

2004

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### Recommended Citation

Gilliard, Debora J. (2004) "Two Developing Countries with two Different Economic Results: A Comparative study of Thailand & Morocco," *Journal of International Information Management*: Vol. 13 : Iss. 4 , Article 6. Available at: <https://scholarworks.lib.csusb.edu/jiim/vol13/iss4/6>

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## **Two Developing Countries with two Different Economic Results: A Comparative study of Thailand & Morocco**

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### **ABSTRACT**

*After visiting Thailand in 1996 and Morocco in 2001, it was very evident that these two countries had many similarities. Both countries are ruled by monarchs, both are developing countries, and both have overcome many adversities. However, today we find these two countries are very different in their involvement in the global community and in their local economic development. This paper is a study of similarities and differences in the development of Thailand and Morocco which has resulted in the current economic status.*

### **INTRODUCTION**

Do developing countries experience common problems/successes as they grow and expand in their economic development and entrance into the arena of international trade? Why do some developing countries grow rapidly in the international market place and others lag far behind? What factors might affect developing countries in their economic development and their entry into the global market? These are some of the questions I asked after visiting Thailand and Morocco. Both countries are poor, have limited natural resources, and are Monarchies. However, Thailand appears much more advanced in its stage of economic development and more involved in international trade than Morocco.

The purpose of this paper is to explore these two countries in greater detail to determine the degree of similarities and differences. The first section will provide a review of factors contributing to the economic development of poor or developing countries. This will be followed with a brief history of each country, comparison of the government/political systems, economic trends, and business climate.

### **ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES**

What factors might affect the economic development of developing countries? What problems do these same countries face in their bid to improve economic and social conditions for their citizens?

El-Ghannam (2002) has defined a number of development problems faced by the poorer countries of the world. These include high rates of population growth, the movement of citizens from rural to the more prosperous urban areas, the declining per capita agricultural activity, chronic poverty, high levels of unemployment, a widening disparity in the distribution of income, educational and health care systems that must be changed and updated, international debt problems, and an increasing reliance on foreign aid. Countries that share these problems also share goals of reducing poverty levels, reducing unemployment, and improving education, health, and housing.

Research has indicated that economic development is negatively associated with population growth, low levels of education, and low levels of health care. Economic development is positively associated with more total exports, smaller population growth rates, (El-Ghannam, 2002; Greenaway et. al., 2002), investment, more energy consumption per capita, a higher percent of citizens living in urban areas, manufacturing output (El-Ghannam, 2002), and the development of financial intermediaries and equity markets (Nourzad, 2002). A discussion of the political system that best promotes economic growth is imperative. Although democracy may be essential for long-term economic growth because it is more transparent in policy-making, is able to control corruption, and must account to the public, some believe an undemocratic, or authoritarian, form of government may best serve developing countries in the short-term (Chan, 2001). It is suggested that an authoritarian form of government may be able to more uniformly apply policies, effectively intervene in economic management (and avoid special-interest pressures), impose policy, and obtain quicker results from policy implementation (Chan, 2001). However, a democratic form of government more readily ensures

long-term political stability that encourages investment by foreign firms.

Prahalad and Hammond (2002) suggest that multinational companies that invest in the markets of developing countries can positively influence commerce and economic development. However, many firms are concerned that the barriers to commerce often found in developing countries will make it more difficult to realize profits in these markets. The barriers that concern corporations include corruption, illiteracy, inadequate infrastructure, currency fluctuations, and bureaucracies.

So what can developing countries do to encourage economic development and progress? Leaders can ensure that there is good governance, stable regulatory systems, and appropriate economic policies to encourage foreign investment (Prahalad & Hammond, 2002; Watts, 2002). Watts (2002) reports that Foreign Direct Investment is a key to progress in developing countries, however only 5% of FDI goes to the 40 least developed countries. In addition, countries can expand primary education, lower population growth rates, invest in infrastructure, utilities, communication services (El-Ghannam, 2002), communication networks (Prahalad & Hammond, 2002) and engage in trade liberalization practices such as decreasing average tariffs (Greenaway, et. al., 2002).

