, (2)กต1.1.1.2/3, ‘ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณา ครั้งที่1/2488-15/2488 (Agenda for the Cabinet Meeting 1/2488-15/2488), 1945, p.17-23; NAT, Restricting the use and sale of textiles, p.12; NAT, Department of the Secretariat of the Cabinet, (2) สร.0201.98.6/2, ‘กรมเลขาธิการคณะรัฐมนตรี เรื่องการกักกันและการค้ากำไรเกินควร (Prevention of hoarding and profiteering),’ 1948, p.13; NAT, Department of the Secretariat of the Cabinet, (2) สร.0201.98.6/4, ‘ประกาศควบคุมเครื่องอุปโภคบริโภค (Declaration of restriction of consumer products), 1949.

³⁰⁹ Zweiniger-Bargielowska, *Austerity in Britain*, p.46.

³¹⁰ NAT, Department of the Secretariat of the Cabinet, (2)สร0201.22.2.1/15, ‘จัดตั้งองค์การซื้อฝ้าย (Establishing a cotton organisation),’ 1943, pp.1-28.

³¹¹ NAT, ‘Agenda for the Cabinet Meeting 1/2487-4/2487,’ p.58; NAT, ‘Agenda for the Cabinet Meeting 1/2488-15/2488,’ pp.17-23.

³¹² Christopher Robb Waddell, ‘The Wartime Prices and Trade Board: Price Control in Canada in World War II’ (PhD dissertation, York University, 1981), pp.10-13.

Table 5. 3 Price ceiling for matches, 10 April 1943

<i>Articles</i>	<i>Price not to exceed (satang)</i>		
	Foreign transactions	Wholesale	Retail
Box of 60 matches	8	8.5	9
Box of 90 matches	10	11	12
Individual matchstick	-	-	20 sticks per satang

Source: NAT, 'Declaration of restriction of consumer products,' p.118.

There is evidence of price ceilings being adjusted as the war continued and supplies dwindled further. For instance, yarn prices were adjusted in October 1943 when Japanese merchant shipping began to feel the strain of Allied submarine attacks, raising the ceiling for small thread from 17 to 18 baht per kilogram, and for large thread 13 to 15.³¹³ Similarly, in December 1943, a kilogram of sugar was to cost no more than 50 *satangs* for wholesale and 56 retail. The ceiling was raised to 72 and 80 *satangs* respectively in December 1944.³¹⁴

5.2.3 Product restrictions

The government began placing important consumer products under restriction even before the Japanese invasion. When a product was placed under restriction, private holders possessing large quantities of the product were obligated to submit a detailed report of their stocks. These goods ranged from everyday commodities, such as matches and soap, to products used in factories and industries, such as chemicals, glass bottles, and automobile parts. The list later expanded to include merchandise such as socks, batteries, and various types of textiles.³¹⁵

For instance, the government tried to alleviate the pending sugar shortage in the country three months before Japanese troops arrived. On 1 September 1941, the cabinet agreed that Thailand needed at least 25,000 tons of sugar in reserve and began pooling existing sugar in the country from merchants and traders. Only those participating in the

³¹³ NAT, 'Agenda for the Cabinet Meeting 5/2487-11/2487,' p.109

³¹⁴ NAT, 'Declaration of restriction of consumer products,' p.109.

³¹⁵ NAT, 'Rationing consumer goods,' pp.24-25, 139.

pool would be allowed to import sugar into the country. The state controlled the price. Most sugar importers were foreign, and only brought sugar into Thailand to sell, not store; these merchants did not have much sugar for the government's reserves.³¹⁶ Though this policy demonstrates the state's awareness of the country's impending shortage, government efforts still fell short of preventing it.

During the war, soap merchants and factories, for instance, only had to account for their inventory if they held more than 50 kilograms of soap. Shops that were registered with the government were exempted.³¹⁷ In some cases, such as textiles, the government also forbade transferring, transforming, or transporting of the product unless approved by an official.³¹⁸

5.2 Smuggling and the black market

Throughout the war, smuggling remained an issue for government officials. By the latter half of the Japanese occupation, as consumer goods in Thailand and Southeast Asia became more expensive and difficult to find, the black market intensified. Goods that were recorded as illegally traded both in Thailand and across borders ranged from common daily necessities such as clothing, foodstuffs, and soap, to rubber and tin, and capital goods such as water buffalos and bullocks.³¹⁹ As with all studies of crime, it is difficult to definitively say how much smuggling existed and how prevalent the black market was; surviving information records only those that were caught. Non-official sources, such as memoirs, letters, and other anecdotal accounts, however, suggest that the black market was

³¹⁶ NAT, Department of the Secretariat of the Cabinet, (2)สร0201.22.2.7/14, ‘การสะสมน้ำตาลเพื่อป้องกันการขาดแคลน หรือเรื่องการซื้อ-ขายน้ำตาลทรายขาว (Storing sugar to prevent a shortage, or buying and selling refined sugar),’ 1953, pp.2-6.

³¹⁷ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98.6/4, ‘ประกาศควบคุมเครื่องอุปโภคบริโภค (Declaration of restriction of consumer products),’ 1949, p.139.

³¹⁸ NAT, ‘Restricting the use and sale of textiles,’ p.130.

³¹⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.6/12, ‘เรื่องการลักลอบสินค้าออกนอกประเทศ (Reports on international smuggling),’ 1951, p.1.

rampant and that smuggling goods across borders was a major concern for the Thai government.

In letters of complaint written to the government, Thai civilians claimed that textiles and certain foodstuffs such as meat were constantly sold from the back room of shops at above regulated prices. Other instances included shopkeepers allegedly soaking eggs in salt water to make counterfeit salted eggs, the controlled price of which was higher than that of fresh eggs.³²⁰ Many also claimed that bureaucrats were involved in illegal dealings, either abusing their power by receiving special treatment or accepting bribes from merchants.³²¹ Thai bureaucrats' falling real wages during the war, and their susceptibility to corruption are discussed further in section 5.3 and chapter 6.

The smuggling of rice into Malaya is well studied. As a rice-deficit country, Malaya and Singapore depended on imports for this staple grain. After the breakdown of Japanese commercial shipping, many governmental, private, and illegal operations began to ship rice from Thailand to be sold in Malaya at exorbitant prices (chapter 2).³²² Chin Kee Onn's deeply personal account of the Malaysian wartime experience explicitly

³²⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/897, 'ผู้ใช้นามว่า 'พี่น้องชาวเชียงใหม่' เสนอว่าพ่อค้าขายของแพงราษฎรเดือดร้อน (Chiangmai Brothers complain about merchants selling expensive commodities, citizens suffering), 1942; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/911, 'มรว สติธิประพัทธ์ เกษมสันต์ เรื่อง เล่ห์เหลี่ยมในการเล็งขึ้นราคาสินค้าของพ่อค้าต่างด้าว (Sittiprapat Kasemsan on the tricks of foreign merchants in raising prices), 1942; NAT, Department of the Secretariat of the Cabinet, (2) สร/0201.25895, 'ผู้ใช้นามว่า 'วิญญาณอิสระ' ขอให้ยกเลิกองค์การบริษัทจังหวัดจำกัด 5 ชื่อ (Free soul' asks the government to discontinue the provincial companies), 1942.

³²¹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/914, 'นายสาคร กุลมาตย์ เรื่อง ของขึ้นราคากินควรร (Sakhon Kulamat on commodity prices being too high), 1942.

³²² Kratoska, 'Impact of the Second World War on Commercial Production in Mainland Southeast Asia', p.20; Kurasawa, 'Transportation and Rice Distribution', p.55.

mentioned illegal rice imports from Thailand.³²³ Japanese records state that in 1944 rice in Malaya could sell for more than double the controlled prices in Thailand.³²⁴

Bullocks, which could be used for food, farming, and transport, were an important black market commodity. Especially with Japanese appropriation of vehicles, the relative importance of bullocks grew during the war. In addition to battling diseases, the Thai government struggled to increase the number of bullocks in Thailand, as Thai civilians were either illegally killing them for meat, or were smuggling them across the border to Burma to be sold at higher prices.³²⁵

The Burmese black market was easily accessible from northern Thailand, where a large portion of the Kingdom's textile production took place. Burmese dealers reportedly bought large amounts of fabric from Bangkok, smuggled the fabrics across the border, and sold it for 600-700 baht per piece, a much higher price than was mandated by the Thai government. Bribes for border patrols were said to be as high as 20,000 baht, suggesting that the profits made by smugglers were even higher than 20,000 baht. In June 1944, border patrol uncovered 60 armed soldiers smuggling goods from Tak, through Mae Sot district into Burma. The incident led to a full investigation; and authorities from Mae Sot revealed that soldiers and police officers were often involved in smuggling yarn and textiles across borders. While merchants and civilians also undoubtedly participated, soldiers and police officers were reportedly the leaders and main lynchpins of operations. Furthermore, the protection from officers allowed civilians to participate in the black market. There were even reports of merchants smuggling textiles across borders using

³²³ Chin, *Malaya Upside Down*, pp.35-36.

³²⁴ Matsu'ura, Kirita, and Nagamori, 'Rice Imports to Malaya, with Special Reference to Syonan Municipality, September 1944', p.447.

³²⁵ NAT, 'Agenda for the Cabinet Meeting 5/2487-11/2487,' p.3.

convoys of police or military vehicles. Fearing the influence of the merchants or superior officers, troopers were often reluctant to stop or search such convoys.³²⁶

5.3 Evaluation of rationing, price control, and product restrictions

Despite these efforts to alleviate scarcity and equitably distribute goods, the policies put forth by the Thai government were largely ineffective. This is not to say that people did not participate in the schemes. As of April 1943, 6.6 million coupons were distributed in the Greater Bangkok Area. Officials reported that they received over 6.5 million coupons or roughly 98 per cent back, indicating that the majority of households in the region participated in the rationing scheme.³²⁷ Rather, the schemes failed to equitably and effectively distribute scarce goods, and even at times hindered production of some of these items.

Milward observes that the effectiveness of a rationing scheme relies ‘on the nature of the society’ in which the system operated and regular supply of goods.³²⁸ The ‘nature’ of Thai society included some inherent difficulties. Due to a lack of adequate census and population data, the government struggled to send the correct amount of goods to various areas. Poor record-keeping also meant that officials did not know the quantity of scarce products. Finally, roughly 50 per cent of Thai citizens were illiterate, making it difficult for them to read and claim their fair share of goods from the ration books and coupons.³²⁹

Apart from issues of inadequate data and illiteracy, three main reasons account for the shortcomings of the Thai government’s policies: First, there were simply not enough goods in the country for any rationing scheme to be effective. Second, even if there were

³²⁶ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/18, ‘เรื่อง การลักลอบนำผ้าออกนอกเขต (Textile smuggling),’ 1945, pp.4-8, 30-31.

³²⁷ NAT, ‘Rationing consumer goods,’ pp.134-135, 142.

³²⁸ Milward, *War, Economy*, p.248.

³²⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.6/16, ‘การคลังสินค้า จัดตั้งคลังสินค้าหรือบริษัท (Establishing a warehouse or a warehouse company),’ 1947, p.293.

more products in Thailand, the government lacked the administrative ability to detect corruption and enforce their own regulations. Finally, the Thai state also struggled to control the distribution of goods without interfering with chains of production. Requiring producers to report their stocks to officials and preventing goods from being transported between provinces removed manufacturing incentives, effectively hindering the production of scarce items.

5.3.1 Commodity scarcity

Regardless of the ‘nature’ of Thai society, the kingdom lacked dependable, consistent supply of consumer goods. The first main obstacle was simply that there were so few goods in Thailand, especially after 1943, that no equitable rationing scheme could have been effective. For instance, at the start of the occupation, the Ministry of Defence announced that the rationing of fuel (benzene) for automobile owners was 10 litres per month. Yet, the Department of Fuels ‘did not have enough fuel’ as early as October 1942, and its dispensation of benzene temporarily stopped until more fuel was acquired.³³⁰ Similarly, in 1944 the provincial government of Champasak Province, one of the ‘lost’ territories regained from Indochina, conducted an inventory of the amount of reported textiles and calculated how much was still needed to clothe approximately 20,000 households. There is no evidence that Champasak was rationing textiles. Rather, this survey was part of the government keeping track of supplies and controlling the flow of fabrics. Officials found that the province only had roughly 11,000 meters of textiles, and that it needed over 100,000 meters more, suggesting that the province only had just under 10 per cent of the clothing it required.³³¹

³³⁰ NAT, Ministry of Foreign Affairs, (2) กต 2.1.5/27, ‘การจำกัดน้ำมันเชื้อเพลิง (Fuel restriction),’ 1942, p.1.

³³¹ NAT, ‘Restricting the use and sale of textiles,’ pp.254-255.

This issue was especially difficult for industrialists. For example, a letter of complaint submitted to the Ministry of Industry on 29 June 1943 by Dr Wichit Chitrachinda, owner of a factory in Bangkok, elucidates the hardship of industrialists in the period. His factory required 5,400-6,000 kilograms of sugar monthly to condense 24,000 litres of fresh milk, with a daily output of about 1,500 to 1,600 cans. Chitrachinda's business was allowed only 600 kilograms of sugar a day, and with very little advance notice from the government. The appeal to increase his quota was denied; thus, he resorted to buying contraband sugar at 75-80 *satangs* per kilogram, when the price ceiling was 50 at the time. Chitrachinda also noted that, at times, rationing officials supplied him with the wrong type of granulated sugar, which spoiled dairy products and resulted in considerable damage for his business.³³²

5.3.2 Lack of detection and enforcement

The second reason for the ineffectiveness of the Thai rationing and price control scheme was the government's inability to detect corruption and enforce regulations. According to Smithies, there were two kinds of black market: the 'legal' black market which involved under the counter or off ration sales, and 'illegal' or 'real' black market which involved stolen goods. While stolen goods were undoubtedly a problem, 'legal' black markets revealed the ineffectiveness of the Thai rationing system.³³³

The structure of the unit rationing system, which consisted of a variety of small independent bodies, easily allowed goods to fall through the cracks and into the hands of corrupt government officials. On 18 August 1944, for example, rationing shops in the capital complained that they did not receive their quota of 6,200 kilograms of sugar, leaving households and industries alike without this kitchen staple. Some shops also

³³² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.3/4, 'รายงานส่งเสริมอุตสาหกรรมต่างๆ ตอน 3 (Reports on governmental support for various industries part 3),' 1949, pp.81-89.

³³³ Edward Smithies, *The Black Economy in England since 1914* (Dublin, 1984).

reported that their sacks of sugar did not contain the standard 100 kilogram, often weighing only 94 or 95 kilogram. Neither the sugar factories nor the government warehouses would take responsibility for the loss; and the policing authorities were unable to hold any party accountable.³³⁴ This issue was not unique to Thailand: the British government also battled corruption in which different units of the rationing system blamed each other for losing coupons or products.³³⁵

The ‘biggest’ issue, according to Thailand’s Rationing Committee, was the lack of manpower and facilities to enforce regulations. Dishonest shops or warehouses were often undetected and unpunished when they decided to sell either the product or their coupons on the black market.³³⁶ The large distribution network of the rationing system and lack of enforcement, thus, posed significant difficulties for the Bangkok government in effectively controlling and eliminating any corruption and unfair allocation. According to Chitrachinda, many factories were merely covers to receive rationed sugar, which was resold at extortionate prices. Indeed, he ended his letter on a bitter note, decrying high transport costs and governmental incompetency to clamp down on the black market.³³⁷

The problem was exacerbated by lenient governmental policies. Local officials were responsible for policing textile price controls and were given a surprising amount of discretion. According to a Ministry of Commerce announcement on 25 March 1943, local bureaucrats could determine the transport mark-up of fabrics in rural areas. If the Rationing Committee set the price for a type of textiles at 1.4 baht per meters, these officials had the authority to permit a ‘slightly’ higher price, such as 1.55 or 1.6 baht per meters, in areas deemed ‘difficult to get to.’ Likewise, if merchants were found selling

³³⁴ NAT, ‘Rationing consumer goods,’ p.142

³³⁵ Edward Smithies, *Crime in Wartime: A Social History of Crime in World War II* (London, 1982), p.75.

³³⁶ NAT, ‘Rationing consumer goods,’ p.166

³³⁷ NAT, ‘Reports on governmental support for various industries part 3,’ pp.81-89.

fabrics at a slightly higher rate in the countryside, authorities were not obligated to prosecute them.³³⁸ The decision to grant local officers a large amount of discretionary power most likely stemmed from the fact that the government in the capital had very little knowledge about, or control over, the situation in the outer provinces. The Bangkok authorities, thus, relied on the expertise and good will of their municipal counterparts, but had no alternative since policing them was near impossible.

Adding to difficulties of enforcement, rapid wartime inflation deteriorated real wages of low-ranking bureaucrats by over 80 per cent (chapter 6). These officials became more susceptible to bribes and petty corruption as their real wages deteriorated and living standards fell, worsening issues of corruption in the rationing and price control system.

At the same time, powerful politicians actively participated in unfair and ethically dubious behaviour. After the war began, for instance, the Board to Manage and Control Businesses and Assets of Foreigners (คณะกรรมการจัดการและควบคุมกิจการและทรัพย์สินของคนต่างด้าว) took over the factories of Camel Cigarettes. Here is clear and blatant evidence of nepotism in the government records: On 21 April 1942, the director of the Tobacco Department, Banchong Sricharoon, wrote a letter to the cabinet asking if any member would like to purchase Camel Cigarettes for ‘entertaining purposes.’ This practice seemed to be widespread and, perhaps, even expected of those in such positions, as it was not confined to Sricharoon. In September of the same year, a different director of the Tobacco Department, Sanguan Tularak, asked if any member of the cabinet would like to purchase Three Castle cigarettes at a price of 3.25 baht per can. Not only were politicians given first pick of scarce commodities, officials also received discounts, as the market price for Three

³³⁸ NAT, ‘Restricting the use and sale of textiles,’ p.59

Castle cigarettes at the time was 3.5 baht. Another director in 1946, Yuk Assawarak, sent five cans of Pirate Brand and 25 cans of Gold Flake cigarettes to each cabinet member.³³⁹

5.3.3 Strict restrictions hindered production

Finally, tight governmental regulations prevented the flow of commodities and de-incentivised production, which was undesirable in a time of scarcity. Officials needed to assume management of these products; however, private producers had little incentive to continue manufacturing goods if officials placed regulations upon them and prevent free movement of trade. Struggling to find the right balance in managing the supply and demand of goods was also an issue in other occupied territories. For instance, colonial governments in Africa found that directing labour to produce goods for the war effort was essentially diverting manpower from agriculture, which in turn affected food supplies.³⁴⁰

The cancellation of restrictions on sugar after production faltered offered a glimpse of an issue facing the Thai government in regulating the flow of goods and price controls. On 30 April 1942, the government announced that white granulated sugar would be placed under restriction. Vendors of the product were not allowed to sell more than 0.5 kilograms of sugar at a time, except for those whose professions involved large amounts of the product. Many sugarcane farmers were reported to have turned to growing cotton and castor as price and product control of sugar made the product unprofitable. In September 1944, restrictions on all types of sugar, except for white granulated sugar from Industrial Development Committee factories and stock that the Ministry of Commerce had bought from Japan (which were both intended for rationing), were lifted to encourage sugar cultivation. To remedy the government's own policies, the Ministry of Finance was also

³³⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.2.2/2, 'เบ็ดเตล็ดคยาสูบ (Miscellaneous, tobacco),' 1943, pp.1, 2, 27.

³⁴⁰ Nicholas Westcott, 'The Slippery Slope: Economic Control in Africa during the Second World War', in *Managed Economies in World War II*, Occasional Papers in Third-World Economic History 3 (London, 1991), 1–8, p.5.

tasked with injecting 200,000 baht into the sugar industry to help sugarcane farmers and to keep controlled prices low.³⁴¹

The regulation of textiles faced similar issues. In 1943, the Ministry of Commerce placed various kinds of textiles, such as grey shirting, calico, and jeans, under government restriction and announced price controls for major provinces, including Bangkok. Vendors had to be registered and report their inventory to local administrators. Stocks were also prohibited from being moved, sold, or transformed unless given governmental permission.³⁴² Merchants holding more than 20 kilograms of cotton were required to declare their inventories to authorities. Cotton farmers were exempted from this scheme, most likely to facilitate and encourage more cultivation. Households that grew cotton were allowed to retain it for their consumption, but had to sell their products to or via a governmental organisation.

Policies of mandatory inventory reports and restricting movement of textiles adversely affected local production of cloth. For instance, Mr Thongplew Cholaphumi wrote a letter to the government on 30 June 1943 to convey the hardship of rural weavers and spinners. Regulations stated that stocks of newly woven textiles must be reported to local officials within seven days of production. Those who did not live in provincial centres might require up to four days of traveling there and back. The penalty for failing to account for inventories was at least ten years of imprisonment and a fine of at least 10,000 baht. Weavers, thus, were discouraged from manufacturing textiles for fear of punishment and the trouble of time-consuming travel.

Another letter from Mr Thongmuan Atthakorn, a Member of Parliament from Khon Kaen Province, to the Minister of Agriculture on 15 March 1943 outlines the extent

³⁴¹ NAT, 'Agenda for the Cabinet Meeting 1/2487-4/2487,' p.45, 52, 73.

³⁴² NAT, 'Restricting the use and sale of textiles,' p.8.

of the problem that arose from regulating textile transportation. Khon Kaen is in the northeast region of Thailand, where the climate is unsuitable for growing paddy. The people of this province sustained themselves by spinning and weaving, and selling their products to other provinces, especially Bangkok. Once the government prohibited the transport of cotton, yarn, and textiles, spinners and weavers had neither raw materials nor an outlet for finished products. Atthakorn concluded that people in his electorate were unemployed, facing starvation, and pleaded the government to reconsider its regulation.

A newspaper article published on 21 June 1943, 'The grumbling of weavers,' offers more economic insight. One weaver reported that he or she was living hand to mouth. Daily wages were between 1 and 1.5 baht, which was only enough for food and two to three kilograms of yarn. Since the government placed textiles under restriction, the weaver reported a stock of 40 meters of fabric, but after over a month was still not given permission to sell. There were no alternative employment options, and weavers everywhere in the kingdom were suffering.³⁴³

Another example of the detrimental effect of restrictive government controls is the plight of Chanthabun weavers. A letter from Thin Pokabarn arrived at the cabinet on 13 September 1944. Pokabarn had been a weaver for 40 years and weaved a specific kind of textile with a distinct pattern called Chanthabun. (The pattern takes its name from Chanthaburi province in eastern Thailand, where this kind of fabric was, and still is, a popular craft among peasants.) Pokabarn reported that Chanthabun textiles required 22 baht of investment and were sold at 24 to 26 baht during the war. After May 1944, when the government announced that local textiles were placed under restriction, Chanthabun textiles were kept within the province and could be sold at only roughly five baht, creating considerable trouble for Pokabarn and other weavers. He asked the cabinet to reconsider

³⁴³ NAT, 'Restricting the use and sale of textiles,' pp.200-203.

and lift the controls for local textiles.³⁴⁴ These examples demonstrate that the Thai government struggled to find the correct balance between regulating goods and allowing them to be sold freely to stimulate production and consumption.

Conclusion

To cope with scarcity during the Japanese occupation, the Thai state attempted three broad solutions: It rationed fuels, matches, and sugar nationwide, and textiles in the Greater Bangkok Area. Price controls were instated for a range of goods to prevent them from skyrocketing. The government required stocks of product to be reported and restricted them from being sold without authorisation. These measures yielded limited success. As shown in chapters 2 and 4, Thailand could neither import, substitute, nor produce many necessary, daily consumer goods, which became extremely scarce. The extent of shortage of goods would have made it difficult for even the most perfect redistribution scheme to be successful. The lack of manpower to police various bodies in the rationing system made combatting corruption and the black market extremely challenging. The administration also struggled to achieve the right balance in controlling the flow of goods and allowing the market to function. The shortage and the ineffective rationing system adversely affected the standard of living of Thai people during the war, as well as fuelled the fracture of the plural society, as will be explored in the following chapter.

This and the previous chapter which examine various ways of coping with scarcity in Thailand not only fills in a gap in the historiography, but also informs us of wartime and post-war Thailand in three main ways. Firstly, the failures of the distribution system reflect Thailand's state capacity. The lack of detection, enforcement, and punishment reveal the

³⁴⁴ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/16, ‘โครงการแก้ไขเรื่องขาดแคลนผ้า (Project to relieve textile shortage),’ 1945, p.10.

limits of the Thai government's power, especially in rural areas. Indeed, the kingdom did not have a strong enough state in this period to execute the tasks required of them during a war. Secondly, the state's inability to enforce rationing and price control regulations echo the government's incapacity to industrialise (chapter 4). Scarce goods were difficult to ration, while the shortage of goods served as a poor basis for industrial development. Thailand's weak state was unable to industrialise or manage an effective rationing system. Third, difficulties in the rationing system have implications on the legacy of the war in Thailand. That the people suffered from lack of consumer goods and medicine under the Japanese occupation affected social and economic development post-1945. The state's drive to industrialise and diversify the economy gained strength during the war, and wartime shortages played an important role in the impetus for state-led industrialisation in the 1950's.

Chapter 6 Standard of living

Introduction

This dissertation utilises archival and statistical sources to assess changes in living standards in Thailand during the Japanese occupation. Despite Thailand's alliance with Japan, Thai citizens suffered a decrease in all available measures of the quality of life. This chapter goes beyond GDP data (chapter 2) and uses other types of qualitative and quantitative evidence on the standard of living. Vital statistics for 1930 and 1950 reveal deteriorating public health due to lack of medicine and medical care, as well as a breakdown of social order. Disaggregated data for real wages of skilled and unskilled workers in Bangkok and rural areas offer insights into their rapidly falling purchasing power. Qualitative evidence captures changes in the lives of non-wage earners, namely farmers and merchants, along with rising social tension in Thailand. Finally, an appraisal of wartime welfare demonstrates that the state provided inadequate support to victims of air raids.

The effect of the Japanese occupation was not uniform throughout Thailand. Those in Bangkok would have had less access to home-produced foodstuffs or hand-woven textiles. Others living in more rural areas might have difficulties collecting rationed goods and gaining access to medicine. The lack of detailed disaggregated data and the dominance of Bangkok are important drawbacks to some of the sources utilised here. Though imperfect, together these data present a new body of evidence on the hardships of people under the Japanese rule.

Economic historians of Thailand may have given this period little attention because of the preconception that people in occupied areas are almost always worse off during war. Scholars of other countries, however, have conducted research on the impact of war on people's standard of living. The main evidence utilised in most of these works are calculations of per capita food consumption. Collingham's extensive account of food

supplies during the Second World War focuses mostly on belligerent superpowers and less so on Southeast Asia.³⁴⁵ Scholars of other Southeast Asian countries have also utilised food availability to measure the decline in the standard of living. Van der Eng, an authority on standard of living in Indonesia, constructs his own measure of rice supply per capita. He finds that war, interruption of trade, and the allocation mechanism of the Japanese Army caused food supply to decrease, affecting poor non-landed wage labourers the most.³⁴⁶ Similarly, Kratoska calculates per capita food supply for British Malaya, a rice importer, and finds that the colony was severely malnourished.³⁴⁷ Ara studies the food supply in Leyte, Philippines and arrives at the same findings that poor delivery systems on the island led to a decrease in available foodstuffs.³⁴⁸ Thailand, however, remains largely excluded from these studies. For instance, Scott's documentation of food supply issues in wartime Southeast Asia omitted Laos, Cambodia, the Philippines, and Thailand due to lack of source materials.³⁴⁹ This dissertation thus fills in this gap not only in Thai historiography, but also that of Southeast Asia and the Second World War.

Studying the quality of life of civilians and collecting the experiences of ordinary people who lived through the war are important in their own right. Exploring these issues allows a better understanding of Thailand's responses to economic and political changes in the post-war years. After 1945, the kingdom quickly recovered from the occupation. That

³⁴⁵ Collingham, *The Taste of War : World War Two and the Battle for Food*.

³⁴⁶ van der Eng, 'Food Supply'; Pierre van der Eng, 'Food for Growth: Trends in Indonesia's Food Supply, 1880-1995', *The Journal of Interdisciplinary History* 30, no. 4 (2000): 591-616.

³⁴⁷ Paul H. Kratoska, 'The Post-1945 Food Shortage in British Malaya', *Journal of Southeast Asian Studies* 19, no. 1 (1988): 27-47.

³⁴⁸ Satoshi Ara, 'Food Supply Problem in Leyte, Philippines, during the Japanese Occupation (1942-44)', *Journal of Southeast Asian Studies* 39, no. 1 (2008): 59-82.

³⁴⁹ James C. Scott, 'An Approach to the Problems of Food Supply in Southeast Asia during World War II', in *Agriculture and Food Supply in the Second World War* (Ostfildern, 1985), 269-83.

the Thai population suffered less than their Southeast Asian neighbours was an important factor in this revival, and played a role in the post-war economic development.

6.1 Vital statistics

Vital statistics reveal the adverse effects of the Second World War on the Thai population. With little state spending on public health and lack of medical supplies, Thai civilians were largely left to their own devices during the war. Overall, fertility declined throughout the occupation and mortality rose in the final years of the war due to spread of infectious diseases, a breakdown of social order, and a lack of medical care and consumables.

These findings are consistent with, though markedly less severe than, those of other Southeast Asian countries. Kratoska finds that crude deaths in Malay States and Singapore nearly doubled, increasing by from roughly 78,000 to over 145,000 during the war even with incomplete records. This spike was due to shortages of rice and food supplies.³⁵⁰ Similarly, the lack of access to rice in Vietnam led to a famine that killed between one and two million people.³⁵¹ Thailand's experience during the war was mitigated by the kingdom's nominally independent government as well as abundance of rice in most parts of the country (chapter 2).

The Statistical Yearbooks, published by the Department of Statistics, recorded reported births and deaths. Figures in the tens of thousands are too low to constitute national statistics, given that Thailand had an estimated population of 15 million during the war. It is difficult to ascertain how well documented rural births and deaths were; the

³⁵⁰ Paul H. Kratoska, 'Malayan Food Shortages and the Kedah Rice Industry during the Japanese Occupation', in *Food Supplies and the Japanese Occupation in Southeast Asia*, ed. Paul H. Kratoska (Houndmills, 1998), 101–34, p.109.

³⁵¹ Nguyen The Anh, 'Japanese Food Policies and the 1945 Great Famine in Indochina', in *Food Supplies and the Japanese Occupation in Southeast Asia*, ed. Paul H. Kratoska (Houndmills, 1998), 208–26.

changing trends discussed below likely captured chiefly the deteriorating health of Thai citizens in urban centres rather than in the countryside. Although available statistics are incomplete, existing data can be regarded as consistent and indicative of trends, since between 1930 and 1950 registration almost certainly failed to improve.