### BRIEF HISTORY OF THAILAND

The area now included in Thailand is believed to have been inhabited for 4,000 to 5,000 years (Wyatt, 2001). The people probably spoke Mon-Khmer and were part of many local states that developed in the area. By the end of the 1200s major states, such as Sukhothai, and the Kingdom of Angkor were in evidence. Thai people continued moving southward onto the central plain eventually establishing a new center of power in the Kingdom of Ayutthaya in 1351. The Burmese Kingdom conquered Ayutthaya in 1569 and independence was not reestablished until the 1590s. The leaders of Ayutthaya strengthened the state by further developing international trade with the Dutch East India Company, the English East India Company, and with China. Visitors referred to Ayutthaya as Siam. The Burmese again invaded in 1760, but an invasion by China kept the Burmese from colonizing Siam. The Siamese throne was taken by a former governor, Taksin. He was eventually deposed and Taksin's chief general, known as the Chakri (in reference to his function), was brought to the throne. This was the beginning of the Chakri dynasty, which continues to rule Thailand.

The Chakri took the throne as King Rama I in 1782. He was an intelligent individual and a natural leader. The capital of Thailand was moved to the eastern shore of the Chao Phraya and named Bangkok (Wyatt, 2001).

In the early 1800s there was increasing pressure from the British to open up Siam's trade. In 1826 the Thai government agreed to sign a treaty with Britain that allowed British merchants trade concessions in Siam. A similar treaty with the United States was signed in 1833. Siam signed the Bowring Treaty in 1855 which yielded free trade, extraterritorial rights and special privileges to Britain. Similar treaties were later signed with the United States, France, Japan, and many other nations. The treaties were known as unequal treaties because they placed Thailand in a subordinate diplomatic position. However, it allowed Siam to maintain its independence while all other Southeast Asian countries were colonized.

Between 1880 and 1910 many reforms were begun thus establishing most of Siam's modern government. Also, new schools and a tax collection system were launched. Taxes were used to finance reforms and create jobs.

During World War I, Siam sided with the Allies and representatives were present at the Versailles peace conference. Rama VI hoped to gain support for ending extra territoriality and in the early 1920s the unequal treaties were ended.

In 1932 the absolute monarchy was overthrown in a bloodless coup and the king was persuaded to accept a constitutional monarchy (Wyatt, 2001). In 1939, the name of the country was changed from Siam to Thailand to popularize the idea of its leadership to all speakers of the Tai languages and to emphasize Thai identity as being distinct from the Chinese minority. From 1932 until 1992, military rule was periodically established and new constitutions were written. In 1992 military rule ended and in 1997 a new democratic constitution was written. Since then there has been accusations of corruption among government leaders.

In 1997, the Thai currency fell against the U.S. dollar resulting in the failure of many businesses and financial

institutions. The International Monetary Fund offered loans and measures to restore the economy. By late 1998, the exchange rate improved. In January 2001, the first general elections were held under the 1997 constitution (Wyatt, 2001).

### **A BRIEF HISTORY OF MOROCCO**

The original inhabitants of Morocco were the Berbers (Encarta-Morocco, 2001). However, Morocco has known many invaders. The Phoenicians invaded in the 12<sup>th</sup> Century B.C. and established trading posts along the Mediterranean coast. These colonies were taken over by the Carthaginians. Morocco was incorporated into the Roman Empire in 42 AD as the province of Mauretania Tingitana. The Vandals began occupying Morocco/Mauretania Tingitana in 429 and the Byzantines defeated the Vandals in 533.

While expanding the boundaries of the Islam religion, the Arabs invaded Morocco in 682. Under the Arab dynasty of the Almohads (1147-1258), Morocco became the center of an empire that encompassed Algeria, Tunisia, Libya, and parts of Spain and Portugal. After the fall of the Almohad Empire, Morocco was engulfed in a period of disorder and civil wars between the Arabs and Berbers. During the golden age of Morocco, the country was unified, became prosperous, and the arts and architecture flourished. Nearly 1 million Moors and Jews entered Morocco after being expelled from Spain in 1492.

Portuguese and Spanish gained control over much of the Moroccan coastal area in the 1400s and 1500s. By the end of the 17<sup>th</sup> century, Morocco had regained control over their coastal cities. During the 18<sup>th</sup> and 19<sup>th</sup> centuries pirates from Morocco and other Barbary states preyed on ships in the Mediterranean Sea. Because Morocco shared control of the Strait of Gibraltar with Spain, Morocco carried a great deal of weight in the diplomacy of the European maritime powers.

In 1904, Britain recognized Morocco as part of the French sphere of influence. At this time France and Spain divided Morocco into zones of influence with France controlling the northern area and Spain controlling the southern area along with regions south of Morocco. In 1912, the sultan recognized the protectorate and France gained a larger share of Morocco.

During World War II Morocco served as a major Allied supply base. By 1950 the sultan pleaded with the French for self-government. This plea was rejected. However, in March 1956, the French recognized Moroccan independence. Sultan Mohammed V assumed the title of King in 1957 and his son, Hassan II, assumed the throne in 1961 upon his death. Hassan II established a constitutional monarchy in 1962 and the first general elections were held in 1963. However, the King suspended parliament in 1965 for 2 years. The Spanish returned territory to Morocco in 1976, which triggered a nationalist guerrilla movement that proclaimed Western Sahara as an independent nation. In order to counter this movement and to protect the valuable phosphate mines, King Hassan committed additional troops to the area. A cease fire was implemented in 1991. Hassan II died in July 1999 and was succeeded by his son Mohammed VI (Encarta-Morocco, 2001).

Both countries have been occupied throughout a large part of their history. However, it is noted that Thailand gained its independence from foreign governance in the 1590s. Open trade policies began in the early 1800s and in the late 1800s schools, taxes and reforms were initiated. As stated in economic theory, educational levels, exports, and good regulatory systems promote economic growth. Conversely, Morocco did not achieve independence until 1956. Its history suggests limited levels of engagement in international trade, which, along with limited development of infrastructure and the education system has impeded Morocco's economic development.

### **COMPARISON OF GOVERNMENTS**

Thailand was ruled by an absolute monarchy from 1782 until 1932 (Wyatt, 2001), when it became a constitutional monarchy. The king serves as head of state and commander-in-chief of the military. The king is highly revered by the Thai people and exercises considerable influence in political and moral issues. The chief executive is the Prime Minister who is designated by the House of Representatives and is usually a leader in the dominant party.

The National Assembly exercises legislative power in Thailand. It is composed of the House of Representatives (500 members) and the Senate (200 members). Although there are 11 major political parties in Thailand, 4 parties dominate the legislative process.

The 1997 Constitution is the 16<sup>th</sup> constitution of Thailand. This constitution is the first to include a bill of rights for all citizens. The authority of the central government is superior to provincial and municipal governments, although more power has moved to the local level in recent years (Wyatt, 2001).

Morocco is a hereditary monarchy with the monarch serving as head of state and appointing the prime minister and cabinet. The monarch must be male and serves as chief of the armed forces (Encarta-Morocco, 2001).

The legislature consists of the Chamber of Representatives (325 members) and the Chamber of Advisers (170 members). Although Morocco is a multiparty political system with 16 recognized political parties, 3 parties dominate.

A new constitution became effective in 1996. It was more democratic than previous constitutions and it created a second legislative body, however, it maintains supremacy of the King (Encarta-Morocco, 2001; Info-Prod Research, 1999).