Prior to the war, Thailand saw relatively stable fertility and declining mortality rates. Fertility largely hovered between 34 and 36 per 1,000 throughout the 1930s (Table 6. 1). Despite some fluctuations, death rates for adults seemed to decline in the late 1930s, falling by nearly eight per cent from 15.1 in 1935 to 13.9 per 1,000 by 1940. Infant mortality saw similar trends but at a lesser degree, decreasing by seven per cent over the same years.

In addition to the influx of immigrants, Bangkok's population rose during this period and brought about the expected issues in sanitation. In response, the Royal Municipality Act and Committee for Consideration of Public Health were passed and formed in 1932 and 1934 respectively, but were not effective outside of Bangkok.³⁵² Healthcare and the medical access of the Thai population living in rural areas were poor. Rural surveys found that although many people engaged in native and Chinese medicine, these cures often did little to combat common tropical diseases, including malaria and smallpox. Other than those working for the American Presbyterian Mission, no western doctors travelled outside of the capital.³⁵³ A pre-war absence of modern medicine in the Thai countryside continued during the Japanese occupation; but during the war conditions worsened due to supply shortages. Lack of mosquito nets and quinine, as well as

³⁵² Davisakd Puaksom, 'Of Germs, Public Hygiene, and the Healthy Body: The Making of Medicalizing State in Thailand', *Journal of Southeast Asian Studies* 66, no. 2 (2007): 311–44, pp.319, 332.

³⁵³ Zimmerman, *Siam Rural Economic Survey 1930-31*, p.238.

breakdown of public hygiene would have affected peasants and city-dwellers alike and were an important factor in the rise of mortality between 1941 and 1945.

Though the Ministry of Public Health (MOPH) was established in March 1942, its benefits were minimal. The ministry was consistently provided two per cent to three per cent of the government's ordinary wartime budget and next to nothing of extraordinary funds.³⁵⁴ Medicine, pharmaceutical supplies, and other materials central to the operation of the MOPH needed to be imported, and thus were extremely scarce. The Japanese could offer only minimal assistance. There are records of the Japanese army sending quinine and supplying Thailand with some medicine when asked, as well as printing pamphlets to educate people on how to avoid epidemics. These procurements were, however, *ad hoc* and only in small amounts.³⁵⁵ It is therefore unlikely that the Ministry could effect much change during the Japanese occupation.

6.1.1 Fertility

During the war, fertility broke from its stable pre-war trends and from 1941 to 1945 decreased by roughly 30 per cent, with only a small increase in 1943 mirroring the brief upturn per capita GDP (Table 6. 1). Wartime birth rates, at an average of 24.6 per 1,000, were some 11 per cent below the 1938/39 levels of 35.5. After the occupation, fertility continued to stagnate until 1948 and then slowly recovered, only reaching pre-war levels in 1955.

A wartime decline in birth rates indicate at worst hardships for families, and at best a pessimistic outlook on their opportunities and future. Adversities partly stemmed from

³⁵⁴ NAT, 'Government annual revenues,' pp.12-14.

³⁵⁵ National Archives of Japan, Diplomatic Archives of the Ministry of Foreign Affairs, B04012685800, 'Miscellaneous documents relating to epidemic prevention in various countries: Vol. 1/ 12. Thailand,' 1942; National Archives of Japan, National Institute for Defence Studies, Ministry of Defence, C01000578300, 'Supplying commodities to Thailand,' 1942; National Archives of Japan, National Institute for Defence Studies, Ministry of Defence, C01000660400, 'Granting quinine sulfate to Thailand,' 1942.

decreasing real wages (section 6.2). Additionally, any consumer goods in the country from 1940 virtually disappeared by the end of the war, including milk, clothing, and medicine needed for infants. Pessimistic attitudes could be the result of Japanese presence, especially after 1943 when the war began to turn against the Axis and Japanese commercial shipping declined. Furthermore, tension within the government and society was high, culminating in the downfall of Phibun in 1944.

The continued drop in birth rates in the immediate post-war period demonstrates that the benefits of peace were delayed for the Thai population. Indeed, the country still struggled to import necessary consumer goods. Political turmoil gripped the kingdom, with seven new prime ministers in the span of four years, until Phibun returned to power in 1947.

6.1.2 Mortality

The Japanese occupation halted the slow decrease of mortality rates in Thailand. Between 1942 and 1945, death rates rose by roughly 12 per cent from 12.5 to 14.1 per 1,000. After 1945, mortality resumed its downwards pre-war trend and continued well into the 1950s. By 1955, the mortality rate was nearly half that of 1945.

Detailed causes of death help in understanding how the war affected the lives of citizens, even in a country where little fighting took place. While Allied air raids were indeed destructive, the reported overall death toll from 23 Allied air raids on Thailand was 350, or roughly one per cent of total deaths, and thus not showing up on larger-scale annual statistics.³⁵⁶ Instead, mortality rates rose mainly due to a lack of necessities, poor public hygiene, and breakdown of social order.

The two leading causes of death were malaria and diarrhoea (Table 6. 2). Malaria had always been prevalent in Southeast Asia, with its tropical climate and large mosquito

³⁵⁶ NARA, Bangkok to Tokyo, 22 Jan, 29 Feb, and May 1944, SRDJ 50579, 52690, 58541, RG 457, via Reynolds, *Thailand and Japan's Southern Advance 1940-1945*, p.174.

population. Thailand was not unique in this experience. In Indochina, a wartime black market for medicine, such as insulin and quinine, reflected extreme shortages and lack of substitutes. Even Japanese soldiers themselves resorted to purchasing contraband medication.³⁵⁷ Pre-war Singapore succeeded in eradicating malaria, but it reappeared in 1942.³⁵⁸ Malaria was widespread in cities like Singapore and Jakarta as public health agencies and anti-malarial programs were left unfunded and ignored. Malaysians and Indonesians mixed rubber oil and kerosene, and Filipinos used products from dung beetles, as quinine substitutes.³⁵⁹ Prior to the war, the average Thai family spent roughly three per cent of its cash incomes on 'mosquito nets and screens.'³⁶⁰ These items were largely imported, as were most pharmaceutical goods, including quinine. While these precautions did not eradicate malaria, they kept deaths from the disease to less than 40,000 annually. As nets and screens became worn and medicine scarce, fatalities from malaria increased, rising by roughly 20 per cent between 1942 and 1945.

The wartime prevalence of diarrhoea and enteritis indicate a deterioration of public hygiene. Not only was there a shortage of soap and other cleaning products, Allied bombings and displacement from living quarters also contributed to a widespread presence of these maladies. Similarly, in Malaya and Indonesia, contaminated water supplies and inadequate diets made the population more vulnerable to waterborne diseases.³⁶¹ When the

³⁵⁷ David G. Marr, *Vietnam: State, War, and Revolution, 1945-1946* (Berkeley, 2013), p.544.

³⁵⁸ Robert Barr Macgregor, *Medical History of the War in Malaya* (Kuala Lumpur, 1949), p.159.

³⁵⁹ Kratoska, *The Japanese Occupation of Malaya: The Social and Economic History*, pp.190-1.

³⁶⁰ Zimmerman, *Siam Rural Economic Survey 1930-31*, pp.121-124.

³⁶¹ Kratoska, *The Japanese Occupation of Malaya: The Social and Economic History*, p.189.

British returned to Malaya, officials commented that the towns were extremely dirty, and yaws, malaria, and beri beri were rampant.³⁶²

The other explicable cause of death was a slow rise in homicide, with a 56 per cent spike from 1944 to 1945. Though Thailand was largely peaceful throughout most of the war, social tension was unusually high in 1944 and 1945. The overthrow of Phibun and the imminent Japanese defeat, shortages of goods, widespread corruption, and a large black market contributed to a general breakdown of social order and to increased homicide.

6.1.3 Infant mortality

Infant (defined as aged zero to one) mortality rates rose by six per cent between 1941 and 1945, reached their highest point in 1943, and then slowly decreased until 1948 (Table 6. 1). The increase in the infant death rate, despite a decline in the number of infant deaths, is explained by decreased fertility. Not only were people having fewer children during the Japanese occupation, but babies born during the war were also less healthy and more likely to die before aged one.

Diseases of early infancy began rising in 1941 and peaked in 1943. While the number of early infancy diseases track infant mortality figures, diseases only account for roughly 40-50 per cent of all infant deaths (Figure 6. 1). Other causes, such as pregnancy complications, pre-term births, and poor maternity health were probably responsible for the rest. In Singapore, Malaya, and Jakarta, infantile convulsion was common due to mothers getting insufficient nutrition, and thus being unable to feed their new-borns.³⁶³ In Thailand, too, the lack of dairy milk worsened the health outlook for babies.

³⁶² Macgregor, *Medical History of the War in Malaya*, p.162.

³⁶³ League of Nations, *World economic survey, 1941/42*, p. 18.

Table 6. 1 Birth, death, and infant mortality rates (per 1,000), 1928-1955

Year	Birth rate	Mortality rate*	Infant mortality rate	Number of infant deaths (thousands)
1931-32	35.3	14.0	95	40.2
1932-33	36.0	13.1	92	40.8
1933-34	36.0	14.2	99	44.5
1934-35	36.8	14.1	98	45.8
1935-36	35.5	15.1	108	49.6
1936-37	38.4	13.3	89	45.1
1937-38	34.9	14.2	104	53.2
1938-39	34.2	12.5	91	46.6
1939-40	36.5	13.9	101	56.7
1940	35.5	14.0	110	44.5
1941	35.4	13.7	100	56.5
1942	32.6	12.5	95	52.5
1943	33.9	14.3	97	57.3
1944	30.8	14.3	99	51.9
1945	25.7	14.1	106	45.8
1946	24.0	13.1	95	39.0
1947	23.7	11.7	80	33.0
1948	23.9	9.3	68	29.0
1949	27.8	8.9	66	33.3
1950	28.4	8.5	62	32.7
1951	29.3	8.7	65	36.1
1952	29.9	8.3	63	36.0
1953	31.0	7.7	65	39.4
1954	34.2	7.9	64	43.3
1955	34.2	7.6	56	39.0

*Excluding children younger than one year old

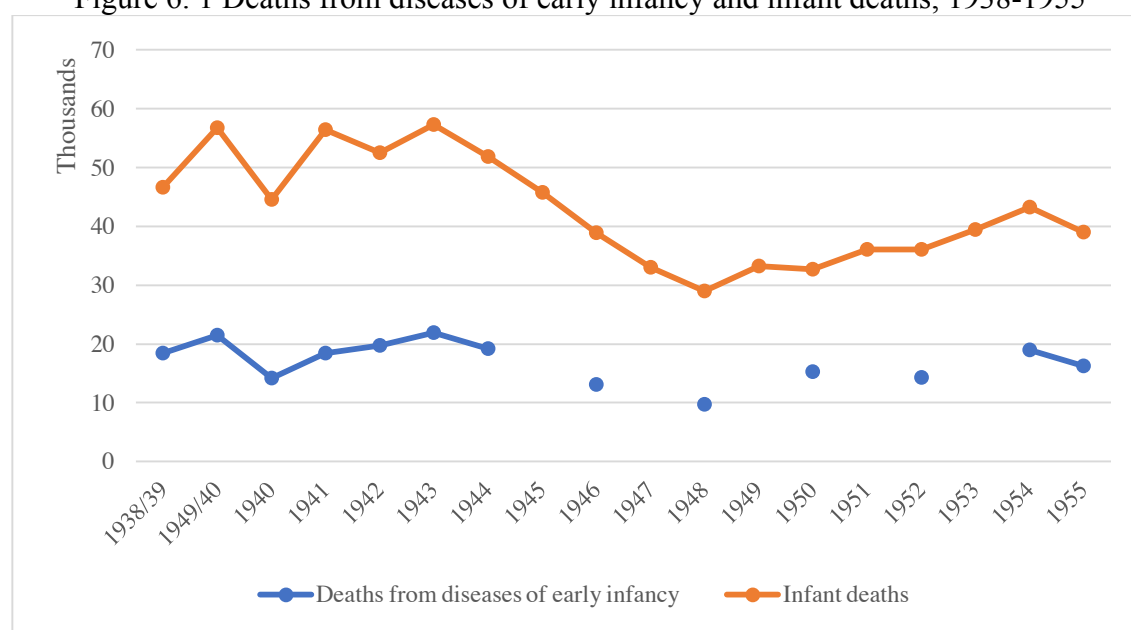
Source: Statistical Yearbooks p. 537, p.96 (1939-44), p.94 (1945-55).

Table 6. 2 Selected causes of death, 1938-1955

	Malaria	Diarrhoea and enteritis	Diseases of early infancy	Dysentery	Beri beri	Homicide
1938/39	34,438	21,336	18,419	6,805	1,757	1,526
1949/40	37,813	23,569	21,510	13,426	1,994	1,315
1940	32,743	19,885	14,172	12,954	1,547	795
1941	42,055	24,026	18,460	11,584	1,919	1,080
1942	47,202	24,400	19,750	7,915	1,822	1,198
1943	57,171	27,077	21,955	11,269	3,045	1,274
1944	54,597	24,625	19,240	11,677	2,140	1,333
1946	48,618	17,314	13,126	11,355	1,895	1,861
1948	44,215	9,995	9,734	6,535	1,208	1,389
1950	35,819	9,516	15,268	6,018	1,659	1,498
1952	29,115	10,513	14,311	6,656	2,031	N/A
1954	16,473	11,109	18,971	5,093	1,524	N/A
1955	14,520	9,596	16,256	4,471	1,248	N/A

Source: Statistical Yearbooks, various editions

Figure 6. 1 Deaths from diseases of early infancy and infant deaths, 1938-1955



Source: Thailand, Statistical Yearbook 1928-1938, p.537; Statistical Yearbook 1939-1944, p.96; Statistical Yearbook 1945-1955, p.94.

6.2 Real wages

A macroeconomic view of per capita GDP and countrywide vital statistics does not capture differences between different regions of Thailand and between various socio-economic classes. Some indication of the real wages of skilled and unskilled labour, supplemented by qualitative sources helps to elucidate wartime standard of living for various groups. This section examines trends in the real wages of skilled labour, unskilled labour in Bangkok and, unskilled labour outside of the capital. Overall, wartime inflation seriously eroded real wages for all three groups.

Wage data for Thailand, as for most Southeast Asia prior to 1950, are scarce. The wages of ‘skilled’ workers, in this instance bureaucrats, are from official records of government expenditures from 1939-1957. The records are imperfect: They specify 20 wage brackets and how many officials belonged to each, and the average wages for all bureaucrats over every bracket. Average nominal wages were between 1.5 and 2.5 baht per day. Between 68 and 71 per cent of all bureaucrats fell in the bracket of earning ‘less than 600 baht per annum’ or less than 1.64 baht daily.³⁶⁴ The average nominal wages can thus be utilised for an analysis of real wages for the majority of low-ranking bureaucrats. The figures illustrate the rapidly falling purchasing power of state employees throughout Thailand.

Nominal wages for unskilled workers in Bangkok and rural areas were collected by Ouyyanont from various archival sources.³⁶⁵ These sets of data are more fragmented than those of bureaucrats, less representative, and need to be regarded with some caution. The data should be viewed as indicative of the purchasing power of specific groups of

³⁶⁴ The remaining 32-29 per cent of bureaucrats were thinly spread over the remaining 20 wage brackets, with the highest paid 0.01 per cent earning 19,200-21,000 baht per annum or 52-59 baht per day.

³⁶⁵ Porphant Ouyyanont, ‘Bangkok as a Magnet for Rural Labour: Changing Conditions, 1900-1970’, *Southeast Asian Studies* 36, no. 1 (1998): 78–108.

unskilled workers, rather than of the entire population. For unskilled labour in Bangkok, the discrepancy between the two indices is conceivably due to inconsistencies in the sources, or that during the war the state was willing to pay its coolies more than private companies.

Nominal wages are deflated by the CPI published in the Bank of Thailand annual surveys. This index is considered as official figures and the one utilised by the state. While the index is intended to be indicative of the entire kingdom, prices would likely not rise at the same rate in rural areas as in Bangkok, though it is difficult to ascertain rates of change. Despite peasants' self-sufficiency in many goods which could decrease the cost of living based on this unadjusted CPI, the higher costs of transport for certain goods could also drive up prices. Unfortunately, the CPI cannot be disaggregated due to a lack of consistent price data for individual basket ingredients. Though the data are not ideal, they are nonetheless useful and show sharply declining real wages for labourers in Thailand. Towards the end of the war, these figures may underestimate the drop of quality of life from year to year, since many goods were no longer readily attainable. Available data may also underestimate the true prices of commodities, as goods in short supply might be purchased in the black market at exorbitant prices.

6.2.1 Skilled workers in Bangkok

Wage data for government bureaucrats demonstrate a dramatic drop in purchasing power (Table 6. 3). 'Ordinary' bureaucrats were individuals with long-term government position; 'special' workers were employed on a temporary basis for specific short-term projects, such as contractors or consultants. Reeve finds that, despite the name, many of these special workers remained in the employment of the state for most of their lives.³⁶⁶

From 1938/39 to 1941, the 15 per cent rise in ordinary employee real wages suggests that just before the war full-time bureaucrats enjoyed increased living standards.

³⁶⁶ Reeve, *Public Administration in Siam*, p.62.

During the war, nominal wages remained roughly stable; consequently, purchasing power of ordinary employees fell by 72 per cent from 1941 to 1945. Even before the Japanese invasion, special employees already saw a 23 per cent drop in purchasing power and 13 per cent drop in nominal wages. This trend continued during the occupation; and workers' purchasing power plummeted under occupation, with a 91 per cent decrease in real wages. The largest contraction for both groups was between 1942 and 1943, moving opposite to per capita GDP. The increased trade and agricultural production apparently did not benefit wage earners. This finding also echoes the situation of Filipino bureaucrats, whose money wages at best only tripled in the face of a roughly 700 times increase in cost of living.³⁶⁷ Though in the Thai post-war period real wages for bureaucrats did not recover from roughly 11-13 per cent of their 1938/39 levels, they also did not decline throughout the 1950s. While officials were relatively less well-paid than before the Japanese occupation, their nominal wages at least kept up with post-war inflation.

The plight of low-level government officials during the war was documented in local newspapers and letters written to the government.³⁶⁸ Indeed, many petty officials wrote anonymous letters to the government complaining of insufficient wages. For instance, an author calling himself/themselves 'Chiangmai brothers' wrote in July 1942, complaining that the 20-30 baht monthly salaries of low-level government officials were insufficient, as prices of goods have increased incrementally.³⁶⁹

³⁶⁷ R.T. Jose, 'Food Production and Food Distribution Programmes in the Philippines during the Japanese Occupation', in *Food Supplies and the Japanese Occupation in Southeast Asia*, ed. Paul H. Kratoska (Houndmills, 1998), 67–100, pp.82-83.

³⁶⁸ Bangkok Chronicle, 23 Feb, 20 Mar, 22 April 1944 via E. Bruce Reynolds, *Thailand and Japan's Southern Advance, 1940-1945* (Basingstoke, 1994), p.179.

³⁶⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/897, 'ผู้ใช้นามว่า พี่น้องชาวเชียงใหม่ เสนอว่าพ่อค้าขายของแพงราษฎรเดือดร้อน (Chiangmai Brothers' complain about merchants selling expensive commodities, citizens suffering),' 1942.

How did low-level bureaucrats survive with such a large reduction in purchasing power? At least part of the answer is that these people were an important constituent of an emerging middle-class, and that bureaucrats were sufficiently well-paid before the war that, despite rapid inflation, they could still survive. The middle class in Manila and Singapore sold gold and jewellery; and their Thai counterparts could have done the same.³⁷⁰ There were records of civil servants engaged in petty trading.³⁷¹ In July 1942, a bureaucrat called ‘Little peoples’ wrote a letter to the government complaining that he could barely feed his wife and two children on his small pay of 34 baht per month. In comparison, the heads of departments were receiving between 300 and 400 baht salary, which he perceived as extremely unfair. He also included a monthly account, detailing his expenditures (Table 6. 4). ‘Little peoples’ only had 60 *satangs* left over each month; he worried that his family would not be able to survive if ‘anything were to happen to him,’ and suggested either a raise or further government assistance.³⁷² ‘Little peoples’ was making 1.1 baht per day, slightly less than the average wage of ordinary bureaucrats. In 1943, after a 57 per cent reduction in purchasing power, he was still barely surviving on his monthly wage. As prices of goods continued to rise, however, ‘Little peoples’ and his family would either have to cut further corners, find other sources of income, or dip into their savings.

Unsurprisingly, letters of complaint from bureaucrats are numerous. Not only were they one of the few literate groups, real wage data confirm that the rapidly rising cost of living was harming bureaucrats as they had stable, nominally inflexible, incomes. The

³⁷⁰ Kuan Yew Lee, *The Singapore Story* (Singapore, 1998), p.66; R.T. Jose, ‘The Rice Shortage and Countermeasures during the Japanese Occupation’, in *The Philippines under Japan: Occupation Policy and Reaction* (Manila, 1997), 197–214, p.212.

³⁷¹ Reeve, *Public Administration in Siam*, p.73.

³⁷² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/900, ‘ผู้ใช้นามว่า ‘คนน้อย’ เสนอให้สำรวจสภาวะข้าราชการชั้นผู้น้อยเพื่อช่วยเหลือ (‘Little peoples’ asks for assistance for petty officers),’ 1942.

plight of ‘Little peoples’ and ‘Chiangmai brothers’ emphasise how the war affected various classes in different ways. ‘Little peoples’ was spending over half of his monthly income on food. By contrast, high-ranking government officials would have had some protection against rising prices.

Letters from non-bureaucrats, however, depict government workers as corrupt and participants of the black market. Sakhorn Kulamat claimed in a letter that almost 50 per cent of government officials were partners or had invested in various shops, which made such bureaucrats apathetic towards the rapidly rising cost of living. Not only were officials benefitting financially, they were also able to purchase goods at a lower price because of their connections. He called for the government to suppress this conflict of interest, so that officials would look out for the benefit of the wider community.³⁷³ Indeed, there was also evidence of corruption in the rationing and price control systems (chapter 5).

Accepting bribes and taking advantage of their political position were yet other means for bureaucrats to survive the drastic decrease in real wages during the Japanese occupation. Reeve argues that the high living costs led to the deterioration of ‘the relatively honest and efficient administration of the country.’³⁷⁴ Moreover, this practice remained widespread in the post-war period, because after the war the government raised the nominal wages of bureaucrats relatively little so that the real wages of bureaucrats did not recover in the 1940s and 1950s; bureaucrats still ‘squeezed’ income from other sources, namely bribery from rice smugglers during Thailand’s rice deliveries to Britain (chapter 7). The wartime fall in civil service real wages and the consequent sharp

³⁷³ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/914, ‘นายสาคร กุลมัตย์ เรื่อง ของขึ้นราคาเกินควร (Sakhon Kulamat on commodity prices being too high),’ 1942.

³⁷⁴ Reeve, *Public Administration in Siam*, pp.67, 71-2.

exacerbation of corruption and bribery left a legacy that lasted for decades in post-1945 Thailand, as further discussed in chapter 7.

Table 6. 3 Real and nominal average daily wages for ordinary and special government employees, 1937/38-1944

Year	Ordinary			Special		
	Nominal wages	Real wages (1937/38 baht)	% change (1937/8 =100)	Nominal wages	Real wages (1937/38 baht)	% change (1937/8 =100)
1937/1938	1.20	1.20		1.20	1.20	
1941	1.56	1.38	115	1.04	0.92	77
1942	1.51	1.13	95	0.95	0.72	60
1943	1.52	0.52	43	0.95	0.33	27
1944	1.50	0.30	25	1.05	0.21	17
1945	1.55	0.16	13	0.99	0.10	9
1946	1.64	0.15	13	1.08	0.10	8
1947	1.72	0.14	11	1.22	0.10	8
1948	1.95	0.16	13	1.38	0.11	9
1949	1.69	0.14	12	1.70	0.14	12
1950	1.82	0.15	12	1.84	0.15	13
1951	1.97	0.14	12	1.91	0.14	12
1952	2.08	0.14	11	1.91	0.13	11
1953	2.21	0.13	11	2.17	0.13	11
1954	2.32	0.14	12	2.17	0.13	11
1955	2.36	0.13	11	2.33	0.13	11

Source: Nominal wages from Statistical Yearbook 1939-1944, p.451; CPI deflators from the Bank of Thailand Surveys, various editions

Table 6. 4 Monthly expenses of 'Little peoples,' a petty government official, 1942

Item	Cost
Rent	6 baht
Two barrels of rice	6 baht
Foodstuff, 40 <i>satangs</i> per day	12 baht
Electricity	1 baht
Transportation, 15 <i>satangs</i> per day	4.50 baht
Soaps and other necessities	1 baht
3 barrels of coal, each at 30 <i>satangs</i>	90 <i>satangs</i>
Other expenses for his wife and children	2 baht
Total	33.40 baht

Source: NAT, 'Little peoples.'
Note: 100 *satangs* = 1 baht

Table 6. 5 Real wages for unskilled labour in Bangkok and rural Thailand, 1937/38-1947

Year	Bangkok construction workers on public projects		Bangkok unskilled labour		Rural construction workers on public projects	
	Daily wages (1937/38 baht)	Real wages (%)	Daily wages (1937/38 baht)	Real wages (%)	Daily wages (1937/38 baht)	Real wages (%)
1937/38	0.8	100	0.8	100	[1.25]	100
1938/39	1		0.8		2	
1940					2	
1941					2	142
1942	1.25	118	1.26	119	2	120
1943	1.5	64	1.27	54	2	55
1944			1.96	48		
1945	4	52	2.46	32	2.5	21
1946	4	47	5.22	61		
1947			8.8	88		

Note: Bangkok (1) is based on wages for construction workers in public projects. Bangkok (2) is based on wages of unskilled workers as recorded in the Department of Secretary General of the Council of Ministers, Bank of Thailand Surveys, and Ingram. Rural wages are of construction workers on public project outside of the capital.

Source: Nominal wages from Ouyyanont, 'Bangkok as a magnet for rural labour,' pp.82-83; CPI deflator from the Bank of Thailand Surveys, various editions.

6.2.2 Unskilled labourers in Bangkok

Real wages for unskilled labourers paint a similar picture to that of bureaucrats. The 18 to 19 per cent rise in Bangkok real wage indices from 1938 to 1942 indicates that, prior to the war, standards of living of these workers had improved somewhat. Pre-war gains were, however, quickly erased by rapid inflation. The purchasing power of unskilled workers deteriorated between 50-70 per cent during the war, despite a 25-66 per cent rise in nominal wages towards the end of the occupation. The continued downward trend of real wages suggests that the 1943 upward blip in per capita GDP failed to benefit those with fixed incomes regardless of skill. Real wages for Bangkok coolies recovered quickly, reaching 88 per cent of pre-war wages as soon as 1947 (Table 6. 5).

Wage labourers in Bangkok were mostly Chinese coolies. They were unlikely to own land or have subsistence farming on which to fall back. Surviving with a mere 30 per cent of their usual purchasing power seems almost impossible. Yet, there were no reports of widespread starvation in Bangkok. Part of the explanation could be that the Chinese diet, similar to ethnic Thais', mostly consisted of rice, fish, and vegetables which were common enough in Bangkok. Indeed, survey information reveals that households in the capital earned cash incomes from selling crops and fish.³⁷⁵ Food was, therefore, not scarce. Though daily wages at construction sites fell, there is no indication of hours of work. These labourers could have found other employment, either as coolies or selling goods on the streets of Bangkok, like low-ranking bureaucrats.³⁷⁶ Finally, the Chinese community is known for being capable of banding together in times of crises, overcoming political and ethnic (speech group) differences. There was evidence of underground Chinese organisations and covert remittances to Mainland China during the war, so it is likely that

³⁷⁵ Zimmerman, *Siam Rural Economic Survey 1930-31*, p.53.

³⁷⁶ Reeve, *Public Administration in Siam*, p.73.

informal assistance within the Chinese community, such as loans, also existed in Thailand.³⁷⁷

6.2.3 Unskilled labourers in rural areas

Real wages for unskilled labourers in rural areas fell by 80 per cent during the war (Table 6. 5). Rural nominal wages were higher than those in the capital, where until 1930s a continuous influx of Chinese coolies had exerted downwards wage pressure.

Additionally, relative self-sufficiency made the opportunity cost of leaving farming to pursue wages was higher in the countryside.³⁷⁸ Cash payments captured by this index may not be fully representative of real wages. Where the majority of work was in agriculture, compensation in the form of grain or produce was common. The drastic reduction in real wages may overestimate the fall in standard of living for these workers.

At the same time, this severe drop in real wages must also be understood in context of availability of employment and food in certain parts of the country. Though no reliable employment data exists for wartime Thailand, the expulsion of western companies would have reduced employment, especially in southern Thailand which produced rubber and tin (chapters 1 and 2). As producers of non-agricultural goods, tin miners and rubber plantation workers in many southern provinces faced scarcities of some foodstuffs.³⁷⁹ The Welfare Department distributed rice to these people to alleviate shortages.³⁸⁰ Falling real wages, few employment opportunities, and shortages of consumables thus paint a picture of declining standard of living for rural wage earners.

³⁷⁷ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.79-80, 82.

³⁷⁸ Ouyyanont, 'Bangkok as a Magnet for Rural Labour: Changing Conditions, 1900-1970', p.80.

³⁷⁹ NAT, Department of the Secretariat of the Cabinet, (3) สร 0201.29.1/39, 'โครงการจัดข้าวให้พอบริโภคทั่วถึงกันทุกจังหวัด (Project to distribute rice in every province)', p.15.

³⁸⁰ NAT, Department of the Secretariat of the Cabinet, (3) สร 0201.29.1/40, 'การสะสมข้าวสารสำรองในจังหวัดภาคใต้ หรือ การช่วยเหลือข้าราชการและพลเมืองภาคใต้ในเรื่องข้าวแพง (Stockpiling rice in the southern provinces, or helping bureaucrats and citizens in the South due to expensive rice)', pp.72, 134-135, 157-159, 203.

6.3 Non-wage earners

As with all studies of real wages, this study does not extend to individuals with flexible incomes, or people who did not rely heavily on the market for foodstuffs. This section relies on some limited primary sources to reconstruct the effects of the Japanese occupation on peasants, the majority of the Thai population, and merchants. I find that while peasants were cushioned from some of the effects of the war due to their relative self-sufficiency, the Japanese occupation still had a negative impact on everyday life and channels to sell their produce. Merchants, who were mostly Sino-Thai and risked persecution from both the Japanese forces and Thai government, could find ways to survive and at times even profit from the rising prices of the war.