Both countries are ruled by monarchs. Chan (2001) suggests that an authoritarian form of government can be economically beneficial in the short-run, but the leader must apply policies uniformly and participate in economic management. It appears this has occurred in Thailand with the King being very involved in issues, but the Moroccan monarch is less involved in economic issues, trade development, and regulations that encourage trade and is more involved in improving health, unemployment, social disparities, and housing (Denoeux, 2001) which are important, but do not lead as quickly to economic development.

Both countries have a role in the illegal drug trade. Thailand is a minor producer of opium, heroin, and marijuana. It is part of the heroin trade route to the international drug market. However, eradication efforts have reduced the production of opium poppy and cannabis cultivation. Morocco is a producer of hashish and trafficking has increased in both the domestic and international drug markets. The country is a transit point for cocaine as it moves from South America to Western Europe (CIA Factbook, 2000).

Corruption exists in both countries although Morocco has established a special court and Thailand has established the Commission of Counter Corruption to combat corruption. US Firms and their representatives subject to the Foreign Corrupt Practices Act can successfully do business in Thailand. Offering and accepting bribes is illegal in Morocco, however, US firms have indicated that corruption is an obstacle to doing business in Morocco (U.S. Commercial Service, 2001; U.S. Department of State, 2000), and as a result, many multinational corporations will choose not to enter the Moroccan market which will impede economic development (Pralhad and Hammond, 2002).

### COMPARISON OF ECONOMIC TRENDS

A comparison of country data is found in Figure 1 and a comparison of the domestic economy of each country is found in Figures 2 and 3.

Figure 1: Country Data

	THAILAND	MOROCCO
Population - 2002	62,35402	31,167,783
Population Growth Rate - 2002	.88%	1.68%
Ethnic Groups	Thai 75%; Chinese 14%;	Arab-Berber 99.1%; Other

	<b>THAILAND</b>	<b>MOROCCO</b>
	Other 11%	.7%; Jewish .2%
<b>Religions</b>	Buddhism 95%; Muslim 3.8%; Christianity .5%; Hinduism .1%	Muslim 98.7%; Christian 1.1%; Jewish .2%
<b>Languages</b>	Thai, English, local dialects	Arabic, French (used in Business and Government), Berber
<b>Literacy Rate</b>	93.8%	43.7%
<b>Internet Users - 2000</b>	2.3 million	200,000
<b>Personal Computers per 1000 people- 2000</b>	24.3	12.3

Figure 2: Thailand - Economic Data

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>GDP current dollars (\$bil.)</b>	150.7	112.1	123.9	122.3	114.8
<b>GDP Growth rate</b>	- 1.7%	-10.2%	4.2%	4.5%	1.4%
<b>Per Capita Income (\$)</b>	2,478	1,824	1,996		
<b>GDP per capita</b>			\$6,400		\$6,600
<b>Unemployment</b>	1.5%	4.4%	4.2%	4.5%	3.9%
<b>Inflation</b>			2.4%		1.6%
<b>Exchange Rate - Baht</b>	31.36Baht= US\$1	41.39 Baht= US\$1	37.84 Baht= US\$1	37.35 Baht= US\$1	43.432 Baht= US\$1
<b>Total Exports (US\$ millions)</b>	56.7	52.9	56.8	62.3	65.3
<b>Total Imports (US\$ millions)</b>	61.4	40.6	47.9	56.0	62.3

Figure 3: Morocco - Economic Data

	1998	1999	2000	2001
<b>GDP (US\$ millions)</b>	36,141	35,024	35,407	33,700
<b>GDP growth</b>	6.3%	-.7%	.7%	5%
<b>GDP per capita (US \$)</b>	1,301	1,240	1,233	3,700
<b>Unemployment</b>	19.1%	22.4%	23.0%	23%
<b>Inflation</b>	2.7%	.7%	2.5%	1%
<b>Exchange Rate - Dirhams</b>	9.604DH = US\$1	9.804 DH = US\$1	10.051 DH = US\$1	11.303 DH = US\$1
<b>Total Exports (US \$ millions)</b>	7,147	7,376		8,200
<b>Total Imports (US\$ millions)</b>	8,431	10,279		12,400