6.3.1 Peasants

Qualitative sources demonstrate that the rice-based agriculture of Thailand was a valuable buffer for peasants. Thai peasants' relative self-sufficiency has cushioned rice-growers from external shocks before, such as during the Great Depression when cash incomes fell significantly for the lower class.³⁸¹

Thai peasants, especially those in the central plains, not only produced food for their own consumption but for export. They lost a substantial part of this source of income during the Japanese occupation. The autarchy of the Greater East Asia Co-Prosperity Sphere, breakdown of Japanese merchant shipping, and Japanese appropriation of transport channels in Thailand meant that these peasants had to find other means to sell surplus agricultural products. The Thai government instated programs to purchase rice from farmers, and rice smuggling down the coast helped to sustain the rice industry (chapter 2), and, consequently, the livelihood of peasants as well.

Access to rice, however, does not equate to good nutrition and peasants likely lost access to some food groups, as pre-war Thai households relied partly on the market to

³⁸¹ Wyatt, *Thailand: A Short History*, p.228.

provide the nutrition they needed (chapter 1). The shortage of necessities would also affect peasants, especially those with less access to transport. Disruption of everyday life, competition from Japanese soldiers, and the breakdown of transportation that occurred during the Japanese occupation adversely affected these families' access to food, nutrition, and consumer goods during the war.

6.3.2 Merchants

After Thailand signed the Alliance Pact with Japan, the Sino-Thais realised they could not rely on assistance from Chiang Kai-shek's Nationalist government as it was at war with Japan and had no diplomatic representation in Bangkok. Consequently, the Chinese minority were left as 'international orphans' in Thailand. By this time, news of Japanese brutality in Mainland China, and towards the Chinese minority in Malaysia and Singapore had reached Bangkok. Members of the Chinese Chamber of Commerce (CCC) thus met with Wanit Pananon, the Deputy Finance Minister, to express willingness to cooperate with the new order.³⁸²

Reynolds states, 'it is important to recall that the money the Japanese borrowed was pumped into the local economy,' and a section of the Thai economic system benefitted from all the money created during the war.³⁸³ Although Thailand experienced high inflation under the Japanese occupation (chapter 3), those with access to scarce goods and with political power could capitalise on dire conditions by cooperating with the Japanese and smuggling.

The CCC was responsible for providing both food and opium to the railway coolies, which provided a source of profit for Chinese merchants. The chamber also sold raw materials of the railway itself, including wood, gravel, rocks, sand, and stones. As the

³⁸² E. Bruce Reynolds, "International Orphans": The Chinese in Thailand during World War II', *Journal of Southeast Asian Studies* 28, no. 2 (1977): 365–88, pp.368, 371.

³⁸³ Reynolds, *Thailand and Japan's Southern Advance, 1940-1945*, p.177.

Japanese army needed these materials quickly (and at times illegally), it knew that the most efficient way to obtain supplies was to contact influential merchants. They were almost always Chinese. Chin Sophonpanit, for instance, was an important supplier of lumber and would later found Bangkok Bank and Bangkok Insurance Company, enterprises still controlled by his family today.³⁸⁴

The Japanese army also needed consumer products, which were extremely scarce in Thailand during the war years. The army purchased these goods from private merchants at exorbitant prices, as the Japanese, able to request a supply of baht from the Thai government, took little notice of inflation. There were also reports of merchants refusing to sell to Thai citizens and officials, preferring to save goods to wait for the Japanese army's much higher offers. After the Japanese commercial fleet was destroyed, Japan increasingly relied on the CCC and Chinese merchants to facilitate international trade. Wang Feng, for example, was a prolific trader and shipped 9,000 tons of rice to Malaya in 1944. The CCC Chairman, Tan Xiu Meng's business of rice milling, trade, and shipping also benefitted greatly from Japanese patronage.³⁸⁵

The most prominent black market was for smuggled Thai rice in Malaya (chapter 2). Sino-Thai merchants and their Chinese connections in Malaya and Singapore were believed to have profited financially from this operation. It was estimated that black market rice prices were 35 baht per kilogram, and that over 5.5 million kilograms of rice was transported to Syonan municipality alone between June and October 1944.³⁸⁶ At this price and rate, smugglers collectively made over 192 million baht transporting rice for five

³⁸⁴ Reynolds, 'Anomaly or Model?', pp.378, 383.

³⁸⁵ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.220-247, 274-278; Reynolds, "'International Orphans': The Chinese in Thailand during World War II', pp.378, 383.

³⁸⁶ Matsu'ura, Kirita, and Nagamori, 'Rice Imports to Malaya, with Special Reference to Syonan Municipality, September 1944', p.478.

months to one municipality in Malaya. The total amount of profits made during the whole occupation was thus much larger.

6.4 Social tension

The seemingly advantageous positions of the Sino-Thais, difficult wartime conditions, and state dislike of minorities became breeding ground for racial contempt. This section explores the effects of race and occupation on Thai society, especially on the relationship between ethnic groups, namely between ethnic Thais, Japanese, and Chinese. Unsurprisingly, the presence of Japanese soldiers created friction between them and Thai civilians, resulting in violence and loss of lives. At the same time, wartime shortages, falling living standards, and anti-Chinese sentiments of the Thai government created tension between ethnic groups, with ethnic Thais blaming the Chinese for being greedy and seeing them as collaborators.

6.4.1 Thai-Japanese hostilities

Though Thai peasants have been described as ‘complacent’ and ‘easy-going,’ they disliked Japanese soldiers and were willing to stand their ground when threatened.³⁸⁷ These events demonstrate that Thailand, which was a relatively peaceful country during the war, still suffered violence and conflict even among civilians.

One of the first and most prominent was the incident at Baan Pong, in Ratchaburi Province. The event began when novice monk was seen giving cigarettes to a European prisoner of war, and a Japanese officer reported slapped him on the head. Thai coolies in the area were offended by the soldiers’ apparent disrespect to Buddhism. The coolies and Japanese officers then began a physical fight, and the latter opened fire. Thai policemen had to intervene, and that resulted in a gun fight between them and Japanese soldiers. The

³⁸⁷ OSS, *Social conditions*, pp.7, 13.

Japanese authorities were reportedly furious, demanded that Thailand paid for the damages to their persons and property, and took the novice monk and the coolies to court.³⁸⁸

Similarly, on 30 September 1944, arriving Japanese troops entered the country through Ranong Province. Reports from Chid Munsilp Sinatyotharak, the Deputy Commander, stated that the Japanese appeared to attempt to disarm Thai forces and ‘take over the land.’ Many Thai police and army officers fought back and died in the conflict. The reaction of the Japanese ambassador, general, and other high ranking officials suggests that the incident was instigated by local troops and unauthorised by the Imperial Army. The Japanese also initially tried to settle the matter locally, not wanting the news to reach Bangkok. When the government was finally informed, the Japanese army took full responsibility and offered to pay 150,000 baht. Thai officials agreed among themselves that this was technically a breach of sovereignty (on which one ‘cannot put a price’) and did not want to receive any monetary compensation in order to gain moral leverage in any future discussions or negotiations. They told Japanese officials that the incident was akin to a ‘squabble within a family,’ and claimed that they did not place any blame on the Japanese army.³⁸⁹

6.4.2 Thai-Chinese resentment

High mortality, falling real wages, and scarcity created hostility in a plural society in which the ethnic Thais and Chinese communities once lived in relative amity. That almost every merchant in Thailand was of Chinese descent contributed to tension between Thai peasants and civil servants and Chinese businessmen. The financially advantageous position of the latter was not lost on the former. Ethnic Thais claimed that ethnic minority merchants were greedy, corrupt, and making profits from the war while others suffered.

³⁸⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98/44, ‘ทหารญี่ปุ่นยึดจังหวัดระนอง (Japanese soldiers stormed Ranong Province), 1944, pp.54-57.

³⁸⁹ *Ibid.*

I rely largely on letters written by Thailand's population – the most direct voice of those living during the war. These perceptions could be coloured by state policy and propaganda, as the Phibun administration had been discriminating against the Chinese community since before the war (chapter 1). Indeed, some governmental reports claim that merchants, many of whom were Chinese and Indian, were taking advantage of the country's economic difficulties at the expense of the poor.³⁹⁰ It is difficult to find the beginning of a feedback loop: These official reports could be based on civilian grievances and thus depicted merchants in the same unfavourable light. Equally possibly, the government could have capitalised on anti-Chinese sentiments and united ethnic Thais against a common enemy to prevent social unrest. The contents of the letters, nonetheless, demonstrate that wartime shortages can contribute to public hostility against marginalised minorities.

The most common grievance against the Chinese was that they were 'greedy merchants,' and profiting from scarcity. The image of profiteering traders was not new to the war; however, the shortage of goods fuelled this stereotype further. For instance, in their letter to the government, 'Chiangmai brothers' blamed their inability to make ends meet on 'greedy merchants.'³⁹¹ A similar sentiment regarding Indian merchants is conveyed in a letter from 'Free Soul.' Though the majority of immigrants in Thailand were Chinese, a small number of Indians settled in Bangkok and mainly worked in the textile and international trades.³⁹² 'Free Soul' claimed that Indian shopkeepers bought imported

³⁹⁰ NAT, Ministry of Foreign Affairs, (2)กต1.1.1.2/4, 'ระเบียบวาระการประชุมคณะรัฐมนตรีเพื่อพิจารณา ครั้งที่12/2487-18/2487 (Agenda for the cabinet meeting 12/2487-18/2487),' 1943, p.56

³⁹¹ Reynolds, *Thailand and Japan's Southern Advance, 1940-1945*, p.178.

³⁹² Suehiro, *Capital Accumulation*, p.173.

Japanese merchandise in bulk, which these shopkeepers would ‘flip’ to the poor for double the price. ‘Free Soul’ pleaded the government to intervene in the process.³⁹³

According to ethnic Thais, not only were merchants greedy, but they were also corrupt and breaking regulations meant to alleviate shortages. ‘Chiangmai brothers’ claimed merchants hoarded textiles and sold them illegally for above the regulated price.³⁹⁴ A member of the Royal Family, albeit minor and distant from the king, Sitthipraphat Kasemsan, wrote to the Prime Minister describing how merchants were falsely marketing goods to sell them at a higher price. Shopkeepers were allegedly soaking eggs in salt water to make fake salted eggs, the controlled price of which was higher than that of fresh eggs. Kasemsan also stated that butchers, whose Chinese ethnicity was implied, were selling large quantities of pork to their own communities, leaving the indigenous Thai with little to consume.³⁹⁵

Finally, ethnic Thais resented that the Chinese minority was gaining wealth during the war, either through legal or illegal means. Ethnic Thais felt that the situation was unjust, and this sentiment added to the tension between the two groups. ‘Chiangmai brothers’ who blamed merchants’ illegal dealings for his hardship asserted, ‘if this continues, all the Chinese will become millionaires.’³⁹⁶ Legal collaboration with the Japanese angered many ethnic Thais: Manot Wutthatit, a member of the Free Thai Movement, commented that Sino-Thais were making ‘big profits’ by becoming ‘Japanese agents.’³⁹⁷ The unequal effect of the war on different groups was thus apparent to Thai

³⁹³ NAT, Department of the Secretariat of the Cabinet, (2) สร/0201.25895, ‘ผู้ใช้นามว่า ‘วิญญาณอิสระ’ ขอให้ยกเลิกองค์การบริษัทจังหวัดจำกัด 5 ข้อ (Free soul’ asks the government to discontinue the provincial companies),’ 1942.

³⁹⁴ Reynolds, *Thailand and Japan’s Southern Advance, 1940-1945*, p.178.

³⁹⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.25/911, ‘มรว สิทธิ ประพัทธ์ เกษมสันต์ เรื่อง เล่ห์เหลี่ยมในการเลี้ยงขึ้นราคาสินค้าของพ่อค้าต่างดาว (Sittiprapat Kasemsan on the tricks of foreign merchants in raising prices),’ 1942.

³⁹⁶ NAT, ‘Chiangmai Brothers.’

³⁹⁷ Reynolds, *Thailand and Japan’s Southern Advance, 1940-1945*, p.178.

people; and the stereotype of greedy, corrupt foreign shopkeepers became even more pervasive.

6.5 State welfare

Finally, a qualitative source that offers information on the standard of living of Thai people is governmental welfare provisions after each Allied air raid. There were 23 raids, claiming 350 lives throughout the war. These raids were mostly concentrated in cities, with Bangkok and Chiangmai as the main targets. Allied planes reportedly mixed incendiary bombs with explosives, leading to large fires where bombs were dropped.³⁹⁸

Though the death toll was relatively small, the number of people affected was high. For instance, the first air raid on Bangkok in 19 December 1943 killed 13 individuals, but 4,000 houses and apartments were destroyed. Houses in Thailand were largely constructed from wood, making them highly flammable and vulnerable to Allied incendiary bombs. Japanese sources reported that the train station was ‘cramped’ as people tried to leave the city centre, reducing further death tolls. Eventually the bombs also destroyed the German Legation, residence of the Manchukuoan minister, the Japanese embassy, electric powerhouses, the Siam Cement mixing plant, the Makkasan railway station, and two bridges over the Chaophraya river.³⁹⁹

There are no aggregated data of how much the state spent on the provisions for victims in total, so no quantitative study is possible. Qualitative information, however, can still tell a story. Welfare, pensions, and other compensations for the loss of lives, ability to work, and reconstruction of destroyed homes, however, leave much to be desired. The government suffered budget deficits during the war due to high occupation costs levied by the Japanese army, and the lack of funds was largely the reason for poor welfare.

³⁹⁸ Reynolds, p.173.

³⁹⁹ NARA, Bangkok to Tokyo, 22 Jan, 29 Feb, and May 1944, SRDJ 50579, 52690, 58541, RG 457, via Reynolds, *Thailand and Japan's Southern Advance 1940-1945*, p.174.

There was little the Thai government could do to prevent enemy planes from flying through its air space due to a limited budget and technological expertise. Japan did not seem to have installed any anti-aircraft technology in Thailand. At least, the response from medical officers and the fire department seems to have been consistently swift and effective in providing immediate relief. Apart from extinguishing flames and sending the injured to hospitals, government officials provided other forms of assistance. On 24 December 1943, for example, a series of bombs set several houses on fire. Officials from the Ministry of Public Health delivered food to casualties and organised a memorial service for those who had died. To an extent, this reaction was partly an attempt to demonstrate to the public that the administration was alleviating the damage from Allied destruction, as details of the aid were usually broadcast on the radio the following day by Phibun's orders.⁴⁰⁰

Immediate relief was one matter; assistance for widows, orphans, and the homeless was another. Monetary compensation was insignificant. Families of deceased bureaucrats were given a full month's salary, which varied from 30 to 300 baht. There was no mention of continued financial assistance. If the official suffered a permanent disability, they would receive a lifetime pension of an unidentified amount. Private citizens were compensated only 50 baht for the death of each family member, and 30 baht plus medical expenses for the infirmed. Children of the deceased were also granted free tuition until secondary school.⁴⁰¹ Though free education was generous, letters of complaint from petty officers demonstrate that 30 baht was barely sufficient to feed their families for a month. Roughly

⁴⁰⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.4.4/10, 'รายงานการถูกโจมตีทางอากาศ รวมทั้งผู้ประสบภัย และค่าเสียหาย (Reports on air raids, including victims and costs of damages)', 1945, p.52

⁴⁰¹ NAT, Ministry of Foreign Affairs, (2) กต 1.1.1.2/3 'ระเบียบวาระการประชุมคณะรัฐมนตรี เพื่อพิจารณาครั้ง ที่ 1/2488-15/2488 (Agenda for the Cabinet Meeting 1/2488-15/2488)', 1945, pp.150-152.

95 per cent of total civil servants were men.⁴⁰² A one-time dole of 50 baht was clearly not enough for families who lost male breadwinners.

It was always possible for widows and orphans to take up work to support themselves after the deaths of husbands or fathers. The nature of urban work for Thai women and young children during the war is difficult to determine. If any children were employed during the war, the government knew and recorded nothing of it in official statistics. On the other hand, female workforce participation in the census is an impressive 47.2 percent in 1937 and 47.9 percent in 1947, though the vast majority of women were employed in the agricultural sector. Men had a decisive numerical advantage in jobs that were likely to be in urban centres, the main targets of Allied attacks. For instance, men made up 70 percent of the manufacturing sector, 92 percent of public servants, and 98 percent of clerks.⁴⁰³ Censuses, however, are prone to overlook part time work, which usually belonged to women, and informal employment, which were usually taken up by children. Poor women, mostly widows or single mothers, in the countryside peddled food or consumer goods for petty cash; those in cities would have likely done the same.⁴⁰⁴ Without clear wage data, one can only assume that the earnings of widows and children combined were unlikely to match those of their late husbands and fathers. Families that lost their male breadwinners, thus, were insufficiently supported by the government and likely thrown into economic distress during the war.

Government regulations outlined compensation for the loss of property. Working officials would receive assistance of no more than 800 baht; bureaucrats ‘without salaries’ or on leave were given a maximum of 200 baht, while other citizens would be supplied

⁴⁰² Reeve, *Public Administration in Siam*, p.66.

⁴⁰³ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, pp.80-83; Thailand Central Service of Statistics, *Statistical year book Thailand 1942-1945*, pp.54-57.

⁴⁰⁴ De Young, *Village Life in Modern Thailand*, p.104.

with no more than 50 baht for any property damage.⁴⁰⁵ Surveys of victims' losses indicate that these small sums of money were not nearly sufficient for the reconstruction of their homes and belongings. Victims in Chonburi, an urban center a few hours outside of Bangkok, revealed that they often suffered property losses in thousands of baht. San Ekwira, for example, not only lost his wife and five out of nine children, but his entire house was demolished by an air strike in December 1943. The building along with all his belongings were worth an estimated 5,000 baht. According to the above policies, Ekwira would receive only 500 baht in assistance if he was not a government official, and a maximum of 1,100 baht if he was a working public servant. Similarly, Thongdee Narin and his family of eight who lived in Thonburi, Thailand's old capital, were fortunate enough to all escape unscathed from an air raid on 19 January 1944. Their house, however, was completely levelled, with an estimated damage of 4,000 baht. The highest possible assistance from the government was 800 baht.

Governmental aid, therefore, was insufficient to alleviate the hardships of air raid victims, whose lives and standard of living would have been greatly damaged. From government finance records, it is clear that the Phibun and Khuang Aphaiwong (August 1944 –August 1945) administrations were running large deficits from accommodating Japanese forces and large defence expenditures; therefore, the state lacked scope to offer large doles even to government officials who died in action (Table 6. 6).

Table 6. 6 Annual governmental budget, 1941-1945 (million baht)

Year	Revenues	Ordinary expenditure	Extraordinary expenditure	Budget deficit
1941	160.9	146.9	52.0	198.9
1942	147.3	134.4	65.6	200
1943	210.6	140.8	120.3	261.1
1944	286.0	226.0	164.8	390.8
1945	314.7	312.9	112.3	425.2

Source: Doll, Report of the Financial Adviser, pp.1-3.

⁴⁰⁵ NAT, 'Agenda for the Cabinet Meeting 1/2488-15/2488,' pp.150-2.

Regulations also stated that officials found temporary lodgings for victims whose homes were destroyed. Little detail was provided regarding where or what such accommodation was. There exists evidence of informal help within the community and kinship circles. For instance, four out of seven members of the Thepphol family were killed, including both parents. Official records state that the remaining three members, all of whom likely children, were living with relatives and that provincial officers had donated several sets of clothing.

The standard arrangement for those rendered homeless was to relocate to other districts or provinces, likely to live with families or friends. Though the only surviving records are from Chiangmai and Thonburi, the practices were similar and there is no reason to believe that people in these provinces behaved differently from the rest of the country. For instance, after his house was levelled in a Chiangmai air raid in December 1943, Saem Praphasawat moved from his home district of Kuengklongsan to Phasicharoen district. Similarly, Samut Chomdet, whose home was destroyed on 19 January 1943, reportedly asked the government to subsidize the costs of his family's relocation from Thonburi to Chonburi province. Other families moved elsewhere but did so without governmental assistance or knowledge. Especially in Thonburi records, officials often reported that they did not know the location of and were looking for many families.⁴⁰⁶ This absence of information not only emphasise the limited capacity of government bureaucracy, but also suggests that informal assistance was likely the main support for air raid victims.

Reconstruction of destroyed buildings during a war would have made little sense. Shortage of raw materials for construction along with large government deficits were important obstacles. Indeed, on 8 January 1943, the Prime Minister prohibited the

⁴⁰⁶ NAT, Reports on air raids, pp.60-63.

reconstruction or repair of any house or building that was destroyed by Allied air raids ‘except for inhabitation.’ Though this exemption seems vague, public buildings, hospitals, factories, and even schools were not renovated for their original purposes, even though they could have improved the level of state welfare. Indeed, on January 1944, Direk Jaiyanama, the Thai ambassador to the US lodged a complaint against the Allied governments through Switzerland. Jaiyanama stated that between December 1942 and January 1944, British and American planes dropped bombs on various civilian establishments, including Chulalongkorn University Hospital, Pasteur Institute of the Red Cross, Bangrak Hospital, and two mental institutions.⁴⁰⁷ None of these buildings could have been rebuilt during the war, which would have severely affected Thai public health. Instead, local authorities were instructed to make a sign stating that the structure was the target of enemy bombs, as well as state the time and date of the attack.⁴⁰⁸ While this policy may be for propaganda reasons to unite Thailand’s population against a common enemy, the state was incapable of reconstruction before 1945.

Conclusion

This chapter has analysed the standard of living of Thai people during the Second World War using previously unused archival and statistical sources. Quality of life fell sharply during occupation. Although Thailand was more cushioned from war than its neighbours, people nevertheless suffered considerably. Fertility declined and mortality rose; and real wages fell substantially. The decrease in income, along with the scarcity of medical necessities and breakdown of social order, are important in explaining these

⁴⁰⁷ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.98/41, ‘ต่อชานไปยังรัฐบาลบริติชและอเมริกาเกี่ยวกับการทิ้งระเบิด (Discussing with British and American governments about bombing),’ 1943, pp.2, 19.

⁴⁰⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.4.4/15, ‘ห้ามก่อสร้างซ่อมแซมอาคารบ้านเรือนที่ถูกโจมตีจากเครื่องบิน (Prohibition of repairing buildings that have been attacked by air raids),’ 1944.

changes. Quantitative evidence, amplified by letters to the Thai government complaining about living costs and asking for assistance, complements evidence on food supplies and distribution of income. The letters depict the social impact of the shortage of goods, which fractured the plural society and turned indigenous Thais against Chinese and Indian minorities. Welfare support was inadequate for victims of air raids.

Studying the effects of the war on Thai people, hitherto overlooked, offers an important perspective on the study of Thai economic development and the quality of life in wartime Southeast Asia. This experience left legacies and played a role in the kingdom's rapid post-war development. Wartime scarcity and suffering intensified the drive of the post-war government to industrialise and prevent Thailand from experiencing such shortages again. Similarly, the deteriorating real wages of civil servants contributed to the Bank of Thailand's post-war conservatism, along with the petty corruption that undermined free rice deliveries and state rice controls in the post-war period. The standard of living of Thai citizens under the Japanese occupation is integral to an understanding of the long-term history of the kingdom.

Chapter 7 Post-war Thailand: economy and finance

Introduction

This and the following chapter have as a main aim to examine the changes and problems wrought by wartime occupation and the resolution of these such that by 1957 the kingdom, especially compared to a number of its Southeast Asian neighbours, had progressed considerably. The two chapters attempt to link Thailand in the aftermath of the war both to wartime events and the late 1930s. The rice industry, government finance, the Bank of Thailand and commercial banks are considered in this chapter while chapter 8 deals with policies and industrialisation. By quickly achieving notable economic stability during the twelve years after the Japanese surrender and through government investment in infrastructure and industry, Thailand laid the basis for subsequent growth.

The other main aim of these final two chapters is to identify legacies of the Second World War in Thailand in a period of global political and economic upheavals. As defined in the introduction, legacies are developments shaped by the past which play a role in shaping economic and social changes in the following decade. In this chapter, the main legacies of the Japanese occupation discussed are increased petty corruption, the Bank of Thailand, agricultural diversification, and the rise of indigenous banks. Each of these legacies must be examined and assessed in context – to do otherwise would fail to offer a complete account of the aftermath of the war. Part of the post-war story is, of course, the repair of war damage, mainly due to United States bombing which destroyed large parts of the railway including engines, rolling stock and bridges. These repairs, along with changes brought about by altered geo-politics and global economic forces will be identified and distinguished from war legacies insofar as complex and interrelated events can be separated. Even so, it must be acknowledged, for example, that infrastructure repair diverted resources that could have been deployed for other purposes such as industrialisation or augmenting civil service pay, and that geo-politics greatly increased

American interest in Thailand and with this came capital and technical assistance for industry.

The principal concerns of the chapters are, however, to analyse political and economic changes and to consider how the experience of the war helped to shape these. An examination of war legacies has particular relevance for the study of Thailand, since it is often cited as a Southeast Asian country on which the Japanese occupation had little effect.⁴⁰⁹ One reason for this interpretation may be the obvious political continuity of Phibun's premiership from 1938 until 1957, apart from a brief hiatus from 1944 until 1947; another is that the economic consequences of occupation and wartime dislocation have been little studied. In the rest of this dissertation, it will be shown that the impact of occupation and acute shortages, chiefly the economic ones, were in fact greater than is generally appreciated.

Muscat claims that modern economic development, namely industrialisation, diversification, and sustained increase in per capita GDP, in Thailand is considered to have begun in 1958.⁴¹⁰ That view is challenged in this dissertation. It is argued that Thailand's economic developmental and industrial roots extend to earlier periods. Much of the analysis focuses on the economy through the lens of political economy. One cannot separate into neat political and economic categories the mix of the government's nationalistic economic goal of industrialisation; the wartime inheritances of Japanese wartime joint enterprise along with some physical capital and an enlarged commercial banking system; demands for Thai participation in industry together with anti-Chinese discrimination dating from the 1930s but which deepened under the Phibun wartime

⁴⁰⁹ Alfred McCoy, 'Introduction', ed. Alfred McCoy, *Southeast Asia under Japanese Occupation* (New Haven, 1980), 1–13, p.5.

⁴¹⁰ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.47.

regime; an end to the gold-exchange standard operative until 1941 followed by high inflation; and the post-war Allied requirement for reparations.

It will be argued that Thailand accomplished economic stability, perhaps somewhat fortuitously, by turning to its advantage the need to pay wartime reparations and the institutional inheritance of the 1942 establishment of the Bank of Thailand. The first part of this argument details the issues that emerged from the Second World War: the financial dislocation caused by the Japanese occupation, reconstruction of destroyed infrastructure, and a punitive rice delivery scheme that prolonged the wartime issues of smuggling and corruption. The second part of the chapter describes how these problems necessitated state control of rice marketing and a multiple exchange rate system (and later a rice premium) which acted as heavy taxes on rice exports. The Bank of Thailand played a key role harnessing exchange profit revenues to ensure post-war financial stability and solve many issues inherited from the war, notably the accumulation of foreign exchange reserves and avoidance of large budget deficits. Taxes on rice kept the cost of living low, and gave an incentive to the diversification in the agricultural sector, continuing a trend established during the Japanese occupation. The last part of the chapter considers the role of commercial banks. Though one main effect of the war on Thailand's financial system was the rise of indigenous commercial banks, they did not lend to the manufacturing sector or government institutions, underscoring the importance of the Bank of Thailand's role in balancing budgets and funding public projects.

7.1 Thailand's post-war economy

By 1950, when per capita income had regained its pre-war level, a process of fundamental change in the Thai economy was already underway. The template for this was, in most important respects, set during the late 1930s and Japanese occupation. Through these years, nationalism and an accompanying desire for industrialisation had

become manifest. This section traces the broad features of structural transformation in Thailand's macro-economy to serve as a basis for the rest of the analysis in this and the following chapter. These reveal both the considerable extent of change and yet at the same time the economy's resumption of a stable course after high wartime money supply expansion and inflation.

Between 1951 and 1957, GDP in constant prices grew, at 4.4 per cent annually, faster than at any time over the previous 100 years (Table 7. 1). As throughout Thailand's modern history, exports were again a leading sector, considerably outpacing the rate of GDP advance. Exports, however, no longer stood alone as autonomous expenditure driving national income increase. Government spending on import substituting industry and infrastructure lay behind the expansion of gross domestic fixed investment at a rate of over two and a half times that of GDP. Buoyant exports, chiefly owing to high world demand for rice but importantly also agricultural diversification and greater rubber exports, largely afforded the finance to move towards industrialisation and affect structural change while also re-establishing financial and economic stability.⁴¹¹

⁴¹¹ On the range of growing agricultural exports, see World Bank, *Public development program*, pp. 229-30.

Table 7. 1 GDP by sector in 1988 prices, 1951-1957

Year	Agriculture	Manufacturing	Transport & communications	Services	Other	Total
1951	50.5	18.1	5.5	16.0	43.2	133.4
1952	49.2	19.4	5.3	16.9	49.9	140.8
1953	56.4	23.5	7.3	19.6	49.4	156.3
1954	52.9	24.4	7.8	19.5	50.5	155.0
1955	59.6	25.7	8.7	20.4	54.2	168.6
1956	59.6	26.8	9.4	20.6	55.1	171.5
1957	58.8	25.8	10.3	21.3	57.2	173.4
Average growth rate 1951-1957	2.5%	5.9%	10.3%	4.7%	4.7%	4.4%

Source: NESDB

Table 7. 2 Percentage share of GDP by sector, 1951-1957

Year	Agriculture	Manufacturing	Transport & communications	Services	Other
1951	37.9	13.6	4.1	12.0	32.4
1952	35.0	13.8	3.8	12.0	35.4
1953	36.1	15.0	4.7	12.6	31.6
1954	34.1	15.7	5.0	12.5	32.6
1955	35.4	15.2	5.2	12.1	32.1
1956	34.8	15.6	5.5	12.0	32.1
1957	33.9	14.9	5.9	12.3	33.0

Source: NESDB

Table 7. 3 Money supply and CPI, 1951-1957

Year	Money supply (billion baht)	CPI (Dec annual, Dec 1950 = 100)	Current account balance on balance of payments (million baht)
1951	3.30	107.7	670.1
1952	4.10	125.0	-350.0
1953	4.00	140.7	-1,043.9
1954	4.30	131.0	-1,376.0
1955	4.80	150.5	403.0
1956	5.50	158.0	-325.8
1957	5.80	157.4	-772.5
Average growth rate	8.6%	6.5%	N/A

Source: BOT, *Yearly Reports 1957*.

Official figures for the budget balance indicate substantial deficits but, as discussed in section 7.3, these are illusory: proceeds from the taxation of rice through the multiple exchange rates and the rice premium were used largely to offset deficits. Thailand's expanding economy of the early 1950s could be financed without resorting to money creation to pay for a growing collection of inefficient import substitution industries which would otherwise have depleted the treasury. Beginning in 1951, money supply expansion, M0, of 8.6 per cent remained in touch with real GDP growth and, despite a hangover of unmet demand for consumer goods, price rises, measured by the consumer price index, lagged slightly behind the increase in money (Table 7. 3). Throughout Phibun's 1950s tenure but crucially owing to the stewardship of the Bank of Thailand, deficits on the balance of payments current account were modest and after 1954 were largely financed by official loans and grants. Private long-term capital investment was small.⁴¹² Thailand soon replenished its currency reserves, which had been badly depleted due to occupation finance and reparations, and re-instituted 100 per cent gold and foreign exchange backing for the baht, a hallmark of the kingdom's conservative pre-war monetary system.⁴¹³

Although still overwhelmingly agricultural, by 1957 Thailand had progressed substantially towards becoming the modern economy desired by the country's elite for more than two decades and central to Phibun's agenda during the Japanese occupation. It has been argued that government data, used in analysis here, understates investment in the agricultural sector.⁴¹⁴ How much direct benefit agriculture gained from large new state

⁴¹² World Bank and P. T. Ellsworth, 'A Public Development Program for Thailand: Report of a Mission Organised by the IBRD at the Request of the Government of Thailand' (Baltimore, 1959), p.252.

⁴¹³ In fact, by 1957, currency reserves backed 100 per cent of the notes in circulation like in the pre-war monetary system: According to Doll (p.52), in 1941, Thailand had 236 million baht of notes in circulation and 271 million baht of currency reserves. In 1957, according to the Bank of Thailand Yearly Report 1957 (pp.7-8), Thailand had had 6,028 million baht in circulation and 6,029 million in currency reserves.

⁴¹⁴ Ingram, *Economic Change*, p.228.

(and importantly US aid and World Bank) investment is unclear, but the overall impact cannot be doubted. Dams and irrigation projects extended cultivated areas. Road and railway construction helped to link markets in a country where the lack of transport was a notorious pre-war bottleneck and frustration to the Japanese military during the war. The construction of social overhead facilities such as power and schools conferred at the least significant indirect benefits on agriculture. Between 1951 and 1957, the 10.3 per cent annual growth in transport and communications compared to a 5.9 per cent increase in manufacturing is indicative of an expansion of infrastructure that created a platform for post-1957 economic growth.

Government enterprises, almost universally aimed at import substitution and, as considered at length in chapter 8, were the main component that explains manufacturing contribution to GDP greater than the overall rate of growth. Employment statistics comparable to those for GDP are unavailable. However, the capital-intensive nature of much of import-substituting industry suggests that job expansion in it may not have matched its contribution to GDP growth. So too, does the fact that in 1960 the manufacturing sector employed just 3.4 per cent of the labour force and many of these workers were in small enterprises.⁴¹⁵ Infrastructure more than manufacturing was responsible for changing the structure of the economy during Phibun's 1950s premiership.

7.2 Immediate problems from the war

In the aftermath of the war, Thailand had three interrelated issues that it had to quickly manage: the restoration of the financial system, repairing war damage to infrastructure, and procuring rice for the rice delivery scheme. The obstacles that arose from one problem often precluded the remedy of another. Delivery cheap rice prevented Thailand from restoring its financial system, which posed an obstacle to paying reparations

⁴¹⁵ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.60.

and rebuilding destroyed infrastructure. These issues persisted for roughly two years after the end of the Japanese occupation.

Settlement of the special yen agreement with Japan needs to be briefly mentioned. While the special yen account was an important factor in wartime inflation, the credits did not play a large role in the immediate post-war period. Japan and Thailand did not agree on the amount that needed to be repaid until 1955 and 1956, near the end of Phibun's rule. The repayment method was renegotiated under Sarit Thanarat's premiership in the late 1950s and early 1960s, and Japan did not complete payments until 1969.⁴¹⁶ Thailand was eventually repaid over 26 million grams of gold worth more than 126 million baht, and 4.5 billion yen in sterling in instalments.⁴¹⁷ These funds were utilised for some state projects over two decades after the end of the war.⁴¹⁸ The issue of special yen does not, however, constitute a legacy as defined in this dissertation because these yen were effectively written off: Thailand never realized more than a fraction of their supposed wartime value.

The yen did, however, give rise indirectly to an obvious and major consequence in another respect, since in exchange for them Thailand had to print baht. Consequent monetary expansion swelled the money supply, leading to high wartime inflation whose legacy persisted though the 1950s. War inflation influenced the thinking of the leading figures in the Bank of Thailand like Prince Wiwat and Puey Ungphakorn and also brought about the collapse of civil service real wages and resulting upsurge in official graft and corruption, both discussed in this chapter.

⁴¹⁶ NAT, ก/ป 7/2499/กต 1.5, ปัญหาเงินเยนพิเศษญี่ปุ่น (Issues of the Japanese special yen), *Siamnikorn*, 28 January 1956; NAT, ก/ป 7/2499/กต 1.5 ปัญหาเงินเยนพิเศษญี่ปุ่น (Issues of the Japanese special yen), *Pimthai*, 21 January 1956; NAT ก/ป 7/2499/กต 1.5 ปัญหาเงินเยนพิเศษญี่ปุ่น (Issues of the Japanese special yen), *Siamnikorn*, 6 February 1956; NAT, ก/ป 7/2499/กต 1.5 ปัญหาเงินเยนพิเศษญี่ปุ่น (Issues of the Japanese special yen), *Daily Trade News*, 5 February 1956.

⁴¹⁷ Bualek, *จักรวรรดินิยมญี่ปุ่นกับพัฒนาการทุนนิยมไทยระหว่างสงครามโลกครั้งที่ 1-2 [Japanese Imperialism and the Development of Thai Capitalism during World Wars I and II]*, pp.97-99.

⁴¹⁸ David M. Potter, 'Japan's Foreign Aid to Thailand and the Philippines' (PhD dissertation, University of California, Santa Barbara, 1992), pp.79-82.

7.2.1 War damage on Thailand's financial system

The Japanese left Thailand's financial system in disarray: First, the kingdom lost currency reserves and had very little foreign exchange. Prior to the Japanese occupation, Thailand had prided itself on a stable currency, backed by over 100 per cent foreign exchange reserves. After Thailand declared war on the United Kingdom, it froze thirteen million pounds of Thai assets. Due to rapid wartime expansion of the money supply, by 1945 the baht's currency cover had fallen to only 17 per cent.⁴¹⁹

Secondly, Thailand had to find an exchange rate that was appropriate for post-war circumstances. A return to pre-war exchange rates of 11 baht to the pound and 2.85 to the dollar, or continuation of wartime yen parity were both untenable due to high inflation during the Second World War and the loss of reserves. To cope with these issues, in May 1946, a new exchange rate was fixed at one baht per 0.09029 grams of fine gold, 40 baht to the pound, and 10.075 baht to the dollar. At the same time, the government restricted imports and required all foreign exchange to be sold to the Bank of Thailand.⁴²⁰ As a result of these strict controls, a black market for foreign exchange emerged and grew rapidly, with little the state could do to prevent it.⁴²¹ The new exchange rates and controls quickly proved unenforceable.

⁴¹⁹ Doll, 'Report of the Financial Adviser', p.57.

⁴²⁰ Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand's Experience, 1946-1955*, pp.26-32.

⁴²¹ Yang, pp.26-32.

Table 7. 4 Total government revenues and expenditure, 1941-1957 (million baht)

Year	Revenue	Expenditure			Total	Surplus/deficit
		Ordinary	Extraordinary			
			Non-investment	Investment		
1941	161.0				198.7	-37.8
1942	147.4				199.9	-52.6
1943	211.7				261.3	-49.6
1944	285.7				373.2	-87.6
1945	314.7				425.2	-110.5
1946	631.1				985.6	-354.5
1947	996.1	539.7	489.1	188.9	1217.2	-221.2
1948	1692.2	642.7	940.1	102.3	1685.0	7.2
1949	1929.8	710.3	971.7	367.8	2049.8	-120.0
1950	2143.3	884.9	1193.8	370.8	2449.5	-306.2
1951	2531.2	1127.0	1318.0	969.8	3414.7	-883.6
1952	3346.8	1225.4	2129.5	952.5	4307.4	-960.6
1953	3940.7	1744.9	2103.7	1041.6	4890.2	-949.5
1954	4265.9	1961.7	2181.0	1351.0	5492.8	-1226.9
1955	4380.2	1858.1	2075.4	1093.0	5025.5	-645.3
1956	5092.5	4768.4		898.5	5666.9	-574.4
1957	5183.5	4946.6		908.4	5855.0	-671.6

Source: Doll, *Report of the financial adviser*, pp.1-3;
BOT, *Yearly Report 1957*, (Bangkok, 1958).

Note: Due to insufficient or poor data at the point of publication of each yearly report, figures of revenues and expenditures were sometimes inconsistent from year to year. This table reflects the most recent account of the government budget for the period, published in 1958. Though it remains unclear which expenses fell under the category of 'ordinary' and 'extraordinary,' there seems to be a shift in the composition of total expenditure in 1956. It is, however, likely that non-investment extraordinary expenditure was reclassified as 'ordinary,' and no real adjustment was made.

Table 7. 5 Capital expenditure by the Thai government (million baht), 1945-1955

Year	Infrastructure	Manufacturing	Money and finance	Welfare	Other expenditures
1945	9.7	0.2	0	0	0.5
1946	62.0	0.1	0	0	8.3
1947	88.3	4.0	89.0	0	7.1
1948	84.2	15.2	0	0.5	2.4
1949	160.6	13.4	150.0	1.6	12.2
1950	310.4	18.6	0	6.0	35.9
1951	547.0	316.2	40.0	5.9	39.6
1952	396.5	287.6	149.1	26.5	60.6
1953	730.8	144.4	79.3	18.9	37.2
1954	962.8	16.1	119.4	20.7	45.9
1955	612.0	294.0	63.8	9.8	53.1

Source: Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, 1939, pp.402-3; Thailand Central Service of Statistics, *Statistical year book Thailand 1945-1955*, 1956, pp.402-44.

Table 7. 6 Capital expenditure by the Thai government as percentage of total capital extraordinary expenditure, 1945-1954

Year	Infrastructure	Manufacturing	Money and finance	Welfare	Other expenditures
1945	92.6	2.3	0	0	5.1
1946	88.1	0.1	0	0	11.8
1947	46.9	2.1	47.2	0	3.8
1948	82.3	14.9	0	0.5	2.3
1949	47.6	4.0	44.4	0.5	3.6
1950	83.8	5.0	0	1.6	9.7
1951	57.7	33.3	4.2	0.6	4.2
1952	43.1	31.2	16.2	2.9	6.6
1953	72.3	14.3	7.8	1.9	3.7
1954	73.5	12.3	9.1	1.6	3.5
1955	59.3	28.5	6.2	1.0	5.1

Source: See Table 7. 2.

A third significant financial problem after 1945 was large budget deficits. Though the Thai government regained import duties, an important source of revenue, the occupation's legacies prompted high state spending in the form of reparations and reconstructing infrastructure after air raids. Bank of Thailand Yearly Reports demonstrate that, from 1941 to 1957, expenditure exceeded revenues every year except 1948 (Table

7. 4). Without detailed breakdown on non-capital expenditure, qualitative reports that accompanied each Bank of Thailand Yearly Reports throw some light on the Thai government's largest components of spending immediately after the war: rebuilding destroyed infrastructure (discussed in the following section) and reparations. Immediately after the Japanese surrender, Thailand was required to pay reparations to several firms and companies, most of which were British or Australian. This expenditure contributed to high non-investment extraordinary spending in the late 1940s.⁴²² In 1950, the British consulate in Thailand estimated that claims against Thailand were over £2.5 million for commercial property, £2.1 million for tin mines, and nearly £700,000 for other claims, totalling over £5 million or roughly more than 200 million baht, 10 per cent of total government expenditure that year.⁴²³

7.2.2 Rebuilding infrastructure

The second issue for post-war Thailand was rebuilding infrastructure destroyed by air raids. Large amounts of money required for this purpose contributed to considerable public expenditure, posing yet another obstacle to balancing the budget. While some repairs were financed by loans, such as the World Bank loan to rebuild the Chao Phraya dam, many infrastructure projects were paid for by public spending.⁴²⁴ For instance, Thailand still had to restore many electric power stations, the Makkasan railway station, two bridges over the Chaophraya river, and many important residences and buildings (chapters 2 and 6). In the first two years after the war, the government spent roughly 62 and 88 million baht respectively, or 90 per cent of all capital expenditure, on infrastructure (Table 7. 5 and Table 7. 6). Between a quarter and a third of infrastructure spending was for railways, which were badly destroyed during the war. After 1948, irrigation and postal

⁴²² BOT, *Yearly Report 1949* (Bangkok, 1950), p.7.

⁴²³ Kew, BT 271/230, 'Thai request for release of sterling,' 1950.

⁴²⁴ NAT, ก/ป 7/2499/กค 2 'การเคลื่อนไหวกทางการเงิน (Financial issues),' *Siamnikorn*, 10 March 1956.

and communication services gained importance, alongside railway repairs and expansion. Between 1946 and 1957, the government repaired, expanded, and improved thermoelectric and hydroelectric generating facilities, power generation, port facilities, waterways, and railways. In 1950, the state also began bus services and an extensive road construction program, replacing dirt paths for bullock carts with paved roads. In 1949, Thailand had only 760 kilometres of paved roads; by 1967 this had increased to 6,087 kilometres.⁴²⁵ While the increase necessitated large public expenditure at the time, it helped to lay a basis for future development and integrate the economy by expanding market access for rural Thailand.⁴²⁶

7.2.3 Rice deliveries

The final problem in the immediate post-war period was a requirement that Thailand deliver cheap rice to parts of the British Empire that had suffered food shortages during the war. Prior to 1941, Thailand was nominally independent but was in the United Kingdom's sphere of influence (chapter 1). However, after Thailand entered an alliance with Japan, the relationship with Britain deteriorated.⁴²⁷ From 1941 onwards, Britain saw Thailand's alliance with Japan as an act of aggression and deliberate choice, and wanted punitive measures against Thailand in the 1946 Peace Treaty. In addition to financial reparations discussed above, Britain demanded that Thailand deliver 1.5 million tons of free rice for food-deficit areas, largely in its Southeast and South Asian empire. While the exact figures of surplus Thai rice were disputed, Britain maintained that Thailand did not deserve to profit after aligning with Japan. The Thai government, which already had experience in intervening in the rice sector during the war, established the Central Rice

⁴²⁵ Ingram, *Economic Change*, pp.276-7.

⁴²⁶ Thomas H Silcock, 'The Rice Premium and Agricultural Diversification', in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 231–57, p.246; Ingram, *Economic Change*, p.285.

⁴²⁷ Aldrich, *The Key to the South : Britain, the United States, and Thailand during the Approach of the Pacific War, 1929-1942*, p.175.

Purchasing Association and declared a state monopoly on exports of rice so that it could be delivered to the British Empire.⁴²⁸

Even at a surface level, this scheme was difficult for the Thai government. It did not own rice, and would have had to purchase rice from farmers and millers for which the state would have spent an estimated 740 million baht, or 300 per cent of its total annual revenues. Following through with the scheme would have increased budget deficits and possibly bankrupted the state.⁴²⁹ The government thus set the price of domestic rice at 46 *satangs* per kilogram (27.85 baht per picul) of white rice to try to procure rice from farmers as cheaply as possible.⁴³⁰

After the war, black market prices for rice in Thailand's southern neighbours were more than 100 times higher than the official prices offered by the Thai government.⁴³¹

Strict exchange controls provided yet a further incentive for smuggling, as the foreign exchange from contraband rice could be traded at a much higher rate in the black market, and a share of the proceeds did not have to be returned to the Bank of Thailand. Peasants thus withheld rice from the Rice Office and merchants turned to extensive smuggling.⁴³²

On the other side of the coin, petty officials accepted bribes from smugglers.⁴³³

Contemporary American observers stated that one of the rice delivery scheme's problems was 'intimately related to the graft and corruption on the part of some government officials

⁴²⁸ Kratoska, 'Impact of the Second World War on Commercial Production in Mainland Southeast Asia', p.27.

⁴²⁹ Kratoska, 'The Post-1945 Food Shortage in British Malaya', pp.36-7; Nicholas Tarling, 'An Attempt to Fly in the Face of the Ordinary Laws of Supply and Demand: The British and Siamese Rice 1945-7', *Journal of the Siam Society* 75 (1987): 140-86; Nicholas Tarling, 'Rice and Reconciliation: The Anglo-Thai Peace Negotiations of 1945', *Journal of the Siam Society* 66, no. 2 (1978): 59-111; Aldrich, *The Key to the South: Britain, the United States, and Thailand during the Approach of the Pacific War, 1929-1942*, p.367-72.

⁴³⁰ Ingram, *Economic Change*, p.88.

⁴³¹ NAT, ก/ป 7/2498/ศก 1.1 การค้าข้าว (Rice exports), *Chaothai*, 9 June 1955.

⁴³² Reeve, *Public Administration in Siam*, p.72.

⁴³³ Reeve, pp.70-72.

motivated more by personal greed than by consideration of the future welfare of their country.⁴³⁴ With the hindsight of the war, neither of these practices were novel. Smuggling was widespread and prolific for merchant groups between 1942 and 1945 (chapters 2 and 6). Petty corruption was a hangover from the Japanese occupation, when erosion of bureaucrats' real wages made officials more vulnerable to bribes (chapters 5 and 6). While rice deliveries were only a consequence of Thailand's alliance with Japan, they were hindered by increased corruption of officials, which was a war legacy. It was possible that there was always petty corruption among officials; however, real wage data indicate that low-ranking bureaucrats in Thailand were relatively well-paid before the war. Their purchasing power and living standards, however, deteriorated rapidly due to high inflation during the occupation, and thus bureaucrats had to find other means to support themselves. Low ranking bureaucrats had not recovered their pre-war purchasing power in the late 1940s and 1950s, making them more susceptible to bribes and other forms of favours from smugglers.

7.3 State monopolisation of rice and multiple exchange rates

Rice smuggling and the black currency market decreased state revenue and prevented the accumulation of foreign exchange, exacerbating wartime problems of reconstruction of infrastructure, rebuilding currency reserves, and paying for imports. The Thai government, adopted a new method of controlling rice exports and exchange rates to solve these issues that arose from the war and between 1945 and 1947. These solutions were not war legacies, only remedies for problems that arose during the Japanese occupation. The establishment of rice monopoly and multiple exchange rates allowed the

⁴³⁴ NARA, NND 897807, RG469 Entry 1385 Box 3 Mission to Thailand Executive Office subject files (central files) 1950-1957 COMMODITIES – REFRIGERATION – RICE, 'From Flourney A Coles Jr., Office of the Economic Adviser to Austin F Flegel, Subject: Rice prices,' 21 Sep 1951.

government to tax rice and the Bank of Thailand to gain foreign exchange profits from exports. The central bank was responsible for utilising these proceeds to rebuild currency reserves and fund government deficits, thereby effectively countering the deficits shown in Table 7. 4 through covering them with exchange profits. These were instrumental in the quick stabilisation of the Thai economy and financial system.

In August 1947, compulsory rice deliveries ended with Thailand having delivered 143,716 tons of rice to Britain. Thai government, however, retained its monopoly control over rice exports through the Rice Office.⁴³⁵ The Office never actually came into possession of exported rice, but contracted millers to mill certain amounts and kinds of rice. The organisation also inspected stocks and grades of grains, and collected administrative fees.⁴³⁶ Rice was exported under two different systems: The first was government to government contracts, which were allocated by the Rice Office. Prices for these contracts were still fixed by the state, but significantly increased from 46 *satangs* per kilogram during rice deliveries and gave merchants enough profits to keep them from turning to smuggling. The second was ‘private’ or ‘free’ permits, which were issued to exporting firms for all other rice not contracted by the government. From 1951 onwards, these permits allowed merchants to sell rice at world prices, further increasing the opportunity for profits.⁴³⁷

In 1947, strict exchange controls were relaxed and a multiple exchange rate system was adopted.⁴³⁸ The multiple exchange rate system consisted of the legalisation of black

⁴³⁵ NARA, NND 867726, RG469 Entry 1383 Box 10 Mission to Thailand Executive Office subject files (central files) 1950-1954 COMMODITIES – RICE, ‘Marketing of rice in Thailand by Graham S Quate, agricultural attaché,’ 30 June 1952.

⁴³⁶ Ammar Siamwalla, ‘A History of Rice Policies in Thailand’, *Food Research Institute Studies* 14, no. 3 (1975): 233–49, p.235.

⁴³⁷ NARA, ‘Marketing of rice in Thailand.’

⁴³⁸ Yang, *A Multiple Exchange Rate System: An Appraisal of Thailand’s Experience, 1946-1955*, pp.33-36.

market rates and required partial surrender of foreign exchange gained from the three main export commodities at the official rate, which was 40 baht to the pound or 10 baht to the dollar. All proceeds from rice exports, 20 per cent of rubber exports, and 50 per cent (later 40 per cent) of tin exports were converted at the official rate. Foreign exchange from all the other exports was traded at the market rate.⁴³⁹

Table 7. 7 Rice yields and rice exports, 1945-55 (piculs)

Year	1. Total rice yields	2. Exported rice	2. as a percentage of 1.
1945	61,655,363	3,249,170	5.3
1946	74,037,857	7,585,447	10.2
1947	90,883,390	6,405,372	7.0
1948	112,814,192	13,388,414	11.9
1949	110,315,125	20,082,289	18.2
1950	111,930,215	13,632,408	12.2
1951	120,905,293	24,348,409	20.1
1952	108,967,156	25,808,569	23.7
1953	135,990,926	22,651,825	16.7
1954	94,226,725	16,616,797	17.6
1955	121,040,887	20,315,890	16.8

Source: Statistical Yearbook 1945-55, pp.154, 234-7.

The relaxation of exchange controls and increase in rice prices encouraged legal rice exports and reduced the size of the currency black market. Rice exports nearly doubled from 6.4 million piculs in 1947 to 13.6 million by 1948 (Table 7. 7).⁴⁴⁰ Increased legal rice exports and the introduction of multiple exchange rates allowed the state to accrue large amounts of export revenue in two ways: The first was through commercial profits and government-instated quotas: The Rice Office made handsome profits through a 20 per cent mark-up from the cost paid to millers to the price sold to shippers. The office

⁴³⁹ Corden, 'Exchange Rate and Taxation of Trade', pp.152-3, 156.

⁴⁴⁰ Corden, p.157.

also required the exporters to purchase gunny bags from the state, which it charged at roughly twice the market price.⁴⁴¹

The other source of profits was from the multiple exchange rates. Foreign exchange gained at the official rate, through the state monopolisation of rice exports, could be resold at the higher free market rates. The process was as follows: Once the Rice Office received foreign exchange for rice exports, the office had to surrender it to the Bank of Thailand at the official rate. At the beginning of the scheme in 1947, the exchange rate was 40 baht per pound. The Bank of Thailand could resell that foreign exchange at free market rate, which in 1947 was as high as 75.8 baht to the pound.⁴⁴² The central bank therefore made a profit of 35.8 baht for every pound. Corden found that in 1951, the bank made a profit of 18 baht per pound, and in 1954 between 10 and 23 baht.⁴⁴³ Revenue from this system was realised in a way similar to a tax on rice, and in the same way a tax on rubber and tin, although at lower rates. During this period, rice was taxed in three different ways: a four per cent duty, the mark-up by the Rice Office, and exchange rate profits from the multiple exchange rates. It was estimated that, in 1951, the effective tax rate for rice exports was 34 per cent, tin 15 per cent, and rubber 7.5 per cent.⁴⁴⁴ The effect of these taxes was to lower prices paid to producers. As most rice farmers were some of the poorest members of society, the tax was highly regressive.

Instead of being included in the government budget like normal taxes, however, these exchange profits were channelled to the Bank of Thailand. The IMF estimated that

⁴⁴¹ NARA, NND 897807, RG469 Entry 1385 Box 7 Mission to Thailand Executive Office subject files (central files) 1950-1957 POLITICAL AFFAIRS, 'The economic policy of the present Thai government,' 10 Jul 1952.

⁴⁴² Ingram, *Economic Change*, p.337.

⁴⁴³ Corden, 'Exchange Rate and Taxation of Trade', pp.154, 166.

⁴⁴⁴ Corden, pp.153, 155, 157.

between 1951 and 1954 the central bank gained between 420 and 620 million baht from exchange profits annually (Table 7. 8). These would have accounted between 11 per cent and 16 per cent of total revenues had they been included in the government budget. The exchange profits were large sums of money. The role of the central bank in utilising these proceeds to remedy wartime issues and to stabilise the post-war economy was, thus, central.

Table 7. 8 Estimated exchange profits and government revenues, 1951-1955
(million baht)

Year	1. Estimated exchange profits	2. Total revenues	3. Estimated exchange profits plus total revenues	1. as a percentage of 3.
1951	430	2,531	2,961	14.5
1952	670	3,347	4,017	16.7
1953	510	3,941	4,451	11.5
1954	620	4,266	4,886	12.7
1955	20	4,380	4,400	0.5

Source: IMF, *International Financial Statistics*, 1948 via Corden, 'The exchange rate system and taxation of trade,' p.155; BOT, *Yearly Report 1957*, (Bangkok, 1958).

7.3.1 The Bank of Thailand

The Bank of Thailand itself is a legacy of the Japanese occupation. A national bank was something Thai officials had wanted since before the war, and it would have been founded eventually without the Japanese. Unrelated to the war, it was Thailand's good fortune that the Bank of Thailand was led by skilled and honest technocrats that it assisted economic development in the post-war period. The Japanese occupation, however, did affect the policies of the national bank. While prior to the war conservative monetary policies were shown to Thai officials by British advisers, the financial dislocation during the war reinforced Thai technocrats' beliefs in these policies. The Bank of Thailand's post-war policies of a balanced budget, full currency reserve backing, and modest inflation represented both continuity with the 1930s and a reaction to the loss of reserves and high inflation during the occupation.

Under the leadership of skilled technocrats like Prince Wiwat and Puey Ungphakorn, the Bank of Thailand was perceived as the ‘embodiment of expertise, autonomy, and credibility,’ and used its influence to encourage sound financial and monetary policies.⁴⁴⁵ The Thai public also trusted the BOT’s expertise and knowledge over those of the Ministry of Finance.⁴⁴⁶ This prestige allowed the Bank of Thailand to be a guiding figure in Thai financial development.⁴⁴⁷ W. A. M. Doll, the British financial adviser commented,

‘While freely admitting that Siam has enjoyed an extraordinarily favourable position of late years as an exporter of products in increasingly strong world-demand, the complete rehabilitation of the currency in the short term of five years is a remarkable achievement. It could not have been achieved without the presence at the Ministry of Finance and at the Bank of Siam at the most pregnant moments of men inspired by the most determined principles of sound finance and the finest traditions of the Service which they have graced.’⁴⁴⁸

Top officials within the Bank of Thailand aimed for a balanced budget, minimal borrowing, and maintaining a strong currency. These conservative policies were a continuation of Thailand’s pre-war monetary conservatism, a value instilled by British advisers in the 1930s and favoured in Thailand partly out of fear of foreign debt and intervention.⁴⁴⁹ Thailand’s experience of financial dislocation of high inflation contributed

⁴⁴⁵ Silcock, *The Economic Development of Thai Agriculture*, pp.219-220. Silcock, ‘Outline of Economic Development 1946-65’, p.10. Doner, *The Politics of Uneven Development: Thailand’s Economic Growth in Comparative Perspective*, p.96.

⁴⁴⁶ NAT, ก/ป 7/2499/กค 5, การธนาคาร (Banking), *Srikrung*, 4 February 1956.

⁴⁴⁷ Silcock, *The Economic Development of Thai Agriculture*, pp.218-220; Silcock, ‘Outline of Economic Development 1946-65’, pp.9-10, 187-190; Trescott, *Thailand’s Monetary Experience: The Economics Stability*, p.39; Doner, *The Politics of Uneven Development: Thailand’s Economic Growth in Comparative Perspective*, p.97; Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.78.

⁴⁴⁸ Doll, ‘Report of the Financial Adviser’, p.58.

⁴⁴⁹ Ingram, *Economic Change*, p.170; Silcock, ‘Money and Banking’, pp.171-172; Doner and Unger, ‘The Politics of Finance in Thai Economic Development’, pp.95-6; Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.27.

significantly to this aversion to deficit spending; thus, technocrats were determined to bring Thailand back to its pre-war financial stability.⁴⁵⁰

Thanks to the skilled technocrats at the Bank of Thailand and their commitment to conservative monetary policies, the proceeds from the multiple exchange rates were utilised to quickly restore lost currency reserves from the war. This was helped, in part, by high demand for rice after the Second World War, and the quick restoration of production of other export goods. Non-essential imports were also discouraged by high tariffs, allowing the kingdom to economise foreign exchange and gain tariff revenues.⁴⁵¹ In 1947, Thailand's reserves covered only just under 20 per cent of notes in circulation, by 1950 currency cover was over 70 per cent despite an increase in the money supply.⁴⁵² The war's reinforcement of conservative monetary policies inadvertently and partially played a role in the quick stabilisation of the economy. The other factor, namely the honesty and skills of technocrats, was simply due to good fortune.

After reparations and the reconstruction of infrastructure, the state began spending on manufacturing ventures. Government 'investment' doubled in 1949, and became a significant portion of the state's extraordinary expenditure in 1951. This increase was in line with the Phibun administrations' policy for economic development through government intervention (discussed in chapter 8). The Bank of Thailand utilised the proceeds from the multiple exchange rates to cover large portions of the deficit.⁴⁵³ Corden finds that '[i]n 1952, 84 per cent of the government's borrowing from the Bank of Thailand was covered by exchange profits, in 1953 27 per cent, and in 1954 42 per

⁴⁵⁰ Silcock, 'Money and Banking', pp.171-172; Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.87.

⁴⁵¹ Ingram, *Economic Change*, p.168.

⁴⁵² Doll, 'Report of the Financial Adviser', p.57.

⁴⁵³ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.78.

cent.⁴⁵⁴ The deficit numbers shown in Table 7. 4 are thus deceptively large, as a portion of the deficit could immediately be funded by the central bank. The large expenditures for infrastructure and industrialisation could have posed problems for the Thai financial system and economic stability without this mechanism.

7.4 Rice premiums

Rice premiums replaced the multiple exchange rate system in 1955. This section briefly finishes the story and explores the continuity from the war to multiple exchange rates and then rice premiums. The latter were yet another form of taxation on rice farmers. The beneficiaries of this tax, like of the multiple exchange rates, were domestic rice consumers, mostly wage earners whose real incomes had plummeted during the war, and the government's post-war industrial ventures which were partially funded by revenues from the premiums.