Thailand's main exports are computers and parts, textiles, and rice. Main imports include capital goods, consumer goods, and fuels. Thailand was the United States 25<sup>th</sup> largest export market in 1999 and the U.S. is Thailand's largest trading partner (U.S. Dept. of State, 2001). Thailand's main trade partners are the United States, Japan, Singapore, China, and Malaysia (CIA World Factbook 2002). The U.S. has total accumulated foreign direct investment of \$15 billion in Thailand (U.S. Dept. of State, 2001).

Throughout the 1990s, Thailand experienced about 10% annual GDP growth (U.S. Dept. of State, 2001). In 1996, GDP growth declined and in July 1997 the government abandoned defense of the Baht and allowed the currency to float. This resulted in a crisis in the financial sector with 74 of the 107 financial institutions being shut down, taken over by the state, or merged with others. In addition, non-performing debt increased, manufacturing production declined, investment declined (U.S. Commercial Service, 2000; U.S. Dept. of State, 2001). To counter this major crisis, Thailand officials worked with the International Monetary Fund in restructuring banks and corporations, resolving nonperforming loans, and reforming bankruptcy and foreign ownership laws (Thailand Division of Economic Information, 2003). The new constitution has supported this effort (U.S. Dept. of State, 2001; World Bank, 2000; Bunyamance, 1999). The Thai government has made great strides in overcoming the economic crisis and expectations include growth in manufacturing and an expected balance of payments surplus. The currency is stable, inflation is within acceptable bounds, and interest rates are not expected to change, all of which support economic development.

Exports grew 30% in the first quarter of 2000 and significant foreign investments in plant and equipment have occurred. The sectors of electronic manufacturing and assembly and the automotive sectors have greatly supported Thailand's export growth.

Thailand has focused its attention on its international policy on trade development and investment. It is a member of the Association of Southeast Asian Nations (ASEAN), the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation Forum (APEC) (U.S. Dept. of State, 2001).

Morocco's main imports are semiprocessed goods, machinery and equipment, food, consumer goods, and fuels. Their main exports are phosphates and fertilizers, food, and minerals. Morocco's main trading partners are France, Spain, Italy, Germany, United Kingdom, and the United States

Morocco has the world's largest phosphate reserves, a very diverse agricultural sector (it accounts for 15-20% of GDP), numerous fisheries, and a growing tourist industry (it grew 18% in 1999) (Info-Prod Research, 1999). The manufacturing sector is growing and the Moroccan government has deregulated the telecommunications sector. The illegal production of cannabis contributes to the local economy. Morocco runs a trade deficit and there is concern that the unresolved Western Sahara dispute could affect the business climate (U.S. Dept. of State, 2001). Denoeux (2001) reports that Morocco lacks an economic strategy and needs further economic restructuring.

It appears that exports and the level of international trade involvement effects these two economies. In 1999, Morocco's exports/GDP is 29% while Thailand's exports/GDP is 45%.

Economic theory predicts that lower population growth rates, better education/higher literacy rates, stable currency exchange rates, low unemployment rates, and export growth are contributors to economic development. In comparing the two countries, Thailand has a lower population growth rate, higher literacy rates, lower unemployment rates, and increasing exports. Since 1997, the Thai Baht has been allowed to float thus allowing the currency markets to set the exchange rate, and the Baht has been stabilized (Thailand Division of Economic Information, 2003). Conversely, Morocco has had a higher population growth rate, high unemployment, and a very low literacy rate which suggest poor economic develop opportunities. However, Morocco has maintained a steady exchange rate since 1998. Although it exports are growing, Morocco is not as involved in international trade as Thailand.