After the multiple exchange rate system was abolished in 1955, the exchange rate was unified at 58 baht to the pound and 29.7 baht to the dollar. The Rice Office ceded direct control over rice exports to the Ministry of Economic Affairs. Exporters now had to obtain an export license from the state, through which they paid a premium – essentially an export tax – per ton of exported rice. When first established, the premiums were 935 baht per metric ton of all grades of white rice, 470 for broken rice, and 600 for glutinous rice. These rates were altered as the government saw fit, and did not change drastically until the mid-1960s, when they rose as high as over 2,000 baht per ton of 100 per cent white rice in 1968.⁴⁵⁵

The main purpose of rice premiums was as a source of revenue for the Thai state, essentially replacing the proceeds it received from monopolising exports and the multiple

⁴⁵⁴ Corden, 'Exchange Rate and Taxation of Trade', p.156.

⁴⁵⁵ Ingram, *Economic Change*, p.245.

exchange rate system.⁴⁵⁶ Unlike foreign exchange proceeds from the multiple exchange rate system, however, rice premiums were state revenues, counted as part of the budget, and handled by the government instead of the Bank of Thailand. From 1957 to 1960, rice premiums accounted for between 11 per cent and 16.5 per cent of total government revenues – an extremely valuable source of income for the Thai state (Table 7. 9). The premiums amounted to between 21 per cent and 29 per cent of total value of rice exports, constituting a heavy tax, as discussed below.

Table 7. 9 Rice premiums and revenues, 1956-1960 (million baht)

Year	1. Revenue from premiums	2. Value of rice exports	3. Total reported revenues	1. as percentage of 2.	1. as percentage of 3.
1956	842	3,086	5,092	27.3	16.5
1957	840	3,943	5,183	21.3	16.2
1958	812	2,968	5,617	27.4	14.5
1959	756	2,576	6,056	29.3	12.5
1960	745	2,570	6,786	29.0	11.0

Source: BOT, *Yearly Report 1957*, (Bangkok, 1958); National Statistical Office via Corden, 'The exchange rate system and the taxation of trade,' p.160.

Though premiums could have theoretically been utilised to mitigate the effects of volatile world rice prices on producers and exporters, the Thai government apparently did not see this as an important goal.⁴⁵⁷ Indeed, merchants often complained that the state did not adjust its premiums to reflect world prices, making Thai rice harder to market and squeezing their margins. For instance, on 9 January 1955, rice merchants demanded that the state lower premiums to make Thai rice more competitive in the world market as Thai rice faced increased competition from China and the United States, as well as rice substitutes such as wheat and cassava.⁴⁵⁸

⁴⁵⁶ Corden, 'Exchange Rate and Taxation of Trade', p.159.

⁴⁵⁷ Ingram, *Economic Change*, p.247.

⁴⁵⁸ NAT, ก/ป 7/2498/สก 1.1 การค้าข้าว ('Rice exports'), *Siammitr*, 9 January 1955; Randolph Barker, Robert W. Herdt, and Beth Rose, *The Rice Economy of Asia* (Washington, D.C., 1985); Ammar Siamwalla and Stephen Haykin, 'The World Rice Market : Structure, Conduct, and Performance', *International Food Policy Research Institute* 39 (1983); Ammar Siamwalla, Suthad Setboonsarng, and Prasong Werakarnjanapong, 'Changing

There were three main effects of rice premiums that were related to legacies of the Second World War. First, it is important to point out that the premiums, like the multiple exchange rates, were a tax on some of the poorest members of the kingdom: rice farmers.⁴⁵⁹ Rice premiums applied only to rice that was sold; thus, peasants who sold small surpluses would pay less than wealthier farmers with larger estates.⁴⁶⁰ However, the premiums often constituted a large proportion of the income of peasant farmers and so were regressive. Rice farmers did not make a lot of money from selling paddy: On average, 2,285 baht was received per ton of exported rice. Millers pocketed 1,121 baht, and 730 was given to paddy merchants.⁴⁶¹ Usher found that rice farmers in this period were taxed roughly 22 per cent of their incomes, whereas non-farm sectors, which earned more, were only taxed 10 per cent.⁴⁶²

The main beneficiaries of the tax on rice were civil servants and wage-earners, the real wages of whom had fallen drastically during the war (chapter 6).⁴⁶³ This decrease in real wages led to an increase in petty corruption – a war legacy (section 7.2.3). In 1954, the state reportedly directed funds towards increasing bureaucrats' salaries.⁴⁶⁴ While nominal wages did increase in the post-war period, this was not sufficient to compensate for wartime inflation. For instance, on 22 May 1953, Samran Phromphun wrote in *Daily Trade News* that the cost of living was 'a big problem' for Thai citizens, including the cost of 'food, textiles, medicine, housing, fuels, lighting, electricity, soaps, household appliances...cigarettes, tea, coffee, and entertainment.'⁴⁶⁵ The rice premiums, through

Comparative Advantage in Thai Agriculture', *Technical Papers (Organisation for Economic Co-Operation and Development. Development Centre)* 35 (1991).

⁴⁵⁹ Ingram, *Economic Change*, p.255-8.

⁴⁶⁰ Corden, 'Exchange Rate and Taxation of Trade', p.169.

⁴⁶¹ NARA, 'The economic policy of the present Thai government.'

⁴⁶² Dan Usher, *The Economics of the Rice Premium* (Bangkok, 1965), p.14.

⁴⁶³ Siamwalla, 'A History of Rice Policies in Thailand', pp.238-9.

⁴⁶⁴ NAT, ก/ป 7/2497/ 'กค 1.1 งานบริหาร (Administrative work),' *Srikrung*, 7 July 1954.

⁴⁶⁵ NAT, ก/ป 7/2496/ศก 1 'งานบริหาร (Administrative work).'

taxing only exported rice, led to large differences between domestic and exported prices of rice and acted as a subsidy to domestic rice purchases by keeping domestic rice prices low. The redistributive consequences of rice premiums were substantial. They taxed those in rural areas to subsidise urban classes, most obviously civil servants and other wage-earners concentrated in Bangkok and other provincial centres, and in effect were a way to raise urban real wages without increasing government expenditure.

Second, rice premiums, along with low rice prices during the British delivery scheme, made rice relatively less attractive to farmers, and reinforced agricultural diversification that had begun during the Japanese occupation. Economic historians such as Silcock have noted Thailand's agricultural diversification after the war.⁴⁶⁶ This process, however, began during the Japanese occupation, when Thailand had a surplus of rice that could not be legally exported due to the collapse of Japanese commercial shipping. At the same time as rice exports became difficult, shortages of other goods and state support of domestic industries prompted peasants to grow other crops.

During the war, areas devoted to rice began to decline in 1944, and from 1941 to 1945 fell by slightly over 10 per cent (Table 7. 10). Diversification was most notable for cotton, one of Thailand's most important imports and the raw material for the state-supported textile industry both during and after the war. The area planted of cotton grew roughly fivefold. After 1945 when textile imports resumed, the cultivated area of cotton decreased but was still more than twice the pre-war average. Similarly, area planted for tobacco and peas increased in 1941, and, despite a small drop towards the end of the Japanese occupation, areas devoted to these crops continued to grow after the war. Rice taxation and premiums helped to perpetuate this trend. During rice deliveries, acreage devoted to rice stayed roughly the same as at the end of the war, suggesting the relative

⁴⁶⁶ Silcock, *The Economic Development of Thai Agriculture*, pp.53-55.

unprofitability of rice cultivation. Rice acreage grew only after deliveries ended, but did not increase as rapidly as tobacco, maize, peas, and sesame, for which there was an expanding domestic demand. Individual farmers, thus, began dedicating part of their rice fields to other crops.⁴⁶⁷

Table 7. 10 Area planted for various crops, 1939-1955 (thousand rai)

Year	Rice	Tobacco	Maize	Cotton	Peas	Sesame
1939-40	21,649.3	72.9	48.4	36.5	80.9	07.3
1940	23,793.6	52.7	53.1	53.8	56.6	10.1
1941	24,807.8	108.4	65.6	63.1	91.6	11.2
1942	27,491.4	111.9	73.5	95.0	129.0	80.9
1943	26,967.0	102.7	78.0	324.7	159.4	23.4
1944	26,502.3	81.8	96.9	325.0	93.8	16.8
1945	24,640.0	97.2	66.6	279.0	83.5	18.9
1946	24,887.5	90.4	77.0	202.3	131.6	17.4
1947	30,156.3	155.5	143.7	239.7	391.0	35.0
1948	32,573.4	141.8	137.1	191.3	454.8	69.9
1949	32,926.4	167.3	217.8	195.1	770.0	127.6
1950	34,624.9	192.1	217.5	229.1	818.0	118.0
1951	37,245.4	263.6	259.2	255.4	792.9	96.2
1952	33,550.8	274.1	280.8	241.4	803.9	106.7
1953	38,574.6	338.3	298.1	254.1	773.1	93.8
1954	34,732.2	341.4	331.0	218.2	830.5	98.8
1955	36,059.8	353.4	347.0	205.4	852.0	106.1

Source: Statistical Yearbook 1945-1955, p.154.

Finally, the rice premiums benefitted government industrial projects, which were an important legacy Thailand's wartime experience and will be discussed at length in the following chapter. Briefly, to summarise here: This was another matter of redistribution, in which the Thai state taxed the agricultural sector and farmers to fund manufacturing ventures. An affordable cost of living due to low domestic rice prices contributed to low wages for infant industries, helping them compete with imports. Like the proceeds from the multiple exchange rates, income gained from rice premiums was partly utilised to fund

⁴⁶⁷ NAT, ก/ป 7/2498/สก 1.1 'การส่งออกข้าว (Rice exports),' *Democracy*, 5 February 1955; Ingram, *Economic Change*, pp.260-1.

inefficient state manufacturing ventures, which would otherwise have drained the treasury and created further economic and financial issues.

7.5 The lending patterns of commercial banks

After 1946, branch banking expanded rapidly. By 1957, 185 branches were operating in Thailand, with 58 in Bangkok. The rest were in rural provinces, where banking facilities were previously non-existent. Four branches of Thai banks opened in Hong Kong, Japan, Singapore, and London.⁴⁶⁸ The rise of indigenous commercial banks also expanded the duties of the Bank of Thailand, which regulated and provided oversight over commercial banks.⁴⁶⁹

A principal legacy of the Japanese occupation was the emergence of an indigenous private banking sector. During the war, the Japanese army closed European financial institutions and took over Chinese commercial banks. These closures and takeovers created a vacuum which was later filled by Thai and Sino-Thai banks. The most prominent examples are four Sino-Thai families termed the ‘big four:’ the Sophonphanich family which founded the Bangkok Bank, the Ratanarak family of the Bank of Ayutthaya, the Tejapaibul family of the Bangkok Metropolitan Bank, and the Lamsam family of the Kasikorn Bank (previously Farmers’ Bank). At least two of the four families had explicit ties to capitalist enterprises during the war: Wang Lee, the founder of the Chinese Chamber of Commerce which sourced raw materials for the Japanese army (chapter 6), was related to, and had business ties with, the Lamsam family. Similarly, the Sophonphanich family traded rice, precious metals, and other scarce goods during the war

⁴⁶⁸ BOT, *Yearly Report 1945*, p.10; BOT, *Yearly Report 1949*, p.12; BOT, *Yearly Report 1950* (Bangkok, 1951), p.9; BOT, *Yearly Report 1952* (Bangkok, 1953), p.21; BOT, *Yearly Report 1954* (Bangkok, 1955), p.6; BOT, *Yearly Report 1957* (Bangkok, 1958).

⁴⁶⁹ BOT, *Yearly Report 1953* (Bangkok, 1954), pp.8, 13; BOT, *Yearly Report 1944*, p.6; BOT, *Yearly Report 1955* (Bangkok, 1956), pp.9-10; BOT, *Yearly Report 1956* (Bangkok, 1957), pp.9, 13; Chaiyasoot, ‘Commercial Banking’, pp.245, 261-262; World Bank and Ellsworth, ‘A Public Development Program’, p.204.

to build up its fortune.⁴⁷⁰ Without the Second World War, it is difficult to imagine how local capitalists could have competed with their European counterparts and rose to prominence as quickly as they did.

The final part of the puzzle of the war's legacies on Thailand's financial system is the role that the newly established commercial banks played in financing industrial development. The commercial banking system has two main functions: to mobilize deposits and allocate credit, channelling the latter in a way that creates the economic and social benefits of growth. A rich body of research has found a strong correlation between a sound financial system and economic development.⁴⁷¹ Financially repressed economies typically struggle to grow without a robust capital market.⁴⁷² Scholarship on Thai commercial banks has argued that they did not play an important role in industrial growth. Rozental contends that Thai bankers did not expand their clientele beyond trade and real estate.⁴⁷³ Unger asserts that, in 1960s, commercial banks did not contribute to industrialisation but funded the commercial networks of Sino-Thai and overseas Chinese business groups.⁴⁷⁴

New primary sources from the Bank of Thailand between 1945 and 1957, used in this dissertation, show that the financial sector mostly lent to trade and commerce, and not manufacturing or agricultural processing. Figures in the national bank's yearly reports are considered as official; however, it is important to note that the data collected are not

⁴⁷⁰ Bualek, *Thai Commercial Bank Capitalists*, pp.57, 78.

⁴⁷¹ Peter L. Rousseau and Richard Sylla, 'Emerging Financial Markets and Early US Growth', *Explorations in Economic History* 42, no. 1 (2005): 1–26; Peter L. Rousseau and Richard Sylla, *Financial Systems, Economic Growth, and Globalization* (Cambridge, 2001); Robert King and Ross Levine, 'Finance and Growth: Schumpeter Might Be Right', *The Quarterly Journal of Economics* 108, no. 3 (1993): 717–37.

⁴⁷² Ronald I. McKinnon, *Money and Capital in Economic Development* (Washington, D.C., 1973); Edward S. Shaw, *Financial Deepening in Economic Development* (New York, 1973).

⁴⁷³ Rozental, *Finance and Development in Thailand*, pp.140-150, 157, 177-182.

⁴⁷⁴ Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.88.

always detailed or categorically consistent from year to year. The lending pattern of banks can be explained by Thailand's economic structure, government intervention in the manufacturing sector, and ownership pattern of commercial banks, the latter two of which can be traced back to the Japanese occupation. The findings of this dissertation support Rozental's argument, demonstrate that Unger's assessment is true even in the decade prior, and underscore the importance of the Bank of Thailand and its management of proceeds from the multiple exchange rates system as the main source of finance for government industrial projects.

Table 7. 11 Commercial loans by purpose as percentage of total loans
(yearly average), 1949-1957

	Government , other than bonds and treasury bills	Government corporations and semi- gov't institutions	Insurance companies	Exports	Imports	Wholesale Trade	Retail trade
1949				10.3	35.6		
1950				11.1	35.7		
1951				13.4	30.1		
1952	0	3.3	0.8	36.1		14.4	9.2
1953	0.2	2.7	0.6	32.6		17.0	7.9
1954	0.0	2.2	1.2	29.8		20.5	7.8
1955	0.2	2.8	1.7	26.6		21.1	8.2
1956	0	0	1.6	29.7		36.7	
1957	0	0	0.4	43.9		11.5	

	Rice milling	Mining	Transport and communication	Agriculture and fishery	Construction	Others
1949	7.0	1.0		0.7		45.4
1950	3.6	1.0		0.7		47.8
1951	5.1	1.1		0.8		49.4
1952	7.3	1.0	1.9	2.2	4.1	7.9
1953	6.9	0.9	1.3	2.8	4.7	
1954	6.0	1.2	0.7	2.6	5.3	7.5
1955	0.2	0.2	0.2	0.2	0.2	0.2
1956	3.0	0.8	0.3	2.1	3.6	23.5
1957	2.4	1.0	0.8	2.0	6.4	31.7

Source: BOT, Yearly Reports

The sector that consistently received the largest allocation of commercial credit was trade, both international and domestic (Table 7. 11). Roughly 25-30 per cent of loans were in domestic wholesale and retail trade during the entire period. Between 30-40 per cent of total loans and advances from Thai commercial banks went to the import and export sector. The share declined slightly beginning in the second half of 1954 to roughly 25-29 per cent, but increased again to 45-47 per cent in 1957. This is a similar pattern to pre-war Thailand, in which Chinese banks and European exchange banks mostly funded imports and exports (chapter 1).

The agricultural and fishery sectors typically received less than 2-3 per cent of total loans from commercial banks. Though the Thai government was actively trying to promote technological improvement in Thai farms, the state had little control over commercial bank lending. The only commercial bank known to extend special types of credit to farmers was the Bangkok Bank, which had a group loan scheme for farmers, and offered technical advice and supervision on farm management. Despite this being a highly successful program with 96 per cent of all loans repaid on or near maturity, commercial banks were not a popular source of credit in the agricultural industry.⁴⁷⁵ In rural Thailand, informal finance and cooperatives played a much larger role than commercial banks in agriculture due to the need for only relatively small loans and high transaction costs in bank lending.⁴⁷⁶ In the 1950s, the state stepped in to provide credit to agriculturalists. The Ministry of Agriculture lent nearly 30 million baht to farmers, fishermen, and livestock breeders between 1952 and 1954.

Rice milling consisted of two per cent to seven per cent of all commercial bank loans throughout most of the period. Mining never made up more than two per cent of

⁴⁷⁵ Alek A. Rozental, 'A Note on the Sources and Uses of Funds in Thai Agriculture', *Economic Development and Cultural Change* 18, no. 3 (1970): 383-90, p.89.

⁴⁷⁶ Rozental, p.47.

commercial bank loans during the period. Similarly, very little commercial credit was directed towards the Thai government, governmental corporations, and semi-government institutions. Throughout the period, credit extended to the state and affiliated organisations was roughly 0.2 per cent and two per cent respectively of lending. During a period with large capital expenditures and state-led industrialisation, the Thai government would have needed large amounts of finance. In fact, the state received most of its loans from the Bank of Thailand. There is, thus, a clear separation between private and public finance: The former, mostly involving trade and rice milling, was financed by commercial banks, the latter by the central bank.

This lending pattern can be explained by structural factors in the Thai economy, government intervention in industry, and the ownership pattern of Thai commercial banks. The latter two considerations are partly explained by inheritances from the Second World War. First, Thailand's fragmented economic structure contributed to deterring commercial banks from reaching consumers in the hinterlands. There were both issues of supply and demand for commercial banking in the countryside. These two reasons are not mutually exclusive. On the supply side, barriers included transaction costs, and informational and enforcement problems. Information asymmetry and lack of means to monitor or enforce repayments deterred sources of finance from outside the immediate community from lending to Thai farmers.⁴⁷⁷ As for demand, a lack of understanding and trust in commercial banks among peasants remained an important issue. In the post-war period, informal credit was still the main source of liquidity for Thailand's rural population. Officials at the Bank of Thailand speculated in 1955 that banking facilities were 'not yet sufficiently extensive nor properly appreciated by the general public.'⁴⁷⁸ While this may partly explain why the

⁴⁷⁷ Huff, 'Finance and Long-Term Development Issues in Southeast Asia', p.64.

⁴⁷⁸ Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, pp.84-85; BOT, *Yearly Report 1945*, p.10; BOT, *Yearly Report 1949*, p.12; BOT, *Yearly*

agricultural sector did not receive much commercial credit, the explanation does not extend to the manufacturing sector.

Post-war government's increased drive for industrialisation and intervention in the manufacturing sector created a poor climate for private investment. As an entrepreneur with no ties to powerful politicians, direct competition with government-backed enterprises would have been risky.⁴⁷⁹ Commercial banks, thus, may simply have made a rational decision to stay away from the manufacturing sector, left the central bank to extend credit to state-operated industries, and focused on the commercial sector that they knew well. It is also difficult to ascertain whether there was a lack of entrepreneurs or good projects in these areas.

Finally, the lending pattern stemmed from the ownership structure and a close relationship within the capitalist middle class, who were mostly in Chinese social circles. By the mid-1950s, most prominent Chinese businessmen had already forged alliances with important politicians (discussed further in chapter 8).⁴⁸⁰ These alliances were formed by 'inviting' powerful politicians to become board members of their businesses. The Sophonpanich family of the Bangkok Bank had ties with Phibun's right-hand man, Phao Sriyanon; and the Tejapaibul family invited Sarit's brother to manage one of their enterprises despite his lack of experience.⁴⁸¹ Phao Sriyanon, Siri Siriyothin, and Chup Sonwat, were directors and/or advisory directors of the Bank of Ayudhya, Ayudha

Report 1950, p.9; BOT, *Yearly Report 1952*, p.21; BOT, *Yearly Report 1954*, p.6; BOT, *Yearly Report 1957*; Joseph E. Harling and Larry E. Westphal, 'Financial Policy in Postwar Thailand: External Equilibrium and Domestic Development', *Asian Survey* 8, no. 5 (May 1968): 362–77, p.373.

⁴⁷⁹ Kevin Hewison, *Power and Politics in Thailand: Essays in Political Economy* (Manila, 1989), p.38; Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.4.

⁴⁸⁰ Phongpaichit and Baker, *Thailand: Economy and Politics*, pp.130-131; Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.85.

⁴⁸¹ Hewison, *Power and Politics in Thailand: Essays in Political Economy*, pp.102-110; Suehiro, *Capital Accumulation*, pp.157-169.

Insurance, and Ayudha Life Assurance companies of the Ratanarak family. Phin himself was a director for the Agricultural Bank; Siri, Praphat, and Praman were all at one point directors of the Bangkok Bank. These financial institutions were founded by Luan Buasuwan, one of the most prominent Sino-Thai capitalists.⁴⁸²

Thanks in part to this relationship with the government, in 1955 a law was passed to restrict the approval of new banks, making it difficult for new capitalists to obtain licenses. The result was to facilitate the concentration of banks in the hands of a few.⁴⁸³ The state also protected domestic banks from foreign competition.⁴⁸⁴ When European banks returned to Thailand after the Japanese surrender, they found their opportunities restricted and market shares reduced.⁴⁸⁵ This relationship, criticised by a World Bank report, continued beyond 1957.⁴⁸⁶

A close-knit community of capitalists and government protection contributed to the behaviour of commercial banks. Without detailed data on loans, it is difficult to determine the exact correlation between ownership structure and lending patterns. There is, however, an apparent relationship between businesses of board members and industries that were granted credit. The Bangkok Metropolitan Bank of the Tejapaibul family is a good example: Out of eight board members, three were involved in import and export (U Chu Liang, So Khun Khiam, and Kiat Srifuengfung), and three were rice millers (Chuan Tangtana, Khun Saetthapakdi, and Hia Chia Sae).⁴⁸⁷ Indeed, in his survey of 135 prominent Chinese community leaders in 1951 and 1952, Skinner found that roughly 30 per cent were involved in export and foreign trading, 30 per cent in import and retailing,

⁴⁸² Suehiro, *Capital Accumulation*, p.142-143.

⁴⁸³ Chaiyasoot, 'Commercial Banking', p.230.

⁴⁸⁴ Hossain, *The Evolution of Central Banking and Monetary Policy in the Asia-Pacific*, p.465.

⁴⁸⁵ Suehiro, *Capital Accumulation*, p.173.

⁴⁸⁶ World Bank and Ellsworth, 'A Public Development Program', p.204.

⁴⁸⁷ Suehiro, *Capital Accumulation*, p.163.

and 34 per cent served as directors and managers of banks in Bangkok.⁴⁸⁸ Rice milling was also a traditionally Chinese-dominated section of the Thai economy, demonstrating further ties with banks and the sectors to which they extended credit.

While the Second World War gave rise to large-scale commercial banking, Thailand's financial system still faced many of the same structural obstacles as before the war, and was discouraged from financial state-led manufacturing ventures. Both the Thai government's involvement in manufacturing and the cooperation between capitalists and powerful officials are legacies of the war (discussed further in chapter 8). They not only shape Thailand's manufacturing sector and politics, but also affect Thailand's new commercial banking industry. Additionally, commercial banks played an important part in post-war economic change. Though the new commercial banks did not finance industrialisation, they did fund rice milling and international and domestic trade. Indeed, the recovery of the entire financial system depended on both the production and exports of rice, in which these banks played a crucial role. A growing commercial sector would also have served to complement and expand the market of new industrial goods to more Thai citizens. These interactions of war legacies demonstrate that the Japanese occupation was vital in bringing about all of these developments at the same time, and each element was an important factor in Thailand's economic transformation.

Conclusion

Thailand was able to quickly stabilise its economy through the repair of war damage and with the help of a strong world demand for rice. Many wartime issues persisted after 1945, especially rice smuggling, and in regard to currency and government finance. From 1947 until 1955, the Thai government monopolised rice exports and established a multiple exchange rate system to remedy the financial problem. This system

⁴⁸⁸ Skinner, *Leadership and Power in the Chinese Community of Thailand*, pp.173-174.

heavily taxed Thailand's rice farmers. While the taxation badly disadvantaged rural Thailand and further centralized power in Bangkok, it enabled the government to avoid restoring civil service wages so drastically eroded by wartime inflation, and instead to subsidise civil servants and urban areas generally through low rice prices. Exchange profits accrued to the Bank of Thailand. They were used to plug a gap which otherwise would have existed in government finances and to fund many of the industrial projects undertaken by the state, discussed in the following chapter.

Chapter 8 Post-war Thailand: Industrialisation and Aid

Introduction

This chapter describes the legacies of the Second World War for Thai manufacturing. The chapter will show how 1950s industrialisation was built on wartime inheritance as well as unmet government aspirations, and will critique the industrial configuration that transpired. At the same time, and perhaps even more crucial for Thailand's swift economic growth after 1957 and into the 1960s, the government, drawing partly on United States aid programmes, invested heavily in infrastructure and irrigation projects. America essentially became the economic ally that during the war Phibun had hoped Japan could be.

In a classic article, Hla Myint suggested that major government intervention may be required to break out of a 'vent-for-surplus' development pattern like pre-war Thailand's and industrialise.⁴⁸⁹ Although the inefficiency of 1950s government-sponsored industrialisation, and perhaps its limited learning gains documented below, calls this view into question, it is also apparent that post-1957 Thai industrialisation could hardly have sprung from nowhere. The expansion of industry under the Sarit government, which dated from 1958, certainly required more of a launching pad than that available in Thailand's barely industrialised late 1930s economy.

The political economy implications of 1950s industrialisation have been far-reaching for Thailand. Although bureaucratic capitalism was nascent in the 1930s, its wartime enhancement was of sufficient magnitude to rank as a legacy of occupation. By 1946, bureaucratic capitalism was a fundamental feature of Thailand's political and economic order. Joint government-private enterprise provided highly remunerative jobs, stakes that might even be costless in these companies, for high-ranking Thai bureaucrats

⁴⁸⁹ Hla Myint, 'The "Classical Theory" of International Trade and the Underdeveloped Countries', *The Economic Journal* 68, no. 270 (1958): 317–37, pp.332.

and army officers and yet also eased the precarious social position of the Chinese minority. New enterprises, which invariably were import-substituting in nature, multiplied during the early 1950s. These required business expertise and it was natural in the context of Thailand's social structure that the Sino-Thai would furnish this. The result was the flowering of the symbiotic government-Thai elite-Chinese business relationship characteristic of Thailand's bureaucratic capitalism.

In this chapter, I show that Thai post-war industrialisation and bureaucratic capitalism were both important legacies of the Second World War. Without physical (machinery and a corps of trained factory workers) and systemic legacies (increased state capacity), the extent of manufacturing that Thailand achieved in the 1950s would have been problematic. At the same time, Thai industrialisation was influenced by the political economy of the era. The alliance of capitalists and politicians was forged by wartime events. The effects of this alliance on the financial industry has already been described in chapter 7. Legacies analysed in that chapter and further legacies explored in this chapter came together in an interweaving that help to explain accelerated Thai industrialisation in the immediate post-war period. Without these legacies, the rapidity of industrial and structural transformation would, on balance, probably have been less.

This chapter is organised as follows: The first section gives an overview of the post-war Thai industrial sector. The second discusses Phibun's return to premiership and the persistence of pre-war, wartime, and post-war economic policies of state-led industrialisation. The third section traces the development of bureaucratic capitalism from the 1930s, how it was enhanced by the war and brought to the fruition in the 1950s. The fourth section discusses how American economic aid made the superpower an important ally for the Phibun government and offered an opportunity to realise the Thai state's goals of economic nationalism and industrialisation. Finally, I focus on three case studies –

sugar, textiles, and gunny sacks – to demonstrate that these goals were realised but at a high economic cost. The continuity of government intervention in the manufacturing sector and the Japanese occupation played an important role in increasing post-war industrial capacity; however, state-led enterprises were inefficient and the lack of transparency encouraged corruption and rent-seeking.

8.1 Overview of Thailand's industrial sector

Manufacturing in post-war Thailand had two distinct components: one consisted of many small private manufacturers, the other of bigger, mostly state-affiliated, companies that had disproportionately large capital and employees in comparison to their private counterparts.

It is difficult to compare statistics from pre-war to post-war industry due to a lack of reliable and consistent data collection. There were no industrial censuses prior to the Japanese occupation. Qualitative data suggest, however, that there was very little manufacturing in pre-war Thailand (chapter 1). After the war, the 1947 census recorded that only two per cent of the population was employed in industry. A 1954 demographic and economic survey found that there were 2,516 'large' businesses and 28,330 'small' businesses in the manufacturing sector (Table 8. 1).

. While the few large businesses together employed over 100,000 people, the numerous small businesses had just 56,000 employees – averaging just roughly two employees per business. The World Bank reported in 1958 that while the growth of private manufacturing in Thailand in the 1950s had been 'remarkable,' this growth was primarily from small manufacturing enterprises (SMEs) which relied on family labour, and produced small quantities of various consumer goods.⁴⁹⁰ These businesses were likely family enterprises, producing limited quantities of consumer goods for local markets.

⁴⁹⁰ World Bank and Ellsworth, 'A Public Development Program', pp.88, 95.

The 1954 survey did not record the ownership of SMEs. Qualitative reports from the World Bank state, however, that while government-sponsored firms were few in number in comparison to private companies, the former had far more influence.⁴⁹¹ The industrial census, which began in the 1960s, offers further evidence: Though in 1957 Sarit Thanarat closed many state-enterprises, government and semi-government companies consisted of only two per cent of total manufacturing enterprises, but employed 13.5 per cent of workers and accounted for nearly 30 per cent of manufacturing value added (Table 8. 2). Even after Thanarat overturned some of Phibun's policies, government and semi-government companies still had influence in Thai industry.

The limited importance of private manufacturing enterprises reflected both structural and politico-economic factors. First, until 1957, there had not been much improvement on human capital, technology, and non-Sino-Thai and non-military capital accumulation.⁴⁹² Secondly, the state's involvement in manufacturing, as discussed below, created an unfavourable environment for investment.⁴⁹³ Private industrialists could not compete with the capital or political power of state and quasi-state enterprises. *Siamrat* newspapers criticised the practice of economic nationalism, arguing that this approach had led to monopolies for certain companies, and did not actually help small entrepreneurs who should receive the most state assistance.⁴⁹⁴ Because SMEs had a relatively slight economic role, the rest of the chapter focuses on state-operated enterprises, the policies that brought them about, and their effect on Thai industrialisation.