## **BUSINESS CLIMATE**

### **Labor Market**

In 2001, the labor force in Thailand consisted of 33.4 million workers. This includes all Thais 13 years of age and older who are actively seeking work. In 2000, approximately 39.8% of those employed were engaged in the agriculture sector. As recovery continues there is expected to be a shortage of skilled and experienced engineers, technicians, and managers (U.S. Commercial Service, 2000; U.S. Dept. of State, 2001).

The Thai education system lags behind developed country standards. In an effort to combat illiteracy, in 1977 the Thai government instituted compulsory education that is required through grade six. Thailand is in the process of changing its educational system to provide free basic public education for not less than 12 years and to raise the compulsory education level to 9 years.

In 1998, Thailand instituted labor laws to become more in line with ILO standards. The laws cut the workweek to 48 hours, instituted rules concerning hazardous work and overtime pay, included vacation days, and prohibited the employment of children under age 15 (Stott, 2001; U.S. Dept. of State, 2001).

The workforce in Morocco is estimated to be 11 million workers (in 1999) with about 40% of the workers in the agriculture sector (World Bank 2002). About 5% of the workforce is unionized (U.S. Dept. of State, 2001).

Schooling is compulsory for children between the ages of 7 and 16. Approximately 73 % of girls and 95% of boys attend primary school while only 39% of children attend secondary school (Encarta-Morocco, 2001).

Labor laws in Morocco are derived from the French. Morocco has ratified the ILO convention with regards to the right to organize and bargain collectively. Current labor laws make it difficult to fire workers. Dismissed employees receive an indemnity based on years of service. In the informational economy labor laws are often ignored. Minimum wage is 1800 dirhams per month (about \$180), however workers are usually paid between 13 and 16 months salary each year. Women comprise about 25% of the workforce. Although the official unemployment rate is about 14%, outside observers put the unemployment rate much higher (U.S. Dept. of State, 2001). The government made significant wage and benefit concessions in the summer of 2000 in an attempt to buy social peace and Morocco experienced high levels of labor unrest and a breakdown in the dialogue between unions and employers in 1999 and 2000 (Denoeux, 2001).

Good education systems in a country can provide companies with skilled labor and encourages multinational firms to invest in a country (El-Ghannam, 2002). Thailand's high literacy rates and 12 years of compulsory education

provide greater opportunities to multinational firms than might be found in Morocco.

### **Intellectual Property Rights Protection**

The Thai government improved intellectual property rights protection in 1998 and 1999. However, trademark piracy is a growing problem. Efforts to protect intellectual property include tracking pirated products and confiscating equipment used to produce the pirated products. Thailand established the IPR Court in 1997 and it is functioning efficiently (U.S. Dept. of State, 2001).

Although Morocco has a regulatory and legislative system for protecting intellectual property, strong enforcement is lacking. Morocco does comply with WTO TRIPS obligations. Software piracy is a problem with licensing agreement violations. The government continues to attack video piracy, and the music community has stepped up enforcement efforts on CD and audiotape piracy. Counterfeiting of clothing, luggage, and consumer goods is common although the products are sold primarily in the domestic market and not exported (U.S. Dept. of State, 2001).

Countries that provide regulatory policies (Chan, 2001; Prahalad and Hammond, 2002; Watts, 2002) that protect intellectual property will be much more attractive to multinational firms. However, policies are not enough. A country must follow through with enforcement of policies which, in this case, Thailand is able to do better than Morocco.

### **Trade Regulations**

In 1999, the average tariff in Thailand was 3.81%. Thailand abides by WTO commitments and GATT guidelines. There are few restrictions on exports or imports and both imports and exports require Customs= entry forms. Labels on food products must have the product name, description, weight, and identify the manufacturer/distributors name and address with the product/label registration number. Labels must be in Thai (U.S. Dept. of State, 2001).