⁴⁹¹ World Bank and Ellsworth, p.90.

⁴⁹² Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, p.80.

⁴⁹³ World Bank and Ellsworth, 'A Public Development Program', p.95.

⁴⁹⁴ NAT, ก/ป 7/2497/สก 1.1 'กระทรวงเศรษฐกิจและสำนักงานเลขาธิการรัฐมนตรี (The Ministry of Economic Affairs and Department of the Secretariat of the Cabinet),' *Siamrat*, 26 November 1954.

Table 8. 1 Businesses in Thailand by number of enterprises and total employees, 1954

Type of business	Number of enterprises	Number of total employees
Small	28,330	56,389
Large	2,516	101,232

Source: Final report of demographic and economic survey 1954, pp.458-9, 496-7.

Table 8. 2 Thailand manufacturing enterprises by ownership, 1963

	Number of establishments reporting	Total number of persons engaged	Total wages and salaries paid (000 baht)	Total receipts (000 baht)	Value added (000 baht)
Government and semi-government	72	20,515	194.2	2,080.0	1,402.1
Registered and limited partnership	876	26,128	126.0	1,739.2	472.2
Limited company	737	64,773	493.0	6,371.2	2,579.9
Individuals	1,899	40,943	135.7	970.1	363.2
Total	3,584	152,359	948.9	1,1160.5	4,817.5
Share of government and semi-government establishments	2.0%	13.5%	20.5%	18.6%	29.1%

Source: Industrial Census 1964, pp.15-17.

8.2 Post-war industrial policies

One of the most important explanations of post-war economic structure was the return of Phibun and his economic nationalist policies. After making capital expenditure to repair war damage, the Phibun government started investing in factories. It also began restricting competing imports and establishing tariffs for protection. The post-war government did not merely encourage state-led industrialisation in the same sectors as in the 1930s: shortages during the war strengthened the drive to establish a domestic manufacturing sector.

Phibun was ousted in 1944 and his regime replaced by three years of civilian rule. Civilian governments halted Phibun's economic nationalist policy. New industrial strategy decreed that 'the government will support and encourage as much citizen involvement as

possible, such as by selling the state's shares in companies (ในส่วนของเกี่ยวกับอุตสาหกรรมนั้น จะได้ส่งเสริมให้ประชาชนได้ประกอบการนั้นๆต่อไปเท่าที่จะทำได้ อาทิเช่น จะได้ถอนตัวออกจาก บริษัทที่รัฐบาลถือหุ้นเป็นส่วนใหญ่เสีย).⁴⁹⁵ The cabinet and various ministries closed companies associated with the government. The Industrial Support Company (บ.ส่งเสริมอุตสาหกรรม), for example, was shut down, and the Ministry of Industry halted the operation of several factories, including the Textile Industrial Company, Thai Weaving and Spinning Company, and Thai Rubber Company.⁴⁹⁶ These changes were, however, short-lived. In 1947, a coup d'état enabled Phibun to return to power. Many of his wartime allies like Luang Wichitwatakarn and Prayun Yuttasartkosol were reappointed as cabinet members.⁴⁹⁷

Although in 1944 Phibun's enemies exploited the structural weaknesses of his regime and unpopularity of the Japanese occupation, their ascendancy was temporary. It was, as Ferrara argues, 'incapable of overcoming the legacies of the royalist coups of 1947 [and again in] 1957, and 1958'.⁴⁹⁸ Phibun's return to power is symbolic of the continuity and lack of a structural or historical break in Thai economic history. Moreover, it ensured that his and the legacies of war and occupation were the ones which shaped Thai history until 1957. By then, when Sarit replaced Phibun, it becomes impossible, as argued in the Introduction, reliably to trace and assign legacies. They can no longer be disentangled from the web of events which make up history even though legacies may continue to influence events for decades.

⁴⁹⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.51/22, 'ให้พิจารณาเลิกบริษัทต่างๆที่อยู่ในความดูแลของรัฐ (Deliberation on closing down companies under government management)', 1946.

⁴⁹⁶ NAT, อก0201.2.1/4 การเลิกบริษัทส่งเสริมอุตสาหกรรม ('Closing the Industrial Support Company'), 1946; NAT, อก0201.2.1/6 ปัญหาและอุปสรรคในการประกอบกิจการอุตสาหกรรม ('Issues and obstacles in industrialisation'), 1946, p.17.

⁴⁹⁷ Batson, 'Siam and Japan', p.284.

⁴⁹⁸ Frederico Ferrara, *The political development of modern Thailand* (Cambridge: Cambridge University Press, 2015), p. 144 and see p. 110.

Unlike other Southeast Asian countries, in Thailand there was no fight for independence, revolution, or civil war. The institutional memory of the 1930s and the 1940s agenda of nationalism and state control were conducive to continuity in policy. Nationalist attitudes that began in the 1930s were able further to manifest themselves in the post-war period, because the same person was at the helm of the government for nearly twenty years and could take advantage of improvements in infrastructure and international politics to achieve his goals.

Phibun's goals, as noted above, had not changed since the 1930s: he wanted Thailand to manufacture domestically if possible, and to rid the kingdom's economy of 'foreign' influence (chapter 1). Modernisation was a goal, but economic nationalism was the more important factor behind the push for industrialisation.⁴⁹⁹ Although the Phibun administration did not reopen the companies closed by civilian governments, it founded new state- and semi-state-operated enterprises in the same sectors (section 8.5), continued pre-war and wartime economic nationalist policies, and encouraged government intervention in the manufacturing sector. The latter two are clear continuities from the war and solidified the legacies of war and occupation.

Under Phibun's second tenure, the Ministry of Economic Affairs announced the state must hold 50 per cent of shares in businesses in sectors that were deemed important for defence, such as metal and steel. Businesses that 'benefited the public' must be managed by a government agent; and any private citizens that want to invest in a business venture would need approval from the government. Any other industries 'needed' in the country were to be established by the state.⁵⁰⁰ By the end of the Phibun era, the government controlled some 60 manufacturing companies through the Ministries of

⁴⁹⁹ Silcock, 'Promotion of Industry and the Planning Process', p.258.

⁵⁰⁰ NAT, ก/ป 7/2496/ศก1, 'งานบริหาร (Administrative work)', 1953.

Industry, Agriculture, Defence, Finance, and Health. About 40 of the 60 enterprises owned by the state were classified as 'large' by the World Bank, with 50 or more employees.⁵⁰¹

At the same time, the government enacted policies to assist various types of local investment, especially those that substituted for imports and fit the nationalism agenda. Protection for industry included tax concessions for local investment, high tariffs on imports, import quotas, low duties on capital goods, and tight labour laws intended to limit strikes.⁵⁰²

The importance placed on industrialisation was reflected in public spending: After infrastructure, manufacturing received the highest amount and proportion of the extraordinary budget (Table 7. 3 and Table 7. 4). Post-1945, Thailand spent between 47 per cent and 93 per cent of its extraordinary expenditure to rebuild war-damaged infrastructure (chapter 7). New infrastructure, such as roads and expansion of electric power production, aided industrial development. From 1951 onwards, funds for manufacturing grew: the Thai state annually spent between 140 and 320 million baht in manufacturing, making up between 12 to 33 per cent of total capital extraordinary expenditure. These funds were allocated to various industries, including weaving factories, paper factories, tanneries, gunny bag weaving factories, fishery, and even as additional capital for airline companies.⁵⁰³

The Thai government exhibited dislike of foreign influence on the Thai economy, as it did beginning in the 1930s. An example of Phibun's continued nationalism can be seen in the tin mining sector. Tin mining was almost an entirely western-run sector in the

⁵⁰¹ World Bank and Ellsworth, 'A Public Development Program', pp.90-91.

⁵⁰² Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, pp.80, 84-85.

⁵⁰³ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, pp.402-3; Thailand Central Service of Statistics, *Statistical year book Thailand 1945-1955*, 1956, pp.402-44.

1930s, and remained so after the Second World War. Although the structure of the mining industry was not drastically altered by the occupation (70 per cent of mines remained European-owned and Chinese local smelting established during the war was short-lived), the Thai government's heightened economic nationalism changed its relationship with foreign companies.⁵⁰⁴ After the rehabilitation of destroyed mines, many Britain and Australian companies were concerned over the Thai government's policy to grant new leases only to Thai nationals.⁵⁰⁵ Foreign companies were unwilling to make long-term investment as their contracts were only granted year to year, and they were worried that the Thai government would take away their concession rights. For instance, in 1953, the British company Anglo-Oriental Ltd halted its plans for future expansions until it was guaranteed 15-25 year leases.⁵⁰⁶

Economic policies during this era have been described as 'haphazard state-led development,' with a 'vague desire' to lessen Thailand's dependence on foreign capital and imports.⁵⁰⁷ Research in this dissertation on state manufacturing efforts in the 1930s and the Second World War demonstrates that, while these policies were inefficient and poorly executed (section 8.5), the state's aspiration was not as 'vague' as other scholars have claimed. The government had been trying to produce sugar, textiles, gunny bags, and tobacco since prior to the war. Under the Japanese occupation, Thailand suffered scarcity and shortage of these goods. The war played an important role in fuelling the 'vague desire,' noted above, of the state to intervene in manufacturing and embark on

⁵⁰⁴ NARA, NND760060, 892.25/5-1952, 'Observations on mineral exploitation in South Thailand by Robert W. Zimmerman, Acting commercial attaché,' 19 May 1952.

⁵⁰⁵ NARA, NND760060, 892.2544/7-1053, 'Observations of the tin industry in South Thailand by Howard Parsons, Economic counsellor,' 10 Jul 1953.

⁵⁰⁶ NARA, 'Observations in mineral exploitation.'

⁵⁰⁷ Hewison, 'The State and Capitalist Development in Thailand', p.276.

industrialisation. The importance of the war in this desire is exemplified by an objective of the establishment of the Board of Investment:

‘...The bitter lesson learnt from the wartime shortage of goods and services was that Thailand must be industrialised, at least to the point of self-sufficiency in a number of essential items in order to avoid a repetition of such economic hardships.’⁵⁰⁸

Furthermore, Silcock comments that state-led industrialisation was a ‘natural development,’ as ‘[a] tradition of public involvement in industry had grown up, together with much improved industrial skills during the war.’⁵⁰⁹ It is important to note that the state’s intervention in manufacturing did not have a socialist bent, but was borne out of nationalism and need for domestic goods. As Muscat observes, government-led industrialisation was ‘totally divorced’ from western concepts of socialism.⁵¹⁰ Similarly, Ingram comments that these state manufacturing programs were ‘practical’ rather than ‘ideological.’⁵¹¹

Economic nationalism and government agitation for industrialisation do not, however, fully capture the extent of the war’s legacies on Thai post-war economic change. Clearly, a desire to industrialise was present in the 1930s, but the occupation provided a number of the key ingredients to realise this ambition. If the Second World War had not occurred, the state could, in some fashion, have built on the 1930s hope to industrialise and pushed Thailand in this direction. Industrialisation is, however, a process requiring many inputs. The speed at which post-war manufacturing was achieved would have been difficult without two of these: machinery left behind by the Japanese and workers trained to use them (section 8.5). Nor might bureaucratic capitalism, fundamental to post-war industrialisation, have flowered so early as it did, perhaps not as fully. Additionally, the

⁵⁰⁸ Board of Investment, ([n.p.], 1966) via Hewison, p.280.

⁵⁰⁹ Silcock, ‘Promotion of Industry and the Planning Process’, p.260.

⁵¹⁰ Muscat, *Thailand, a Strategy for Development*, p.192.

⁵¹¹ Ingram, *Economic Change*, p.229.

alliance between bureaucrats and capitalists, and American support played an important role in Thai post-war economic development.

8.3 Rise of bureaucratic capitalism as a legacy of the Second World War

After 1945, a new class of military-bureaucrat-capitalist elites emerged. The Second World War played a key role in the rise of bureaucratic capitalism in Thailand in four interconnected ways: First, the nationalist drive to industrialise and need to do so carried over from the 1930s, and was further stoked by the Japanese occupation. Second, as the government expanded state enterprises under guise of economic nationalism, bureaucrats realised that they lacked experience and needed the expertise of capitalists to run state enterprises. Third, a section of the Sino-Thai community accumulated capital during the war. Fourth, the economic nationalism of the government discriminated against the Sino-Thai, causing them to seek protection from powerful officials, usually by offering economic favours. A system of interdependence thus developed. This situation forged bureaucratic capitalism, an alliance between capitalists and nationalistic bureaucrats that shaped much of Thailand's economy between 1947 and 1957.

It is important to define 'bureaucratic capitalism.' The term (ทุนนิยมขุนนาง) was first applied to Thai economic history by Sungsidh Piriyarangsarn to describe precisely the years 1947 to 1957 under Phibun.⁵¹² Suehiro Akira disagrees, however, with using 'bureaucratic capitalism.' to denote the 'system' or to refer to this 'stage' of Thai economic development, and used 'bureaucratic capitalist' to refer to individuals who had political influence and actively participated in state-sponsored SOEs or private companies.⁵¹³ Another commonly-utilised terminology for similar behaviour is 'crony

⁵¹² Sungsidh Piriyarangsarn, *ทุนนิยมขุนนางไทย 1932-1960 (Thai Bureaucratic Capitalism 2475-2503)* (Bangkok, 1983).

⁵¹³ Suehiro, *Capital Accumulation*, p.22.

capitalism,’ mostly among economic historians of Latin America.⁵¹⁴ I will use ‘bureaucratic capitalism’ instead of ‘crony capitalism,’ as is more common in Thai historiography. For this dissertation, ‘bureaucratic capitalism’ refers not to the politico-economic system or the era, but rather the practice of military-bureaucrats using state power to create personal wealth through state-funded capitalist ventures either for themselves or those in their political cliques. It also encompasses the practice of politicians becoming patrons of private businesses, which generated personal wealth for politicians in return.

Bureaucratic capitalism in Thailand is often cited as beginning in 1947, and has been discussed by many historians, economist, and political scientists. Though bureaucratic capitalism did not begin in 1932, Riggs argues that the replacement of the monarchy by bureaucrats as the oligarchic elite dates from the revolution. At the same time, Chinese entrepreneurs became ‘pariahs.’ This is often seen as the first step towards post-war bureaucratic capitalism.⁵¹⁵ Between the 1932 revolution and 1946, twenty-three companies were established by people who had been members of the People’s Party or groups associated with it. These companies had a combined registered capital of 50 million baht, and were involved in both manufacturing and finance; however an explicit alliance between bureaucrats and entrepreneurs did not exist.⁵¹⁶ The Thai government was unwilling to assist Chinese businesses such as the Min-Shae match factories, or provide tariff protection for influential ethnic Thais (chapter 1). This behaviour changed after Phibun’s return. The state and capitalists began cooperating. Thus far, there has been no

⁵¹⁴ Anne O. Krueger, ‘Why Crony Capitalism Is Bad for Economic Growth’, in *Crony Capitalism and Economic Growth in Latin America* (Stanford, 2001).

⁵¹⁵ Riggs, *Thailand: The Modernization of a Bureaucratic Polity*, p.112.

⁵¹⁶ NAT, ก/ป 7/2497/กค 1.1 งานบริหาร (Administrative work), *Democracy*, 24 September 1954; NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Pimthai*, 26 July 1954.

attempt to integrate the Japanese occupation into this narrative that began before the Second World War and culminated after. Without a history of Thailand between 1941 and 1945 the understanding of bureaucratic capitalism's emergence is incomplete.

The first way that the Second World War promoted bureaucratic capitalism was by amplifying economic nationalism and the need to diversify the economy. As discussed in earlier chapters, the shortage of goods during the Japanese occupation added to the 1930s drive to industrialise. The Thai government was reminded of the fact that the kingdom's extreme reliance on imports was risky.⁵¹⁷

Second, due to a lack of private capital and high interest rates, the state became involved in various manufacturing projects.⁵¹⁸ The government found that developing ambitious industrial ventures was difficult without the assistance of the very population whose influence it wanted to eliminate. Bureaucrats with little knowledge of management relied on the skills of Chinese merchants to run semi-official enterprises. Most Thai banks, for instance, had Sino-Thai managers. The Pork Syndicate, founded to promote indigenous pig farms and local butchers, was a collaboration between Chinese merchants and Thai officers.⁵¹⁹ The syndicate was another legacy of the war, during which the Thai state established various joint ventures with Japanese companies, and gained experience and the framework in fostering public and private relations. Without necessary experience, Thai officials likely relied on Japanese managerial abilities for these semi-government industries, and thus did not extensively develop their own skills during the war. Rufus Burr Smith, the American Mission's commercial attaché, commented that the Thai government

⁵¹⁷ Hewison, 'The State and Capitalist Development in Thailand', p.280.

⁵¹⁸ NARA, NND 897807, RG469 Entry 1385 Box 8 Mission to Thailand Executive Office subject files (central files) 1950-1957 PROGRAM 1953-54, 'From Austin F Flegel to Mr Ambassador,' 29 Aug 1953.

⁵¹⁹ Skinner, *Leadership and Power in the Chinese Community of Thailand*, pp.147-151, 194-197.

‘[seemed] incapable of engaging in business or industry to the extent that the Chinese can be displaced or their services dispensed with.’⁵²⁰

At the same time, the Sino-Thai community was also affected by the war in ways that pushed them into cooperation with state officials. The Chinese minority had always been economically important in Thailand, thanks to its business acumen and managerial expertise. Despite deep distrust on both sides, the Sino-Thais were able to accumulate capital through cooperation with the Japanese army (chapter 6), leading to shifts within the community both in terms of leaders and business interests. In addition, the Japanese army expelled European interests from Thailand, giving Sino-Thais an advantage. After the war, the Chinese community in Thailand – freed from Japanese domination – filled in the void left by Europeans and expanded businesses into the commercial banking, insurance, manufacturing, import and export sectors.⁵²¹

Fourth, after the war heightened the government’s economic nationalism, the Sino-Thai community became threatened and sought ways to operate within the new system. In 1948, a year after Phibun’s return to premiership, the administration’s economic nationalism grew and was reinforced by the Japanese occupation (discussed above): The government reinstated restrictions on ‘alien’ businesses and granted privileges to ‘Thai’ ones. It also reinstated laws prohibiting Chinese nationals from certain occupations between 1949 and 1951. Officials were allowed to reclaim any lands that were subleased to aliens prior to 1951 after their leases expired. The state explicitly stated its interests in ‘recovering’ certain industries from Chinese domination, such as shipping, sawmilling, and barber shops, and passed the Act in Control of Consumable Goods 1951, allowing the state to place any item of ‘daily necessity’ under complete government management. Plans

⁵²⁰ NARA, 892.352/7-2050, ‘Additional information on Bangkok Cotton Mills, Ltd. By Rufus Burr Smith, commercial attaché,’ 20 July 1950.

⁵²¹ Suehiro, *Capital Accumulation*, pp.154-5.

were also announced to compete with aliens in the shipping industry, and reduce granting licenses to liquor distilleries and sawmills to Chinese entrepreneurs. Though many of these plans were not put into action, they placed considerable pressure on aliens.

The ethnic Thais were divided on the Chinese issue. Some were sympathetic to the Chinese. For instance, in 1953, a journalist Damri Patamasiri condemned the persecution of Sino-Thais. He claimed merchants needed to somehow make a living, but have become ‘scapegoats’ for the government and its ‘bad policies.’⁵²² However, the plural society was fractured by wartime scarcity. The apparent dislike towards Chinese minorities found in wartime correspondence of everyday ethnic Thais (chapter 6) might have been slightly alleviated once shortages were not so severe, but would not have disappeared overnight. Political differences also remained: Immediately after the Japanese surrender, the Chinese community in Thailand openly celebrated with fireworks, leading to some violent clashes with ethnic Thais in Bangkok.⁵²³ The fear of communism, with which some ethnic Thais associate with Mainland China, contributed to the lingering animosity between the two groups.⁵²⁴

It was near impossible to operate a business under such persecution; thus, wealthy Chinese merchants sought patronage of powerful Thai politicians by including them in company boards and committees. While much of the capital of the Sino-Thais did not contribute to post-war enterprises, their wealth gave them influence, access to protection, and the ability to circumvent the Thai government’s economic nationalist policies. The Chinese elite supplied entrepreneurship, management, and some capital; the politicians

⁵²² NAT, ก/ป 7/2496/ศก 1 งานบริหาร (Administrative work), *Democracy*, 26 November 1953.

⁵²³ Reynolds, “‘International Orphans’: The Chinese in Thailand during World War II”, pp.385-6.

⁵²⁴ Skinner, ‘Chinese Assimilation and Thai Politics’, p.247.

afforded them protection and at times public funds.⁵²⁵ The economic nationalism and desire to industrialise of the post-war Phibun government, thus, led to cooperation with wealthy Sino-Thai elites and gave rise to bureaucratic capitalism.

8.4 American aid

An important post-war change was Thailand's shift from a United Kingdom to a United States sphere of influence.⁵²⁶ Although this partly reflected the shift in the relative power of the two countries in Asia, the war also played an important role: Britain's relationship with Thailand soured when the latter allowed the Japanese to attack British colonies (chapter 7). On the other hand, the United States saw Thailand as a victim of Japanese aggression. This friendlier relationship, along with the United States' newly-gained dominance in the Pacific and the brewing Cold War politics, pushed Thailand closer to the superpower. Especially after heightened nationalism and desire to industrialise, American financial aid and economic advisers offered a means for the Phibun government to achieve economic goals, similar to those it had aspired to under Japanese occupation a decade prior. American aid played a mostly positive role in the development of the Thai economy in the post-war period.

This dissertation does not classify this alliance nor the aid that accompanied it as war legacies. While the Second World War did play a role, the determining factor was a shift in geopolitics, something larger than Japan's occupation of Thailand, namely the spread of communism (and fear of this in the West) in Southeast Asia together with the emergence of a bipolar world order. Thailand did not receive American aid and friendship because of its status as a Japanese ally or victim, but rather due to the country's strategic

⁵²⁵ Skinner, *Leadership and Power in the Chinese Community of Thailand*, pp.147-151, 194-197.

⁵²⁶ Aldrich, *The Key to the South : Britain, the United States, and Thailand during the Approach of the Pacific War, 1929-1942*, p.372.

position in Mainland Southeast Asia. The difference that the war made in this matter is essentially exogenous and cannot be considered a ‘legacy.’

While Britain wanted to punish Thailand for aligning with Japan, ambassador Seni Pramote’s presence and the Free Thai Movement engendered sympathy for Thailand’s precarious situation in the United States. After the Japanese surrender, Thai diplomats knew they could rely on American help in any disagreement with Britain.⁵²⁷ The United States intervened in the negotiations of the rice delivery scheme and supported Thai officials instead of the British.

While Japan saw Thailand as a source of raw materials and a venue for Japanese investment, the United States’ interest in Thailand was rooted in geopolitics: the spread of communism from China to many of Thailand’s neighbours alarmed the Americans. This is evidenced by the fact that American military assistance was almost always conditional. In March 1953, for instance, American officials demanded confirmation that Thailand intended to band with the United States and other countries in an international fight against communism before offering funds to expand the Thai army.⁵²⁸ Just as Thailand was strategically important for Japan’s wartime empire, Thailand’s location at the heart of mainland Southeast Asia made the country an important domino that could not fall.

It was believed that lifting the living standards of Thai people through economic aid was an effective way to both help an underdeveloped country and keep Thailand from communism, the ultimate goal of the United States. In President Harry S. Truman’s speech announcing the Point Four Program, he set an important task for the United States to help

⁵²⁷ Alec Peterson, ‘Britain and Siam: The Latest Phase’, *Pacific Affairs* 19, no. 4 (1946): 364–72, p.369.

⁵²⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.96/2, ‘เรื่องเบ็ดเสร็จความตกลงว่าด้วยความร่วมมือทางเศรษฐกิจและทางเทคนิคระหว่างไทย-อเมริกา (Comprehensive agreement on economic and technical cooperation between Thailand and the United States of America), 1953, pp.272-273.

‘peaceful’ countries achieve material growth. The United States would offer technical assistance, arrange the visits of exports, and invest in industries of underdeveloped countries that ‘wanted to be helped.’⁵²⁹

This American belief coincided with Thailand’s post-war nationalism, need for economic aid, and desire for industrialisation. Increased nationalism from the Second World War played into Phibun’s staunch anti-communist views.⁵³⁰ He was convinced that communists were a threat to his rule and painted communism as antagonistic to Thai-ness. The communist party was outlawed. Phibun aligned himself completely with the United States, and used the Korean War and threat of Vietnamese communists to crack down on subversive groups.⁵³¹

The Thai state saw the economic advantages of, and readily accepted, American assistance, influence, and protection.⁵³² As a result of this conjuncture of interests, the United States aided Thailand through various agencies and programs. In the 1950s, Thailand received over 3 billion baht in grants from the United States alone.⁵³³ Working in tandem with the United Nations, the Economic and Social Council (ECOSOC) was responsible for social welfare services, as well as overseeing the Food and Agriculture Organisation (FOA), and the International Labour Organisation (ILO), both of which were involved in sectors that needed improvement in Thailand. The FOA, for instance, sent experts to Bangkok to advise on crops and husbandry, as well as to develop Thai human capital in the field. In the field of public health, Thai doctors were given scholarships to study in the United States and Europe; UNICEF and the United Nations Appeal for

⁵²⁹ NAT, (2) 0201.96/2, ‘Comprehensive agreement,’ pp.62-63.

⁵³⁰ Silcock, ‘Outline of Economic Development 1946-65’, p.12.

⁵³¹ L.P. Singh, ‘Thai Foreign Policy: The Current Phase’, *Asian Survey* 3, no. 11 (November 1963): 535–43, p.535.

⁵³² Pongsudhirak, ‘World War II’, p.107.

⁵³³ W.M. Corden and H.V. Richter, ‘Trade and the Balance of Payments’, in *Thailand: Social and Economic Studies in Development* (Canberra, 1967), 128–50, p.140.

Children (UNAC) sent aid for maternity and child care. The Thai Ministry of Education also received funding to improve curriculum and vocational training. Furthermore, the World Bank lent Thailand US\$25.4 million to invest in improving the Chao Phraya basin, dredging Bangkok's port, and the improvement of railways. The Thai government, in doing its part, set up a 'Committee to Operate under the United Nations' Aid Program (กรรมการดำเนินงานตามโครงการช่วยเหลือขององค์การสหประชาชาติ).'⁵³⁴

The United States also provided technical assistance and experts to various governmental agencies in Thailand. These missions included the visit of agricultural specialists, Robert A. Pendleton and H.H. Love, assistance from the Fish and Wildlife Service, as well as the advice of American engineers on the port of Bangkok.⁵³⁵ In June 1951, American scientists specialising in rice collection, storage, pest control, and milling and grading arrived in Thailand. Siriraj and Chulalongkorn hospitals received medical equipment; and English teachers as well as school books were shipped from the United States.⁵³⁶

The American Mission has been criticised for not encouraging more efficient industrial policies, and allowing bad programs to continue.⁵³⁷ In 1953, for instance, the American Mission to Thailand commented on top officials' personal involvement in businesses but explicitly stated that this observation was not a condemnation:

'At the present level of domestic savings mobilisation and capital accumulation, the participation of government and government officials in economic ventures is almost inevitable if there is to be any appreciable degree of economic development.'⁵³⁸

⁵³⁴ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.96/16, 'บันทึกยืนยันผลประโยชน์ที่ได้รับจากการช่วยเหลือจากอเมริกา (Memo confirming the benefits of American aid),' 1952, pp.6-11.

⁵³⁵ NAT, (2) สร0201.96/2 'Comprehensive agreement', pp.24-26.

⁵³⁶ NAT, (2) สร0201.96/2 'Comprehensive agreement,' pp.81-82.

⁵³⁷ Muscat, *Thailand, a Strategy for Development*, p.9.

⁵³⁸ NARA, NND 897807 RG469 Entry 1385 Box 4 Mission to Thailand Executive Office subject files (central files) 1950-1957, ECONOMIC CONDITIONS, 'Government and quasi-government enterprises in Thailand,' 22 May 1953.

American assistance gave the Phibun regime the legitimacy of having support from the most powerful country in the world.⁵³⁹

Nonetheless, these programs benefitted Thailand's attempt to modernise through improvement of agricultural productivity, public health, and infrastructure. Furthermore, the scrutiny tied to aid packages prevented Thai politicians from skimming some of the funds for their own use. Grants from the United States helped Thailand accumulate foreign exchange, as the aid was given in dollars and paid for necessary imports or foreign components of large public projects.⁵⁴⁰ Consequently, the Phibun government was credited in the 1990s and 2000s with laying the basis for Thailand's ability to maximise benefits of economic aid and to utilise aid to build infrastructure and increase state capacity in the following decade.⁵⁴¹

8.5 Legacies of the war in Thai manufacturing

This section focuses on three case studies – sugar, textiles, and gunny sacks – to demonstrate continuity and the legacies of the war on post-war Thai industrialisation. The government was involved in these sectors throughout the 1930s, 1940s, and 1950s; the Japanese occupation increased Thai industrial capacity and helped to move the Thai economy towards the achievement of import-substitution industrialisation (ISI). The Second World War quickened domestic industrialisation in three ways: First, the shortage induced by the Japanese occupation pushed the state to try to produce these goods. Second, the machinery that Thailand imported from Japan and that the Japanese army left behind in the form of the physical legacy of machinery from Japan's own factories, together with

⁵³⁹ Pongsudhirak, 'World War II', p.107.

⁵⁴⁰ Corden and Richter, 'Trade and the Balance of Payments', p.146.

⁵⁴¹ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.85; Cholticha Khuntong, *เมืองในประวัติศาสตร์เศรษฐกิจไทย (Towns and Cities in Thai Economic History)* (Bangkok, 2017), p.53.

some agricultural diversification, laid the basis for post-war industrialisation. Third, increased government capacity and the wartime rationing system were a systemic legacy and utilised as a distribution channel after the war by the government, giving it more control of these sectors.

Literature on post-war Thailand remains divided on the success of state-led industrialisation in the 1950s. Historians like Suehiro and Muscat are critical of manufacturing under Phibun, stating that the industrial sector in Thailand was underdeveloped and hindered by bureaucratic capitalism.⁵⁴² Suehiro claims that state-led ventures ‘hardly contributed to the growth, upgrading, and diversification of the industrial sector in Thailand.’⁵⁴³ Other scholars offer more positive views. Hewison, for instance, argues that though this system was suboptimal, it was not ‘fully’ corrupt: these companies injected much-needed capital into manufacturing. He finds that bureaucrats could have invested in the commercial or financial sectors which would have generated faster and more profits, but instead chose to develop industries that could benefit more people.⁵⁴⁴ The dissertation finds evidence to support both views: Industrial capacity indeed increased; however, ISI came at high costs to the Thai public and consumers due to high production costs and the inefficiencies associated with bureaucratic capitalism.