US companies have indicated that there are arbitrary changes in customs regulations in Morocco and that there are often irregularities in the government procurement procedures. The government is in the process of reforming and modernizing the customs administration. The maximum tariff rate of 35% applies to most goods entering the Moroccan market. The 1995 Association Agreement with the European Union calls for the gradual elimination of tariffs on Morocco-EU trade over the next 12 years (U.S. Commercial Service - Morocco, 2001; U.S. Dept. of Commerce, 2001). An import tax of 15% is also applied. Imports are subject to a Value Added Tax of 0% to 20%. Food product imports are subject to an average of 80% cumulated duties and taxes making the prices of these products beyond the reach of the average Moroccan consumer. There are few export controls and prohibited imports apply to firearms, explosives, used clothing, and used tires. Food labels must be in French or Arabic and indicate the country of origin, the date of production, and expiration date. Metric measures must be used (U.S. Dept. of State-Morocco, 2001).

To improve economic development and encourage multinational firms to enter a market, countries should have low tariffs and trade policies that are helpful to businesses (Greenaway, et.al., 2002). As found in this analysis, Thailand has lower average tariffs with few trade restrictions, while Morocco has higher tariffs and arbitrary regulations that are not uniformly enforced.

### **Foreign Investment**

The Thai government promotes an open, market-oriented economy and encourages foreign direct investment as a means of achieving economic development, employment, and technology transfer. In recent years many reforms have been put in place to stimulate foreign investment flows. The program has improved the financial sector, changed bankruptcy and foreclosure procedures, and allows creditors to pursue guarantors. The new Alien Business Act of 2000 allows non-U.S. nationals to increase maximum ownership beyond the current 49% in certain sectors. The U.S.-Thai Treaty of Amity and Economic Relations of 1966 allows U.S. citizens and businesses to engage in business on the same basis as Thais. Thus, U.S. companies may own 100% of their foreign investment in Thailand. In 1999, a total of \$3,557 million dollars was invested in Thailand. The major countries engaged in foreign direct investment include: Netherlands \$649,000,000; U.S. - \$614,000,000; Japan - \$490,000,000; and Singapore - \$478,000,000 (U.S. Dept. of State-Thailand, 2001).

The Moroccan government encourages foreign investment and has made numerous regulatory changes to improve the investment climate. Foreign investment is permitted in all sectors except agricultural land, phosphate mining, and tobacco marketing. The Dirham is convertible for all current and some capital transactions and expatriates may repatriate 100% of their salaries. The Central Bank sets the exchange rate for the dirham against a basket of currencies of principle trade partners (U.S. Dept. of State-Morocco, 2001). In 1999, the total foreign direct investment in Morocco was \$945.6 million. Major countries investing (direct and portfolio investment) in Morocco include: Portugal - \$518,100,000; France - \$383,300,000; Netherlands - \$346,400,000; and Spain - \$211,600,000. Total foreign investment flows from the U.S. in 1999 were \$112,800,000 (U.S. Commercial Service-Morocco, 2001).

Both countries have policies that encourage foreign direct investment which encourage economic development (Prahallad and Hammond, 2002; Watts, 2002).

### **Privatization**

As part of government reform and the International Monetary Fund directives, the Royal Thai government has developed a plan to privatize many infrastructure state-owned enterprises and enterprises in the utility, energy, telecommunications, banking, and tobacco sectors. Arthur Anderson Consulting Company has been hired to draft a plan for state enterprise reform. The State Enterprise Corporatization Act provides the legal framework to convert state-owned enterprises to stock companies. To date, no significant privatization has occurred except in the banking sector where 75% ownership of 2 banks has been sold to foreign investors (U.S. Commercial Service-Thailand, 2000; U.S. Dept. of State-Thailand, 2001).