8.5.1 Case studies

Sugar, textiles, and gunny sacks were selected as case studies. Due to poor data, it is difficult to determine how important the three sectors are in terms of capital and employment. These sectors were nonetheless significant to the Thai state, as shown by its sustained intervention and involvement since the 1930s and during the Japanese occupation (chapters 1 and 5).

⁵⁴² Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.45.

⁵⁴³ Suehiro, *Capital Accumulation*, pp.140, 150.

⁵⁴⁴ Silcock, ‘Money and Banking’, p.260; Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, pp.72-74.

Sugar was widely consumed in every day foods and crucial to Thailand's emerging alcoholic beverage sector. In the 1930s, the Thai government gave financial assistance to private sugar refineries as well as attempted to establish state-run factories. These ventures failed largely due to lack of capital, inefficient and corrupt bureaucracies, and poor access to effective sugar refining technologies.⁵⁴⁵ During the Japanese occupation, sugar was rationed nation-wide and received additional attention from the Thai government to try to boost production.

Textiles were Thailand's largest manufactured import and essential to the welfare of Thai citizens.⁵⁴⁶ Similar to sugar, beginning in the 1930s the pre-war government established new agencies to encourage peasants to grow, spin, and weave cotton, and the state purchased these textiles for distribution.⁵⁴⁷ Textiles were rationed in the capital during the war, underscoring the importance of domestic production to the Phibun government.

Gunny bags were fundamental to Thailand's largest export sector – rice. Milled rice was almost always transported in gunnies imported from British India. The gunny bag sector was born out of the sheer will and commitment to economic nationalism of the state. The reasoning for having factories to manufacture gunnies was to ‘prevent millions of baht from leaking out of the country each year.’⁵⁴⁸ In the 1930s, the kingdom spent an average of 6 million baht on 19 million gunny sacks each year, amounting to just over four per cent

⁵⁴⁵ NAT, Phraya Mahaisawan to establish a sugar refinery in Chonburi; NAT, Phraya Mahaisawan to establish a sugar refinery in Chonburi, part 2; NAT, Mhom Luang Yuang Issarasena asks for help in establishing a sugar refinery; NAT, Building a sugar refinery in Uttaradit province.

⁵⁴⁶ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, pp.162-5.

⁵⁴⁷ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/3, ‘โครงการส่งเสริมอุตสาหกรรมทอผ้าของกระทรวงเศรษฐกิจ (Project to promote weaving of the Ministry of Economic Affairs),’ 1936; NAT, ‘Promoting weaving with looms.’

⁵⁴⁸ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.4/3, ‘โครงการส่งเสริมปลูกปอกระเจา (Project to encourage hemp cultivation),’ 1941, pp. 2, 5, 6.

of total cost of imports.⁵⁴⁹ Although Thailand was indeed spending ‘millions of baht,’ the push for domestic production of gunny sacks largely stemmed from ideology rather than actual necessity.

8.5.2 Data and methodology

Data has been gathered and compiled from the National Archive of Thailand (NAT) and the National Archive and Records Administration (NARA) in Washington, D.C. Official trade statistics are from the Statistical Yearbooks of Thailand. Production statistics for all three industries were not kept systematically. Rather, they are scattered in various reports and letters by both Thai and American officials who mentioned the capacity of each industry in passing. These reports were usually in conjunction with visiting a large factory and reporting the conditions and efficiency of the operation. The figures, while not exact, can be regarded as reliable as they were from officials with no financial ties to the industry, and who were on the ground and saw production first-hand.

For sugar and gunny bags, only refined sugar and woven sacks are counted, as it is the industrial capacity that concerns this dissertation. Yarn is chosen as proxy for the domestic textile industry because its production can be reliably computed in kilograms. Woven textiles were often measured in bales or length. Weights of different types of garment also vary, making it difficult to quantify production and import. This also avoids double counting or classifying imported yarn that was then woven into cloth in Thailand.

To calculate degrees of import substitution, I use Hollis Chenery’s measure of import substitution:

$$is_i = M_i^{(0)}/Z_i^{(0)} - M_i^{(1)}/Z_i^{(1)} = \mu_i^{(0)} - \mu_i^{(1)} = \Delta\mu_i$$

⁵⁴⁹ Thailand Central Service of Statistics, *Statistical year book Thailand 1939-1944*, pp.162-5.

where is_i is the import substitution in relative value for industry i , M_i is the total import for industry i , Z_i is the total supply for industry i , μ_i is the import coefficient for industry i , and 0 (1) is the initial (current) period.⁵⁵⁰ A higher μ demonstrates a higher the share of imports.

While Thailand would have had to import some machinery and technicians initially to industrialise, the present analysis considers only final products in its calculations. Accordingly, they measure only the extent of ISI, not whether foreign exchange was gained or lost by an industry. Specific years were chosen to represent three distinct periods: pre-war, post-war, and during the mid-1950s. Gunny sack production began only after the Second World War; thus, pre-war μ was likely close to 1, implying a near total dependence on imports. Figures during the Japanese occupation have been excluded, as there were almost no imports (Thailand relied on Japanese bags made from rice straws as substitutes for gunny sacks).⁵⁵¹ Similarly, statistics from the immediate post-war years would not accurately demonstrate trends. For instance, throughout the latter half of 1940s, various governmental bodies scrambled to purchase a range of textiles and clothing from United States, Britain, and Australia due to acute shortages.⁵⁵² Though the mark-up was reportedly ‘four times the pre-war price,’ the shortage of textiles and desire to appease the victors of the war prompted the civilian governments to agree to the sale. This trade continued to at least 1947.⁵⁵³ The import coefficients during these years were consequently uncharacteristically high due to pent-up demand.

⁵⁵⁰ Hollis B Chenery, ‘Patterns of Industrial Growth’, *American Economic Review* 50, no. 4 (1960): 624–54.

⁵⁵¹ National Archives of Japan, ‘Political and economic conditions of Thailand in 1941,’ p.150.

⁵⁵² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/20, ‘กระทรวงพาณิชย์ จัดซื้อผ้าและด้ายไว้จำหน่าย (The Ministry of Commerce purchased textiles and yarn for sale),’ 1950, pp.16-18, 24-33, 55, 63.

⁵⁵³ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/22, ‘การซื้อขายผ้าที่ได้รับปันส่วนซื้อจากญี่ปุ่น (Buying and selling textiles that have been rationed from Japan),’ 1953; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/24, ‘การซื้อขายผ้าซื้อซึ่งจาก

8.5.3 Measuring ISI

The hypothesis for this study is as follows: The Thai state had been attempting to domestically produce these three goods since the 1930s, so the drive to industrialise had always been present. If there were no change in Thailand's industrial capacity, the pre-war and post-war μ should remain similar. On the other hand, if μ was different from the late 1930s to the 1950s, something must have changed, and, if it did, would suggest that the 1940s played an important role in this development.

Domestic production increased from the 1930s to the 1950s; and local goods increasingly replaced imports for sugar, yarn, and gunny sacks. The import coefficient for all three sectors fell after the war, and continued to decrease towards the mid-1950s (Table 8. 3) For sugar, domestic output replaced over half of Thailand's imports by 1950. Furthermore, substitution for imported sugar increased by 15 per cent from 1950 to 1953. Thailand's reliance on foreign yarn was reduced roughly 50 per cent between 1938 and 1951 – an impressive feat for a country that was importing 97 per cent of its yarn consumption in 1938. The import coefficient fell an additional 32 per cent from 1951 to 1954. By contrast, gunny sacks had the lowest import substitution: the import coefficient fell by seven per cent from 1950 to 1956.

ญี่ปุ่นในประเทศไทย (Buying and selling textiles which was bought from the Japanese in Thailand), 1947.

Table 8. 3 Import substitution for sugar, yarn, and gunny sacks, 1938-56 (million kilogram)

Product and year		Imports (M_i)	Domestic production	Total consumption (Z_i)	Import coefficient ($\mu = M/Z$)	Import substitution ($\Delta\mu$)
Sugar	1938	25.8	5.0	30.8	0.84	
	1950	14.0	16.7	30.7	0.46	0.38
	1953	10.0	34.0	44.0	0.23	0.23
Yarn	1938	4.1	0.1	4.2	0.97	
	1951	4.5	4.6	9.1	0.49	0.48
	1954	4.0	7.7	11.7	0.34	0.15
Gunny sack	1950	13.2	3.8	17.0	0.77	
	1956	14.0	6.0	20.0	0.70	0.07

Source: Domestic production – Sugar: NARA, NND760060, 892.2351/4-150, ‘Sugar cultivation and manufacture in Thailand crop year 1949-50 by Graham S Quate, agricultural attaché,’ 1 April 1950; NARA, NND760060, 892.2351/5-1553, ‘Additional data on Thai sugar industry,’ 15 May 1953; NAT, ‘Storing sugar to prevent a shortage,’ 1953; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/20, ‘โครงการโรงงานน้ำตาลไทย (The Thai sugar factory project,’ 1952. Yarn statistics are based on production statistics of cotton and known capacity of factories from: NAT, ‘Promoting weaving with looms,’ NARA, NND832908, RG59 Department of State Box 5632, 892.35/7-1350, ‘Privately financed plan to expand Thai textile output by Rufus Burr Smith,’ 13 July 1950; NARA, NND832908, RG59 Department of State Box 5632, 892.2321/9-2354, ‘Cotton,’ 23 Sep 1954. Gunny sack: NARA, NND 897807 RG469 Entry 1383 Box 57 Mission to Thailand Executive office subject files (central files) 1950-1957, INDUSTRY REPORTS, ‘R.A. Philapil, economic affairs officer of ECAFE visited a government operated gunny sack plant at Bangkasoh on 11 Apr 1956,’ 14 May 1956; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.4/9, ‘โรงงานทอกระสอบป่านขององค์การสงเคราะห์ทหารผ่านศึก (The gunny sack factory of the Veteran’s Organisation),’ 1952. Import statistics from Statistical Yearbooks of Thailand, 1939-1945 and 1945-1955.

This dissertation finds that continued government intervention in the three sectors demonstrates a continuity of policy throughout the three decades. As mentioned, the state tried and failed to develop these sectors in the 1930s, as is reflected in their import coefficients. The dissertation also argues that the Japanese occupation played an important role in this shift towards import substitution. Indeed, Silcock asserts that ‘technical and administrative experience’ was gained during the occupation, and that its effects should be included in a study of Thai industrial development.⁵⁵⁴

⁵⁵⁴ Silcock, ‘Promotion of Industry and the Planning Process’, p.259.

During the war, the Ministries of Industry and Agriculture continued the groundwork for all three industries by encouraging peasants to grow sugar cane, cotton, and hemp (for making gunny sacks), as well as guaranteeing to purchase these commodities for governmental factories.⁵⁵⁵ Because of these government policies, some agricultural diversification was achieved during the Japanese occupation and served as another legacy which aided post-war industrialisation (chapter 7).

At the same time, the government attempted to buy and ship machinery from Japan to equip state-run factories. Although some of this equipment did not arrive (chapter 4), that which did provided a platform for post-1945 industrialisation and gave the state some technical experience.⁵⁵⁶ Other machines were abandoned in Thailand by the Japanese army during the retreat. These machines were physical legacies of the Japanese occupation, which subsequently aided Thai manufacturing. For instance, the Bangkok Cotton Mills which began operations in 1949 rehabilitated 8,000 spindles left behind by the Japanese army – these spindles made the largest spinning and weaving establishment in Thailand possible. The mills' operation was so large and required so much raw cotton that it consumed all local raw cotton and needed to import 30 per cent of its input. Sometimes, such as in 1950, shortages of raw cotton kept the Bangkok Cotton Mills from operating at full capacity. The state would then step in to assist in importing cotton from the United States.⁵⁵⁷

⁵⁵⁵ NAT, Department of the Secretariat of the Cabinet, (2) สร 0201.22.3/5, 'เศษกระดาษสำหรับทำกระดาษหรือวัสดุสำหรับทำกระดาษ (Paper scraps for producing paper, or other materials for producing paper),' 1952; NAT, 'Project to promote the hemp industry and trading.'

⁵⁵⁶ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.5/10 การส่งเสริมเครื่องปั่นการปั่นด้าย กับเครื่องทอ การทอผ้าประจำอำเภอ (Promoting weaving and spinning with looms, and weaving textiles of each district),' 1944.

⁵⁵⁷ NARA, NND 867726 RG469 Entry 1383 Box 3 Mission to Thailand Executive Office subject files (central files) 1950-1957, COMMODITIES – COTTON, 'Memorandum of the Bangkok Commercial Company,' 30 Nov 1950; NARA, NND 897807 RG469 Entry 1385 Box 2 Mission to Thailand Executive Office subject files (central files) 1950-1957, COMMODITIES – COTTON, 'American cotton for Thailand,' 21 Dec 1950.

Systemic legacies in the form of administrative experience and capacity gained from the war was not only limited to managing wartime industries, but extended to rationing and price controls. These involved establishing rationing shops and a system to allocate goods all over the country.⁵⁵⁸ After the war, these controls gave the state access to production facilities and distribution channels throughout the country, which it continued to utilise. The Thai government acted as a near monopsony for all imported and domestically grown cotton in the late 1940s, feeding it to government-owned spinning mills.⁵⁵⁹ Similarly, the Sugar Organisation, founded during the war, continued to sell and distribute sugar after the occupation. Its unbroken involvement demonstrates how the Thai government operated and retained its influence over an industry. Similar measures implemented during the war propped up post-1945 state-funded industries: Price controls were instituted to protect local yarn from cheap Japanese goods.⁵⁶⁰ In the mid-1950s, the Thai government required rice merchants to purchase one locally produced gunny bag for every three that were imported.⁵⁶¹

8.5.4 Costs of ISI

Although ISI in sugar, textiles, and gunny sacks was achieved in the post-war period, this attainment came at a high cost. Evaluation of post-war ISI can help one understand the positive or negative long term effects of the Second World War, and the extent to which the post-war industrialisation policy was at the expense of Thai consumers. Though ISI did not keep products out of consumers' hands, it will be shown that Thai

⁵⁵⁸ NAT, 'Declaration of restriction of consumer products;' NAT, 'Establishing a warehouse or a warehouse company;' NAT, 'Rationing consumer goods.'

⁵⁵⁹ NARA, NND832908, RG59 Department of State Box 5632, 892.2321/9-2354, 'Cotton,' 23 Sep 1954.

⁵⁶⁰ NARA, 'Memorandum to Austin F Flagel.'

⁵⁶¹ NARA, NND887412, RG59 Box 5062, General records of the Department of State, 1956-1959, 892.000/2-2557, 'Summary of Thai economy,' 25 Feb 1957.

consumers were paying higher prices for the same goods due to higher production costs, and, furthermore, that the costs to tax payers were high.

None of this is to say that ISI in Thailand yielded no benefits. It is true that scholars like Muscat claimed that Phibun-era state operated enterprises generated little industrial learning for the future and, as many were closed in 1957, they did not constitute as the first stage of Thai industrial development.⁵⁶² On the contrary, I find that these state-supported industries created employment, along with a more skilled workforce for Thailand even if some of these industries did not survive the Thanarat regime. As inefficient and haphazard as the policies were, these three sectors were a step towards greater industrialisation. There were backward linkages for all three sectors, as hemp, sugar cane, and cotton and silk were grown in Thailand. The linkage between gunny sacks and rice was also important. None required complicated machinery or techniques too advanced for Thai human capital.

High prices

There was no systematic price data collection in this period; thus, the data utilised here are gleaned from various archival sources that happened to mention prices of certain goods in specific years. These prices are then compared to those in other countries in the same year. Data reveals that Thai consumers were paying much higher prices for these goods than consumers in many other countries. These higher prices for consumers are partially explained by government control, high tariffs, quotas, and the inelasticity of demand for the three goods which allowed firms to pass on higher costs to consumers without too large falls in consumption.

The prices of Thai refined sugar hovered between 4.5 and 5.5 baht per kilogram throughout the 1950s. In the same period, a kilogram of granulated sugar cost 0.66 and

⁵⁶² Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, pp.64-5.

0.54 baht per kilogram in the US and UK respectively.⁵⁶³ Thai sugar prices, thus, were almost ten times higher than in these countries; and, at Thailand's estimated total sugar consumption of 44 million kilogram, the kingdom was spending between 169 to 218 million baht (roughly 7.6-10 baht per capita) more on sugar – only a little less than its entire defence extraordinary expenditure under the Japanese.

Thai yarn was sold at 25 baht per kilogram. at a time when, despite high import duties, Japanese yarn became cheaper (23 baht per kilogram).⁵⁶⁴ Thai yarn was thus roughly eight per cent more expensive than its main competitor.

The cost of growing hemp had always been, and remained higher, in Thailand than India, making Thai hemp uncompetitive in the world market. Raw hemp in India cost roughly 0.99-1.125 baht per kilogram, which was between 25 and 34 per cent less than the state's price floor of 1.5 baht.⁵⁶⁵ Though the state instated some price controls over these goods, consumers still bore the brunt of protectionist and economic nationalist ISI policies. The government received revenue from tariffs, and domestic producers enjoyed protection.

High production costs

The main reason for high prices was Thailand's higher costs of production, both hidden and monetary, than those of other countries. Bureaucratic capitalism came at a cost (discussed below). Thailand did not have comparative advantage in sugar cane or gunny sacks. The bulk of sugar cane was grown by several thousand smallholders, using crude equipment and clearing new jungle patches for planting every 3-4 years. Average yields of cane were 15 tons per acre, which is extremely low; and extraction rate was 150 pounds

⁵⁶³ United Nations, *Monthly Statistical Bulletin* (n.p., 1949-1957); Statistical Sugar Trade Journal (New York, 1938-1956); NAT, 'Storing sugar to prevent a shortage.'

⁵⁶⁴ NARA, 'Memorandum to Austin F Flagel.'

⁵⁶⁵ NAT, 'Project to encourage hemp cultivation.'

per ton of cane.⁵⁶⁶ Sugar processing has large economies of scale. The small and scattered patches of these peasants posed logistical difficulties in delivering raw sugar quickly to processing plants and so in achieving these economies.⁵⁶⁷

Similarly, India had an absolute advantage in gunny sacks and could produce them at a lower cost. After the war, gunny sack output decreased because trade with India resumed. The increase in imports was expected, as private and public enterprises had pent up demand and quickly imported large quantities of gunny sacks from India to make up for the shortage during the war. This flood of Indian sacks decreased prices – reportedly from 14 baht to 15 baht during the occupation to 9 baht – and competed to the detriment of local products. Unlike rice which held cultural prestige and was a staple food, Thai peasants were not fully wedded to jute and kenaf production and reacted to the rise in imports of Indian bags by diverting to other crops. Those committed to growing jute and kenaf, mostly peasants who still owed creditors for starting capital, suffered from lower prices and were unable to repay their loans without state assistance.⁵⁶⁸ For instance, on 8 August 1952, a group of 41 farmers from Chaiyaphum province wrote a letter to the government asking for help, as prices had been steadily dropping since the war. During the Japanese occupation, they made 900-1,000 baht per *rai*, when prices of jute and kenaf were at 3-4 baht per kilogram, and thus could easily pay back their loans. In 1952, however, prices of the crops fell to 1.5 baht per kilogram, the real value of which was even lower with inflation, making it impossible for these peasants to sustain a living. They expressed fears that their homes would be seized by debtors if the government did not step in.⁵⁶⁹ In

⁵⁶⁶ NARA, NND760060, 892.2351/4-150, 'Sugar cultivation and manufacture in Thailand crop year 1949-50 by Graham S Quate, agricultural attaché,' 1 April 1950.

⁵⁶⁷ Mousny, *The Economy of Thailand: An Appraisal of a Liberal Exchange Policy*, p.203.

⁵⁶⁸ NAT, 'The gunny sack factory of the Veteran's Organisation,' pp.22-38, 61-62, 67.

⁵⁶⁹ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.4/10, 'โครงการส่งเสริมอุตสาหกรรมการค้าปอ และเรื่องการค้าปอจากประชาชน (Project to promote the hemp industry and trading, and purchasing hemp from the public),' 1953, pp.33-36, 41-42.

response, the Ministries of Economic Affairs and Industry quickly bought their produce, asking for assistance from the Thai Railways to transport it to Bangkok, and finding ways to export any surplus that could not be fed to Thai factories. The government also instated a price floor for kenaf at 1.5 baht per kilogram to prevent further declines.⁵⁷⁰

Budget costs

A yardstick to measure the success of these industries is how much of the country's budget was spent on ISI. Due to the scattered bookkeeping practices of the Thai government, and the various governmental and non-governmental bodies involved in each industry, the exact expenditures are difficult to calculate. It is clear, however, that all state-led industrialisation during this period drained more than it contributed to the treasury. Ingram argues that all the state enterprises, save for the monopolies, cost the treasury over 600 million baht over the years.⁵⁷¹ Indeed, these state enterprises mostly made losses. Profits were sometimes gained by selling goods to other government operations, or because the state established price controls, quotas, and licenses.⁵⁷²

Even profits, however, do not indicate success in the economic sense used by economists. They measure economic, as opposed to financial, cost as the opportunity cost of real resources. The crucial test of efficiency is profits at world prices. It seems unlikely, in light of evidence presented in this dissertation that the industries it analyses would have passed that test. In addition, it is hard to know if Thai firms were meeting the technical efficiency criterion of employing the most efficient combination of factors of production. An absence of protection would have automatically provided the technical efficiency standard of international production costs by which the three industries of sugar, gunnies and textiles could have been assessed.

⁵⁷⁰ Muscat, *Thailand, a Strategy for Development*, p.116.

⁵⁷¹ Ingram, *Economic Change*, pp.287-8.

⁵⁷² Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, pp.58-9.

The high monetary cost of state-led ISI could have bankrupted a less stable economy, especially one that just emerged from a world war. Thailand was however, able to finance many inefficient industries because the multiple exchange rate system quickly stabilised the financial system, helped the government balance its budget, and accrued profits that could be used to cover large losses from state-operated enterprises (chapter 7).

Part of the reason for the inefficiency was poor central planning. During their survey in 1956, the World Bank reported that there was no trained statistician in Thailand; all governmental decision-making was seemingly based on flimsy evidence and policies were difficult to implement.⁵⁷³ The other factor was that bureaucratic capitalism rendered many of these state industries inefficient and marred by corruption and favouritism.

8.5.5 Costs of bureaucratic capitalism

The reason for poor financial performance was the bureaucratic capitalist nature of ISI in this period and its lack of transparency. The resulting favouritism, corruption, and inefficiency drove up costs of production and distribution. The effects of bureaucratic capitalism on Thai ISI was an interaction of two war legacies, demonstrating that the political economy inherited from the war shaped post-war Thai manufacturing.

Favouritism

Grants, permits, and licenses were readily given to those in the social circles of officials. Many contemporary Thai newspapers criticised the favouritism rampant in the Phibun administration.⁵⁷⁴ For instance, the War Veteran's Organisation submitted a proposal to the cabinet to establish a weaving factory in the North East, as part of a government project to improve the economy of the region. Associated with Phibun, the organisation was awarded not only a generous discount on purchasing capital goods from the state, but was also given the benefit of trading foreign currency at the official rate

⁵⁷³ Muscat, p.54.

⁵⁷⁴ NAT, ก/ป 7/2496/บ 3.1 บทความและสารคดีต่างๆ (Various articles and documents), *Pimthai*, 30 May 1953.

instead of market rate of the multiple exchange rate system, which was apparently not common for new industries. In August and September 1951, Phibun himself wrote to the Ministry of Finance asking them to grant this benefit to the War Veteran's Organisation. He argued that not only would the country benefit from the Organisation's factory, but the government would save the time and money of investing in a similar venture.⁵⁷⁵ In reality, giving this privilege to the organisation had the same effect as a further government subsidy additional to the first discount on capital goods.

The Bangkok Cotton Mills is another example of government cooperation with wealthy Chinese to capitalise on machines left behind by the Japanese: the Chinese offered funding, management skills, and entrepreneurship, but relied on the state for permission and protection. The president of the company was Jung Yen-Jen, and the Vice President, Kim Ho, both Chinese. Though the Bangkok Cotton Mills was granted a license by the Thai state, all the capital came from Chinese entrepreneurs. Chinese technicians were hired to repair some of the spindles destroyed by Allied bombing during the war.⁵⁷⁶

Corruption

Secondly, the lack of transparency in bureaucratic capitalism led to corruption, both 'legal' and 'illegal.' Legal corruption involved politicians utilising the system to enhance their own personal wealth, though without explicitly breaking the law. Embezzling, cheating, and bribery, on the other hand, violated regulations and are considered illegal corruption. This kind of corruption, often performed by petty officials, had long been a practice in Thailand, and was exacerbated by the wartime fall in bureaucrats' real wages during the Japanese occupation.

⁵⁷⁵ NAT, Department of the Secretariat, (2) สร0201.22.2.4/9 'โรงงานทอกระสอบป่านขององค์การสงเคราะห์ทหารผ่านศึก (The gunny sack factory of the Veteran's Organisation),' 1952, pp.22-38, 61-62, 67.

⁵⁷⁶ NARA, 892.352/7-2050 'Additional information on Bangkok Cotton Mills, Ltd. By Rufus Burr Smith, commercial attaché,' 20 July 1950.

Many powerful politicians were involved in legal corruption and using state-run enterprises to enhance their own personal wealth. For instance, Phibun's clique within the ministries could use public funds to set up industrial enterprises that rewarded them financially. The Ministry of Industry insured all its enterprises and goods with a company privately owned by Bunyat Thephasadin na Ayutthaya, the Minister of Industry.⁵⁷⁷

In 1952, American officials on the Thai mission stated in a report on Thai economic policies that there was 'almost complete subjugation of economic considerations to political and personal ones' and an 'apparently insatiable desire for personal economic power on the part of top government officials.'⁵⁷⁸ The Americans were concerned that this overlap in economic and political interests meant that power was concentrated within the ruling clique 'to such an extent that the resultant maze of ownership, co-ownership, interlocking directorships and control [was] difficult, if not absolutely impossible to follow.'⁵⁷⁹ Similarly, Thai newspapers have accused bureaucrats of using state-operated enterprises to 'create wealth and increase power' for themselves.⁵⁸⁰

Furthermore, there were several 'illegal' corruption scandals, some of which had been traced to powerful politicians and their favouritism. For instance, the Bang Yee Khan corruption case revealed that many parties involved were under patronage of high-ranking

⁵⁷⁷ NAT, ก/ป 7/2497/กค 1.1 งานบริหาร (Administrative work), *Democracy*, 24 September 1954; NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Pimthai*, 26 July 1954.

⁵⁷⁸ NND 897807 RG469 Entry 1385 Box 7 Mission to Thailand Executive Office subject files (central files) 1950-1957 POLITICAL AFFAIRS, 'The economic policy of the present Thai government,' 10 Jul 1952.

⁵⁷⁹ *Ibid.*

⁵⁸⁰ NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Toedthai*, 8 October 1954; NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Toedthai*, 9 October 1954; NAT, ก/ป 7/2497/อก 1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Pimthai*, 11 October 1954.

officials, and those implicated were simply reshuffled to other departments or other semi-governmental organisations.⁵⁸¹

The most prominent corruption scandal related to the three case studies in this chapter involved the Sugar Organisation and the Purchasing and Sales Organisation (PSO). In August 1950, several contemporary newspapers ran stories accusing the Sugar Organisation of systematic corruption. Founded during the occupation to handle sugar shortages, the Sugar Organisation was allegedly syphoning money into pockets of politicians, selling sugar to fake agents and distributors, holding fake bids, cheating honest farmers and merchants of their pay, practicing nepotism, and being extremely permissive on check-ups and regulations. The prime minister called for a full investigation. Simultaneously, the cabinet convened a meeting to review the performance and losses of the Sugar Organisation.

A month after accusations had been levelled, the Ministries of Commerce and Industry stripped the Sugar Organisation of most of its duties and power. The Ministry of Industry would be the sole producer of sugar under governmental control; the PSO – also a wartime establishment – became the only state-supported seller; and the Ministry of Commerce took over regulation of prices.⁵⁸²

In 1951, however, 57 merchants and companies which were transferred from the Sugar Organisation to PSO filed a complaint to the cabinet, claiming that the PSO was

⁵⁸¹ NAT, ก/ป 7/2497/อก 1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Toedthai*, 8 October 1954; NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Toedthai*, 9 October 1954; NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry), *Pimthai*, 11 October 1954.

⁵⁸² NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/24, ‘ตรวจบัญชีองค์การน้ำตาลไทย (Auditing the Thai Sugar Organisation’s accounts),’ 1950, pp.3-8; NAT, ‘Storing sugar to prevent a shortage,’ pp.143, 195; NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/26, ‘ร้านค้าองค์การน้ำตาลไทยถูกกีดกัน (Shops of the Thai Sugar Organisation were treated unfairly),’ 1951, pp.29-32.

favouring their original and new agents over those coming from the Sugar Organisation. Some of the 57 sent follow up letters, claiming others had used their names without permission. The PSO was nonetheless placed under investigation, which revealed that members of staff collected bribes.⁵⁸³ There were no records of the PSO suffering the same severe consequences as the Sugar Organisation, partly because the charges were not as serious. It was also possible that the publicity of the Organisation's corruption played a role in its initially harsh punishment.

Inefficiency

Thirdly, inefficiency plagued state-run enterprises in this period. This inefficiency stemmed from bad management and government protection of poorly-run enterprises, and resulted in state-operated industries wasting resources and driving up production costs.

A cocktail of favouritism and corruption led to appointment of unqualified managers of governmental enterprises, which in turn resulted in poor management. Indeed, the World Bank cited the lack of commercial experience of managers as one of the reasons why state-run enterprises were unprofitable.⁵⁸⁴ Similarly, American advisers were concerned with the 'ruthless removals' of dissenters, which included Prince Wiwat, the respected former leader of the Bank of Thailand, and Sukit Nimmanhemmin, who had always been generally regarded as 'having a high degree of honesty and competence.' Nimmanhemmin resigned from his post as Minister of Industry after opposing the appointment of Mongkol Srianond, Phao's younger brother, as the chief executive of the government distillery. Mongkol Srianond was not known for his business or governmental experience. Rather, 'insofar as the whisky industry is concerned, [he] had only exhibited

⁵⁸³ NAT, 'Shops of the Thai Sugar Organisation were treated unfairly,' pp.5-11, 29-32.