Since a privatization plan was launched in 1992, the Moroccan government has sold 58 out of 114 state enterprises. In 1999, parliament approved a plan to sell another 28 state-owned enterprises. Included among the enterprises to be privatized are: 6 sugar plants, 9 hotels, 3 banks, and a fertilizer company. There are plans to privatize a portion of Maroc Telecom and Royal Air Maroc (U.S. Commercial Service-Morocco, 2001; U.S. Dept. of Commerce-Morocco, 2001; World Bank-Morocco-2000) and to open up the telecommunications sector to competition by 2002 (World Bank, 2002). However, it is reported that private investment is stagnating (Denoeux, 2001).

## **CONCLUSIONS**

An overview of the political, economic, and business climates of Thailand and Morocco has been provided. There are many commonalities among the two countries. Both countries have 12-13% of their population below the poverty line; they have a labor force that is employed 50-54% in agriculture, 31-35% in services, and 15% in industry; Kings rule in each country; both have been engaged in international trade for centuries; both have been invaded in their history; both are members of the WTO and participate in trade agreements; both have corruption present in the business environment; both have similar problems regarding protection of intellectual property; both have low inflation rates; and yet, it appears that Thailand is more prosperous. Thailand boasts a GDP/capita of about \$6,400; has greater foreign investment; shows a greater amount of international trade in terms of dollar amounts of imports and exports; and Thailand has a lower unemployment rate. So why is Thailand more prosperous?

Economic Development theory suggests economic development is positively correlated to an increase in total exports, lower population growth, increased investment, increased manufacturing output, an authoritarian government for the short-term, multinational corporate investment, stable regulatory systems, policies to encourage foreign direct investment, and decreasing tariffs. Economic development is negatively correlated to high population growth, poor education systems, poor health care systems, and low levels of foreign investment. Barriers that will limit foreign investment include high levels of corruption, poor infrastructure, high illiteracy, bureaucracies, and currency fluctuations.

In reviewing the factors that contribute toward economic development, the following are reasons/actions that may have helped Thailand become a more advanced developing country.

Although both countries are monarchies, the King of Thailand provides influence and input to legislators, laws, and society. This has resulted in less government influence in how business is conducted. The Moroccan monarch is the head of state and is very involved in setting policy. Although the Moroccan government has reduced its role in the economy, there is still an extensive government bureaucracy in place (there are 43 ministers).

Thailand has over \$62.3 million in exported products/services and exports to Asian countries, European countries, and the United States. Morocco has \$7,376 million in exported products most of which go to the European Union, Japan, and India. It is noted that India is a poor country and Japan has had its own economic problems during the 1990s.

The Royal Thai government has made international trade development a priority and a greater portion of its GDP is related to trade. The Moroccan government has made infrastructure development a major priority, thus not concentrating on developing trading relationships.

Thailand has a more literate workforce with a literacy of 93.8% compared to Morocco's 43.7% literacy rate. Thailand has compulsory education of 6 years (and is in the process of increasing this to 9 years) and Morocco also has compulsory education for children ages 7 - 16, but not all children attend school. This implies the Thai workforce has skills and knowledge required by foreign manufacturers. Also, reports suggest that the Thai labor force has more individuals available for managerial or skilled positions than found in the Moroccan labor force.

The average tariff in Thailand is 3.8% thus making foreign products affordable to local consumers. The Moroccan tariff is generally 35% plus an import tax and VAT is added to the cost of foreign goods, thus making foreign products expensive for local consumers. Companies want to be able to sell their goods to a large number of consumers when entering a market.

Thailand has policies to stimulate foreign investment. Total foreign investment in Thailand was \$3,557 million in 1999. Total direct investment in Morocco was \$945.6 million in 1999 with Spain and France being major investors. Note that as a former protectorate of Morocco, France only invested \$383.3 million in Morocco in 1999.

This comparative study of Thailand and Morocco indicates that the factors which promote economic development hold true in fact. Government policies in Thailand to control corruption, protect intellectual property, reduce tariffs, improve the financial system, and improve education, have encouraged foreign direct investment which in turn has stimulated the local economy.

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