⁵⁸⁴ World Bank and Ellsworth, 'A Public Development Program', p.93.

an ability to be a very important consumer in the pursuit of his notorious playboy activities.⁵⁸⁵ Foreigners who refused to play along were also forced to resign.⁵⁸⁶

With unqualified people at the helm, state-run enterprises suffered from poor management. For instance, the Kanchanaburi paper factory lacked caustic soda, an important input, for many months because management did not purchase it in time.⁵⁸⁷ Another bizarre case of poor management occurred in 1957: Luan Buasuwan, a board member of the Economic Support Company (บ.ส่งเสริมเศรษฐกิจแห่งชาติ), died in a plane crash. The company owed the Bank of America 200 million baht for which the Thai government had acted as guarantor. After Buasuwan's death, other members of the company and the government had difficulties tracing financial records that he authorised, which stalled operations and new purchases.⁵⁸⁸

Apart from poor management, the government protected local factories and allowed inefficient organisations to remain in operation. Despite government protection, the Bangkok Cotton Mills were susceptible to external pressures: In 1952, the exchange rate altered from 54 baht to 46.95 baht per pound sterling and from 21.6 baht to 18.87 baht per US dollar. There was no evidence that the mills were given privileges under the multiple exchange rate system, and were thus subject to high free market rates. The Bangkok Cotton Mills imported roughly 50 per cent of its raw cotton from the United States in US dollars, but sold its finished products in baht. Alteration in the exchange rate squeezed the margins of the mills. The mills were contracted to purchase 7,000 bales of cotton. It had imported only roughly a thousand bales, which would bring up its production

⁵⁸⁵ NARA, 'The economic policy of the present Thai government.'

⁵⁸⁶ *Ibid.*

⁵⁸⁷ NAT, ก/ป 7/2497/อก 3 กรมโรงงานอุตสาหกรรม (Department of Industrial Factories), *Pimthai*, 10 May 1954.

⁵⁸⁸ NAT, ก/ป 7/2500/อก 5 โรงงานอุตสาหกรรมต่างๆ (Various factories), 16 July 1957.

costs to 1,2000 baht while the sale price is only 1,050 baht per bale. The mills were ‘to all intents and purposes bankrupt’ by July, and came to rely on government aid.⁵⁸⁹

A similar issue is found in the sugar industry, in which simple processes such as compensating workers and purchasing equipment were apparently not properly executed. On 5 July 1948, the representative of Uttaradit province, Thep Ketuphan, wrote a letter to the cabinet asking why labourers and sugarcane farmers still had not received payment from the Ministry of Industry’s sugar mill. The workers were reportedly owed 100,000 baht, and growers owed 1.5 million. Phibun responded personally two days later, authorising the Ministry of Finance to loan money to the Ministry of Industry so that the labourers and farmers could be compensated.⁵⁹⁰

Due to poor management and protection, examples of state-run enterprises wasting resources are numerous. For instance, the Veterans Organisation, backed by Phibun himself, had at least two of its monopoly rights revoked due to inefficiency of operation.⁵⁹¹ Another example of the incompetence of officials in the period is the scandal of the National Economic Development Corporation Limited (NEDCOL). It sank more than 50 million baht of capital into establishing and expanding sugar refineries, gunny sack factories, and paper mills. By 1957, NEDCOL was over 600 million baht in arrears, with

⁵⁸⁹ NARA, NND 867726 RG469 Entry 1383 Box 3 Mission to TH executive office subject files (central files) 1950-1957 COMMODITIES – COTTON, ‘From Austin F Flegel, Chief of Mission, to Mr Clayton Lane,’ 4 Aug 1952; NARA, NND 867726 RG469 Entry 1383 Box 3 Mission to TH executive office subject files (central files) 1950-1957 COMMODITIES – COTTON, ‘From Anthony F Bisgood, industry officer, to Austin F Flegel, chief of mission, Subj: Preliminary report on cotton mill situation,’ 17 Jul 1952.

⁵⁹⁰ NAT, Department of the Secretariat of the Cabinet, (2) สร0201.22.2.7/12, ‘สร้างโรงงานน้ำตาล จังหวัดอุตรดิตถ์ (Building a sugar refinery in Uttaradit province),’ 1949, pp.35, 39-40.

⁵⁹¹ NARA, NND 897807 RG469 Entry 1385 Box 4 Mission to Thailand Executive Office subject files (central files) 1950-1957, ECONOMIC CONDITIONS, ‘Government and quasi-government enterprises in Thailand,’ 22 May 1953.

two finished projects and three unfinished ones. Of the two completed factories, only one was making any profit.⁵⁹²

This issue did not escape contemporaries. Many Thai journalists expressed doubts for future government projects.⁵⁹³ On 28 May 1954, for instance, *Siamrat* reported that the government was establishing a steel plant, but cast doubt on its efficiency, as the existing large-scale state-owned factories were still unable to produce enough for national demand.⁵⁹⁴ Many newspapers also advocated for fewer state monopolies and a ‘freer’ market: On 14 November 1954, *Siamrat* suggested that state protection should also extend to private companies because they were ‘better run’ than state-owned ones.⁵⁹⁵

8.5.6 Per capita consumption

To assess the impact of ISI policies on consumption, because of both decreased imports and increased prices, per capita consumption is provided in Table 8. 4. Per capita consumption of yarn and gunny sacks either increased or remained roughly constant from 1938 to the mid-1950s. Sugar per capita consumption fell, however, by a quarter from 1938 to 1950, and regained its pre-war levels only in 1953.

⁵⁹² Silcock, ‘Money and Banking’ pp.261-263; D. Insor, *Thailand: A Political, Social, and Economic Analysis* (London, 1963), pp.157-158; Hewison, *Bankers and Bureaucrats Capital and the Role of the State in Thailand*, pp.82-83.

⁵⁹³ NAT, ก/ป 7/2497/ กค 1.1 งานบริหาร (Administrative work), *Democracy*, 24 September 1954.

⁵⁹⁴ NAT, ก/ป 7/2497/อก 3 กรมโรงงานอุตสาหกรรม (Department of Industrial Factories).

⁵⁹⁵ NAT, ก/ป 7/2497/อก 1.1 กระทรวง รัฐมนตรี อุตสาหกรรมและสำนักงาน (Ministry of Industry).

Table 8. 4 Consumption per capita for sugar, yarn, and gunny sacks, 1938-56 (kilogram per person)

Product and year		Consumption per capita (kg)
Sugar	1938	2.06
	1950	1.53
	1953	2.00
Yarn	1938	0.28
	1951	0.43
	1954	0.52
Gunny sack	1950	0.85
	1956	0.82

Source: Total consumption – see Table 8. 3; Population statistics from Maddison Project Database.

The sustained levels of consumption for yarn and gunny sack, despite higher tariff-induced prices, was due mainly to inelasticity of demand arising from the essential nature of these products along with a lack of good substitutes. While there were few substitutes for sugar in Thailand at the time, the fall in sugar consumption was probably principally explained by price and lack of supply: The sugar industry had much higher protectionism and state intervention than either yarn or gunnies. After the war and return of foreign companies, the price of sugar dropped from 18-20 baht to roughly 5-5.5 baht per kilogram. Thai enterprises had a difficult time competing. To protect the domestic sugar industry, the state instituted a ban on sugar imports in 1948. The government controlled the import of sugar, which could only be done by application for a license to the Ministry of Economy, imposed a duty of 1.5 baht per kilogram for both imported centrifugal and non-centrifugal sugar, and did not provide subsidies for consumers.⁵⁹⁶

After the import ban was instated, local production fell far below expectation and created a countrywide shortage. The government returned to similar policies that it utilised during the Japanese occupation, yet another wartime element in post-war Thailand: In

⁵⁹⁶ NARA, NND760060, 892.2351/5-1553, ‘Additional data on Thai sugar industry,’ 15 May 1953.

1949, the Anti-Profiteering Committee had to control sales of sugar in Bangkok and Thonburi province. Those in possession of over 50 metric tons were also obliged to report their stocks to the government, harkening back to practices during the war years. Another element similar to the Japanese occupation was the proliferation of a black market for sugar. To combat both the scarcity and contraband sugar, the state authorised *ad hoc* imports. In May 1949, for instance, the cabinet authorised the Sugar Organisation to import 10,000 metric tons and, in the following month, an additional 15,000.⁵⁹⁷ Various governmental bodies and state-backed enterprises had quickly to import large quantities of sugar: The Puechkasikam Company had to import 3,000 tons of sugar under the quota of PSO in 1949. Bangkok Coffee Company and Thai Niyom Panit also imported 2,000 tons of sugar ‘to alleviate the shortage’ in the same year. These private companies were allowed only to purchase sugar if the product remained in control of the Thai state and the Sugar Organisation.⁵⁹⁸

Towards the end of 1949, the Ministry of Commerce stated that the Sugar Organisation was unable to meet local demand. Ignoring protests from the Organisation, the Ministry issued import permits to private and semi-governmental firms to import 70,000 tons of sugar. Despite freeing up flows of commerce, the state still heavily regulated prices. In addition to the 1.5 baht per kilogram duty, it added an inland tax of 10 *satangs* per kilogram. This was exceptionally high when price ceilings were established at 4.10 per kilogram for white granulated sugar, and 2.4 baht per kilogram for sugar imported from Taiwan.⁵⁹⁹ After 1949, any sugar imports had to be approved by the Ministry of Economy.⁶⁰⁰

⁵⁹⁷ NARA, ‘Sugar cultivation and manufacture.’

⁵⁹⁸ NAT, ‘Storing sugar to prevent a shortage,’ pp.155-156, 169-170.

⁵⁹⁹ NARA, ‘Sugar cultivation and manufacture.’

⁶⁰⁰ NARA, ‘Additional data on Thai sugar industry.’

Private sugar mills explicitly demanded and enjoyed the privileges of protection. For instance, after the exchange rate adjustments in 1952, privately-run mills directly requested that the Purchasing and Sales Organisation bought their sugar at a set price so that they were not subject to price volatility and would not have to worry about rotating funds. Thai sugar mills continued to push for even more protectionist measures: to increase customs, restrict the import sugar, and prohibit importing molasses altogether unless there was a shortage in the country.⁶⁰¹

While protection worsened the country's shortage, this would perhaps have been less severe if management among various state organisations was not decidedly poor. For instance, in February 1951, the Sugar Organisation did not have sufficient storage for all the sugar in its possession, but was unwilling to sell below five baht per kilogram; meanwhile Purchasing and Sales Organisation bargained for 4.5 baht. This disagreement resulted in a lockdown of certain aspects of sugar distribution, leading to a shortage in Lampang and Uttaradit. The Ministry of Industry then had to order sugar to be shipped to the two provinces, while the Sugar Organisation took the opportunity to peddle some of its own sugar at five baht per kilogram. Finally, the cabinet ordered Purchasing and Sales Organisation to purchase sugar at five baht per kilogram, and to return products to the Sugar Organisation.⁶⁰² These disagreements were not mere squabbles – they wasted time and resources, drove up costs, and hindered the products from reaching consumers.

Conclusion

War legacies identified in this chapter are post-war industrialisation and bureaucratic capitalism, and interaction between them which created the economic and

⁶⁰¹ NAT, 'Storing sugar to prevent a shortage,' pp.337-341, 360; NARA, NND 867726 RG469 Entry 1383 Box 3 Mission to Thailand Executive Office subject files (central files) 1950-1957 COMMODITIES – COTTON, 'To Mr Clayton Lane from Austin F Flegel, Chief of Mission,' 4 Aug 1952.

⁶⁰² NAT, 'Storing sugar to prevent a shortage,' pp.200, 205, 218, 286, 298-301.

political climate of the 1950s. The shortages during the war reinforced the drive to industrialise from the pre-war period; and wartime attempts at manufacturing gave the government increased industrial, administrative, and technical skills. Heightened nationalism during and after the Japanese occupation contributed to development of bureaucratic capitalism, helping to shape Thai political economy for decades to come. Despite the government achieving some of its pre-war industrialisation goals, bureaucratic capitalism and the accompanying lack of transparency resulted in marked inefficiencies and widespread corruption in state-operated enterprises. The United States also became a key economic ally, and because of this and its anti-communist policy made major contributions in improving infrastructure, agriculture, and public health.

This chapter has offered evidence and a new perspective to the study of post-war state-led industrialisation. Some scholars have expressed doubts over the significance of industrialisation in the 1950s. Despite all its inefficiencies and flaws, Thailand's industrial capacity increased in the 1940s and 1950s. The implications for understanding the rapid economic development in Thailand in the 1960s are apparent. Government support for private investment and infrastructure expansion after the war were beneficial to industrial learning and capacity, and to the building of infrastructure which contributed towards laying a basis for economic development after 1957.

The Second World War has long been left out of the historiography of Thai industrialisation. The history told in this and the previous chapters demonstrate continuity, including in the rice, financial, and manufacturing sectors. Studying Thailand's experience during the war, thus, bridges 1930s and 1950s historiographies, and demonstrates that these periods cannot be broken down and studied in pieces. Rather, Thailand's World War II history needs to be seen as part of a continuous process linking the 1930s and post-1945 Thailand.

Conclusion

“When one went out into the country, except for key railway lines, there was no bombing and it was very tranquil. With no newspaper or radio, one could almost forget the war.”

– A Japanese officer in Thailand during the Second World War⁶⁰³

Thailand had a paradoxical position in the Japanese wartime empire. It was a belligerent country, yet for much of the war its territory could be described as ‘tranquil.’ It was both Japan’s ally and an occupied territory. It was sovereign, but lost control of its real economy and monetary policy. It fought on the side of the Axis, but Thai troops also marched along Allied soldiers when the British reconquered Burma. How did this strange position affect Thailand, its economy, and its people both during and after the war?

This dissertation has argued that the Second World War had damaging effects on Thailand’s economy, as well as leaving a lasting influence on Thailand’s post-war economic development. During the occupation, Thailand’s GDP shrank by as much as 19%. The country transferred substantial real resources to the Japanese. These included large quantities of rice, labour for the Thai-Burma railway, and inputs for factories. Japanese soldiers lived off the land and appropriated Thailand’s machinery, equipment, and infrastructure for their own use. The kingdom, previously integrated into the world economy through its vent-for-surplus exports, lost nearly every channel for its export market and access to many imported necessities. Japan did not compensate for these losses: it sent few consumer goods to Thailand and so took rice and other Thai exports without compensation.

The Second World War had severe financial repercussions. Pre-war Thailand prided itself on its stable currency and high reserves. The Japanese occupation cost Thailand these reserves, which had to be rebuilt in the post-war period. Rapid inflation and

⁶⁰³ N. Tarling, *A Sudden Rampage : The Japanese Occupation of Southeast Asia, 1941-1945* (London, 2001), p.249.

large government deficits resulted from printing notes and paying for the Japanese Imperial Army that occupied Thailand. The wartime disruption of the financial system was a principal issue with which the post-war government had to deal. Because of the shortage of consumer goods and increased volume of money, the cost of living rose quickly. Though inflation slowed down after the war, in the 1950s nominal wages were sticky and many people did not regain their pre-war purchasing power.

Wartime attempts at producing consumer goods domestically were largely unsuccessful due to a lack of machinery and raw materials. In response, the Thai government established rationing and price control systems for a variety of consumer and capital goods. These measures, however, faced many obstacles because there were too few goods and limited capacity to produce substitutes for items which had been imported before the war.

Due to the inability to overcome scarcity and high inflation, the Japanese occupation detrimentally affected the standard of living of Thai people. Some of the most serious consequences included low fertility, a rise in infant and adult mortality, a lack of medicine and maternity care, and the breakdown of social cohesion. The shortage of many consumer goods, along with government discrimination against minority groups, led to tension and hostility between ethnic Thais and Chinese, who were mostly involved in commerce and were often blamed for the high cost of living during the war.

Allied air raids destroyed significant parts of Bangkok and other urban areas, which needed to be rebuilt after the war, led to mass evacuation, and cost many civilian lives. My grandmother told me stories about her childhood, when she had to cover the local pond with leaves and twigs because bodies of water were how Allied planes identified living quarters from above. If they could not see the pond, it is likely that they would fly over her village, only to bomb someone else's home. Of course, the Japanese

were not directly responsible for these air raids; however, Thailand's incorporation into Japan's East Asia Co-Prosperity Sphere came at a high cost.

I have shown that the war forms part of a continuous narrative in Thai history. Wartime issues of high inflation, loss of foreign exchange reserves, large budget deficits, destroyed infrastructure, and reparations persisted for roughly two years. These problems were prolonged by mandatory cheap rice deliveries to the British Empire. The rice deliveries exacerbated smuggling and corruption of petty bureaucrats, a hangover from the Japanese occupation. After compulsory rice deliveries ended in 1947, war disruption to the financial system was addressed by state monopolisation of rice exports and legalisation of multiple exchange rates. The Bank of Thailand was able to make substantial profits from these systems, and utilised these proceeds to replenish currency reserves, cover budget deficits, and rebuild infrastructure destroyed by Allied air raids. Revenues from the multiple exchange rates were later replaced by those from the rice premiums. The multiple exchange rates and rice premiums acted as heavy taxes on rice, and subsidised domestic rice consumers, especially low-ranking bureaucrats, whose real wages had been eroded by wartime inflation.

Revenues from rice monopolisation and multiple exchange rates largely funded state-led import-substitution industrialisation projects during the 1950s. Shortages experienced during the Japanese occupation reinforced this government drive to industrialise while wartime attempts at domestic manufacturing contributed to administrative and technical skills of the state. Furthermore, joint-ventures with Japanese companies gave the Thai government the experience of working with private companies in semi-state operated enterprises. These businesses, however, were often inefficient and rarely made profits. Without the proceeds from the multiple exchange rates, and later rice

premiums, to cover these expenses, government industries could have inflicted significant damage on Thai economic stability.

Part of the reason for the inefficiency of state-led enterprises was the political economy of post-war Thailand. Increased economic nationalism, encouraged by the government, led to a continuation of wartime discrimination against the Chinese community, which included most of the country's merchants and financiers. In response, Sino-Thais began exchanging financial opportunities for political protection with powerful officials. At the same time, state-led industries looked to the Chinese for managerial expertise. A co-dependent relationship between wealthy capitalists and powerful politicians emerged, which this dissertation has analysed as bureaucratic capitalism. The lack of transparency and favouritism that accompanied this symbiotic relationship contributed to the ineffectiveness of state enterprises, and permeated many aspects of the post-war economy in Thailand.

This dissertation has contributed to the study of Thai history and economic development in a number of respects. It introduces new data and sources; many of the statistical datasets and qualitative sources were newly compiled or drawn from previously unused archival sources. Drawing from these materials, the research has fashioned the first history of the war told through the lens of economic history, and fills in a gap in the historiography. The dissertation integrates Thailand's wartime experiences as an integral part of Thailand's economic history between the 1930s to the 1950s.

Legacies of the war 1945-1957

This dissertation has identified eight main developments that qualify as legacies of the Japanese occupation of Thailand. Three of these are financial: the rise of indigenous commercial banks, the founding of the Bank of Thailand and then, after the war but a product of it and post-war monetary overhang, the Bank's steadfastness in adhering to

conservative monetary policies. Two further legacies, no less important than the financial ones, are the composition of post-war industry, which was substantially determined by government response to wartime shortages, and the possibility of constructing the desired industrial capacity by drawing on Japanese machinery and training. As central to post-war Thailand's post-war political economy as these five legacies, and intertwined with them, was the emergence of bureaucratic capitalism – political elites and capitalists forming co-dependent and financially beneficial relationships. It is unlikely that bureaucratic capitalism, which defined Thailand's post-war political economy, would have developed as it did in the absence of commercial bank finance or the industrial advances realized during the Japanese occupation. The other two legacies were a diversification of agriculture and the institutionalization of corruption among low-ranking civil servants.

The rise of Thai commercial banks was a direct result of the Second World War and in that sense has the clearest continuity with it. In the 1930s, while there were some indigenous banks, such as the Siam Commercial Bank with royal patronage, local banking remained little developed. The expulsion of European exchange banks changed that. The sudden closure of European banks left a vacuum that local capitalists, taking advantage of new opportunities for capital accumulation arising from the occupation, quickly filled. Many Sino-Thai families accumulated capital by procuring scarce goods for the Japanese and selling rice to Malaya where the war created a desperate need of food.

One of the remaining two financial legacies of the Japanese occupation was institutional, the creation of the Bank of Thailand; the other its policy stance towards the financing of Thailand's economic development. After 1945, the leaders of the Bank, alarmed by high wartime and early post-war inflation and responding to it, affirmed and, if anything, reinforced a policy stance of financial conservatism. The founding of the Bank of Thailand, desired by the Japanese as a way for the Thai government to print baht in

exchange for special yen held by a central bank, was, like the proliferation of commercial banks, a major wartime financial legacy. Although Thai in charge of the Bank already favoured the Thailand's conservative monetary policies of the pre-war period, rapid inflation and a drastic loss of currency reserves during the occupation probably did much to reinforce, even ingrain, this conservatism. It became a fundamental tenant of post-war Thai post-war monetary policy and was basic to both building back Thailand's currency reserves and financing post-war industrialization through the multiple exchange rate system. No doubt, Thailand would, in time, have established a central bank, essential to any modern state, but when it would have done so, if not for the war, or the central bank's monetary stance and independence from the government is far from clear. As it happened, the wartime timing of the BOT and the good fortune of having capable and trustworthy technocrats at its helm, provided the basis for the restoration Thailand's financial stability and its industrialisation.

Increased industrialization in the 1950s had its basis in two, closely related legacies: the government's reaction to wartime shortages and after the war continued attempts to remedy them, together with the inheritance from the Japanese of greater industrial capacity. The desire of the government and Phibun for more domestic manufacturing had been present since the 1930s and, reflecting this, the state was involved in industrial ventures. A shift of economies from agriculture towards industry is something close to an historical inevitability. Furthermore, if Phibun had remained in power and if he had continued his agenda through the 1940s and into the 1950s, Thailand would likely have industrialised. The war, however, probably accelerated and almost certainly shaped this process. Based on Thailand's weak 1930s industrial capacity, it would have been nearly or perhaps even totally impossible for the 1950s administration to realize import-substitution industrialization to the extent that it did. Industrialization is a process which

depends on equipment, human capital, and funds. The Japanese army founded factories to produce goods for themselves, left behind machineries, a factory workforce trained to use these and pushed the Thai government towards expenditures on manufacturing. Tim Harper identifies as an ‘enduring’ legacy of the war in Southeast Asia was that a colonial *laissez faire* view of the economy ended, and state intervention became common.⁶⁰⁴ This dissertation confirms that observation in regard to Thailand’s domestic manufacturing.

The Japanese occupation strongly influenced the scope for post-war bureaucratic capitalism. Harper notes, when assessing Second World War legacies, the centrality of connections and linkages forged between elites during the war.⁶⁰⁵ Wartime Sino-Thai capital accumulation, the flowering of local commercial banking, heightened economic nationalism, and state experience of working with Japanese companies during the Second World War combined to promote and shape post-war Thai bureaucratic capitalism. Synergies between the state and private capitalists are, of course, nothing unusual nor is it uncommon for these to have a role in industrialisation in less developed countries. Both these aspects of industrialisation might have gained force in Thailand in the absence of war and occupation. It is hard to believe, however, that they would have had a like trajectory as in fact occurred and whether they would have become so all-encompassing a feature of post-war Thailand’s political economy must remain a matter of conjecture.

The other two legacies of the war discussed in this dissertation are the corruption of civil servants and agricultural diversification. Petty dishonest behaviour involves minor officials abusing their positions for cash, one of the commonly listed reasons for the failure of Thai rice deliveries to the British between 1945 and 1947. While corruption had always existed in Thailand, and would have persisted without the Japanese occupation, during the

⁶⁰⁴ Tim Harper, ‘A Long View on the Great Asian War’, ed. David W. H. Koh, *Legacies of World War II in South and East Asia* (Singapore, 2007), 7–22, p.16.

⁶⁰⁵ Harper, p.17.

war there was an upsurge in low-ranking bureaucrats' susceptibility to bribes. That was directly attributable to wartime rapid inflation and, given unchanged money remuneration, plummeting real wages. Corruption, and probably some second occupation such as hawking, became imperative to the survival of bureaucrats and their families. After the war, the government, pressed by the wartime decimation of Thai public finances, decided against a restoration of real wages, ensuring that corruption remained a prominent aspect of bureaucratic behaviour.

Agricultural diversification during the Japanese occupation had its rationale in, and was likely hasten by, the loss of imports during Japanese occupation. The government drive to provide essential manufactures during the war largely determined its choice of industrial products. The need for raw materials for these industries dictated policies to grow cotton to manufacture textiles and jute to make gunny sacks. Without this wartime imperative, agricultural diversification from Thailand's main 1930s crops would probably have been slower and the wartime and post-war development of Thai manufacturing delayed or, if not, had a different product mix.

In the absence of the Second World War, the rise of indigenous banks, domestic industrialisation, a national bank, and agricultural diversification would have happened. But they would probably have happened independently and at different times. The Second World War caused all of these developments to occur almost simultaneously and so rely on, and interact with one another to create, in the 1950s, a particular historical pattern. The speed and patterns of post war industrialisation relied on multiple war legacies. Without the machinery and trained workforce left behind by the Japanese, it is far from clear that Thailand would have achieved import-substitution industrialisation as quickly. The shortage of consumer goods during the war pushed the Thai government to invest in industries producing goods that Thailand lacked. Post-war industrialisation was dependent

on, and shaped by bureaucratic capitalism as well as being partly based on agricultural diversification, both legacies of the occupation.

Thailand's financial sector, which funded post-war industrialisation, was a product of many legacies. The Bank of Thailand, initially founded to print notes for the Japanese, utilised the proceeds from rice exports to stabilise the economy and prevent state-led industrialisation from bankrupting the Thai treasury. These rice exports were financed by newly emerged commercial banks. Taxation of rice through the multiple exchange system ensured that industrialisation did not levy undue strain on the balance of payments while at the same time bolstering Thailand's reserves. That, in turn, strengthened the reputation and independence of the Bank of Thailand. The Japanese expulsion of European capital was pivotal to local capitalists being able to compete with their European counterparts and quickly rising to prominence. Without the Second World War, Thailand's political economy in the 1950s would likely not have occurred in the same fashion. Excluding just one of the main legacies discussed in the dissertation could easily have altered the way that Thai post-war development unfolded.

Enduring Effects of War, Occupation and Phibun Songkram

In 1957, Phibun reintroduced a degree of political freedom and allowed an election. That was his undoing: Phibun won through stuffing ballot boxes and intimidation, leading to protests against an unfair election.⁶⁰⁶ Chaos and violence ensued, which Field Marshall Sarit Thanarat used to legitimise his seizure of power. Phibun fled the country, and remained in exile until his death in 1964.⁶⁰⁷

Compared to Phibun, Thanarat had a quite different approach to economic development. The end of Phibun, Ferrara emphasizes, bookended a distinct period of Thai

⁶⁰⁶ Donald E. Neuchterlein, 'Thailand after Sarit', *Asian Survey* 4, no. 5 (May 1964): 842–50, p.843.

⁶⁰⁷ Phongpaichit and Baker, *Thailand: Economy and Politics*, pp.272-273.

history and ‘any study of the “historical construction” of the present cannot fail to note just how profoundly events of this [Phibun] era have contributed to shaping the country’s political development’.⁶⁰⁸ They were also, as has been a principal argument of this dissertation, fundamental to Thailand’s economic development and the continued modernization of the country which took place under Thanarat.

Staunchly anti-communist and eager to please the United States, the Thanarat government shunned state enterprises, shut down Phibun-era factories, and encouraged private investment. Under Thanarat, the Industrial Finance Corporation of Thailand (IFCT) was founded in 1958 with the specific purpose of lending to local private enterprises and promoting the participation in the economy of domestic and foreign capitalists. Thanarat took seriously the recommendations of the World Bank, established the Budget Bureau and the National Economic and Social Development Board (NESDB) under the Bank’s guidance, and began national planning for economic growth with concrete schemes.⁶⁰⁹ During this period, the Board of Investment (BOI) was initiated to attract local and foreign investors. The Thanarat regime is generally characterised as the period of healthy economic growth and large foreign investment and contrasted favourably with Phibun’s stifled, haphazard state-led industrialisation.

Although by the time of Thanarat’s ascendancy the legacies of the war can no longer be disentangled from the flow of events over the previous 12 years, there are nevertheless many and important carryovers from wartime legacies. Thanarat was able, in very real ways, to build on the legacies of war, occupation and Phibun. The effects of the war had a major impact on Thai economic development that continued after 1957. They provided, in fundamental respects, an economic foundation on which Thanarat could build.

⁶⁰⁸ Ferrara, *Political Development*, p. 143

⁶⁰⁹ Silcock, ‘Outline of Economic Development 1946-65’, p.21; Silcock, ‘Money and Banking’, pp.267-281; Phongpaichit and Baker, *Thailand: Economy and Politics*, p.137.

Developmental underpinning included infrastructure, physical capital and an enhanced institutional framework.

The expansion of roads and infrastructure during Phibun's premiership paved the way for greater internal market integration, serving to promote economic growth. The Phibun government created the administrative framework that allowed Thailand to readily accept and make the most of foreign aid, which was an important contributor to economic development and the capital for it.⁶¹⁰ Skilled workers and labourers whom state enterprises inherited from the Japanese occupation afforded human capital for private industrial ventures after 1957. While state enterprises were sold to private companies, all the government-owned capital goods remained. The machinery purchased by state ventures simply changed hands and went on as part of the manufacturing sector. Nor did the more diversified agricultural base deemed essential, which had been begun during the war and expanded in the early 1950s, disappear. The expanded cotton, hemp and sugar industries still afforded sources of raw materials for private factories under Thanarat, as did maize and kenaf production.

Many of the institutions founded during the war, most prominently the Bank of Thailand and several indigenous commercial banks, persisted and with a great economic and financial significance, which in many instances still obtains. Thai banks formed during the war continued to dominate the country's commerce, expanded their financial networks into other agricultural goods as well as continuing to forge powerful political alliances.⁶¹¹ These banks furthered economic development by funding international and domestic trade, expanding the markets for Thai goods both at home and abroad.

⁶¹⁰ Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, p.85.

⁶¹¹ Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.89; Chaiyasoot, 'Commercial Banking', p.238.

Bureaucratic capitalism and elites' hold on the Thai economy that solidified in the immediate post-war period did not end in 1957 but assumed a dynamic of its own as it flourished in the Thailand of the 1960s and beyond. While the government no longer invested heavily in factories, bureaucrats still forged personal alliances with capitalists, and used the resultant power and influence in a manner similar to a pattern apparent in the Phibun era. Some scholars suggest that by the post-Phibun years politicians had to 'work harder' to secure ties with companies.⁶¹² If so, that effort was marked by success: by the time of Thanarat's death, the people in his social circles controlled over 12 private financial institutions, 15 companies in the industrial sector, and 10 in the commerce.⁶¹³ The physical and material effects of the war, along with its effects in economic development, social structure, institutions and entrenched power remained in Thailand long after 1945.

⁶¹² Unger, *Building Social Capital in Thailand: Fibers, Finance, and Infrastructure*, p.90.

⁶¹³ Paul Chambers and Napisa Waitoolkiat, *Khaki Capital : The Political Economy of the Military in Southeast Asia* (Copenhagen, 2017), p.47.

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