The crisis still looms large

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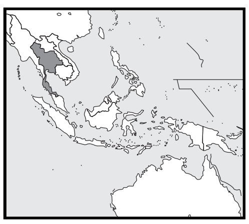

The big creditor patted its wretched debtor on its bleeding head and said: "Keep up your good work. You're nearly out of the tunnel." Only what the creditor didn't say is that there's no light at the end of tunnel. And the poor debtor was too dumb to ask!

Recovery is years away

In August 1997, Thailand asked for a 'rescue' package from the IMF. IMF chief executive Michel Camdessus welcomed this request, confident that "strong actions by Thailand and the financial support that could be extended to it will decisively contribute to stability in financial markets in Asia".[1] But continuing economic crisis is marginalising the Southeast Asia region. As US imports from China and Mexico increase, exports from Asian countries to the US decrease. Foreign direct investment in Indonesia, the Philippines and Thailand has fallen by 15%.

Exports from Thailand have made strong gains, with 20% growth in 2000. Concern was expressed, however, over the rise in luxury imports,[2] and overall imports were expected to increase by approximately 32% for the year. Some economic experts worry that the return to extravagant spending could lead to a repeat of the bubble that sparked the balance-of-payments crisis of the mid-1990s, but others believe the threat is mostly overblown. The latter group's optimism is based on the fact that foreign currency reserves at the end of 2000 stood at a healthy USD 32 billion against a significantly improved foreign debt.[3] A closer look at this project, however, reveals its flaws.

The strong gains in exports were mainly concentrated in the automobile, electronics and electrical appliance industries. When costs for production imports and annual machinery depreciation are subtracted, only about 20% of export earnings from these industries is left in Thailand. Worse still, the profitable and expanding export industries are now mostly controlled by foreign investors, whose profits can be transferred anywhere in the world.[4]

While high-tech exports enjoyed a spectacular 30% growth rate, production for domestic consumption shrunk by 7.5%. As a result, financial institutions and commercial banks were reluctant to lend to small- and medium-sized enterprises.

According to a report by the Bank of Thailand in December 2000, there was a slow-down in the economy in the second half of 2000 as a result of increasing oil prices and decreasing confidence of consumers and the business sector. Despite positive signs of economic recovery and a 4.5% economic growth rate in 2000, the situation is fragile and recovery is far from complete, especially with the public debt still looming large.

1 Michael Camdessus, "Camdessus Welcomes Thailand's Policy Package", IMF News Brief No 97/16, 5 August 1997.

2 Cholada Insrisawang, "Recovery or false dawn?" *2000 Bangkok Post Year-End Economic Review*, downloaded from the *Bangkok Post* website.

3 *Ibid.*

4 Anuch Abhabhirom, Thailand Trend Monitoring Project Report, Vol 8, 15 January 2001.

Public debt: the elusive figures

Thailand's public debt in 1996 stood at Bt 720.53 billion (USD 28.82 billion with an exchange rate of Bt 25/USD 1), or 15.7% of GDP.[5] The official figure, at the end of December 2000, was Bt 2.8 trillion (USD 63.6 billion with the exchange rate at Bt 44/USD 1), or almost 50% of GDP (Bt 5.63 trillion).[6] And to make the figures even more confusing, it is unofficially believed among government critics that Thailand's public debt is closer to Bt 4.5 trillion.[7] In fiscal 2001, the cost of servicing the public debt will be about 7.9% of the Bt 910 billion budget, or about Bt 71.89 billion.[8] The currency exchange rate plunged from Bt 39 to Bt 44 per dollar, adding about Bt 9 billion to debt servicing costs.[9] All in all, no accurate figure of Thailand's public debt is available to the public. One sure thing is that the Thais will be in debt for a long, long time.

Furthermore, the 2001 budget envisions a deficit of Bt 105 billion, excluding refinancing costs of some Bt 500 billion worth of bonds issued in 1998 to cover losses of the Financial Institutions Development Fund. The Finance Ministry's Public Debt Management Office models indicate that total debt will increase by between Bt 705 billion and Bt 1.6 trillion excluding interest from 2002-2006.

The IMF Executive Board has nevertheless concluded that Thailand is emerging from the crisis.[10] The IMF considers an economic growth rate of 4%-5% achievable in 2001 if investor and consumer confidence returns. It recommended early passage of financial sector laws. Simply put, the big creditor patted its wretched debtor on its bleeding head and said: "Keep up your good work. You're nearly out of the tunnel." Only what the creditor didn't say is that there's no light at the end of tunnel. And the poor debtor was too dumb to ask!

An alternative economy is needed

Following the economic crisis and IMF bailout, many Thais became disillusioned with the IMF, no longer seeing it as saviour but as an instrument for the accelerated penetration of the Thai economy by US capital.[11] The movement against

5 World Bank, quoted by Wichit Sirithaveeporn, in "Public debt looms large on horizon," *Bangkok Post 2000 Mid-Year Economic Review,* 30 June 2000.

6 Public Debt Management Office, *Ministry of Finance News*, No. 11/2544, 22 February 2001, p. 5.

7 Siri-anya, article published in the Thai-language *Manager Daily*, 28 February 2001.

8 Wichit Sirithaveeporn, "Debt bites deep into the budget," *Bangkok Post 2000 Year-End Economic Review,* downloaded from the *Bangkok Post* website.

9 *Manager Daily*, 11 December 2000, quoted by the 8th Volume Report of Thailand Trend Monitoring Project Report, The Thailand Research Fund.

10 IMF Executive Board, "IMF Concludes Post-Program Monitoring Discussion on Thailand," *Public Information Notice*, No. 00/110, 20 December 2000.

11 Walden Bello, Shea Kunningham and Li Kheng Poh, *A Siamese Tragedy*, Bangkok: Focus on the Global South, 1998, p. 9.

globalisation gained a degree of legitimacy it might not have had beforehand.[12] In November 2000, eight leading academicians lead by Prof. Prawase Wasi proposed seven economic measures to ease the country's crisis:[13]

- Negotiate with the WTO to slow down trade liberalisation;
- Review the 11 economic recovery laws issued to benefit overseas investors;
- Scrap globalisation laws that affect the nation's economic sovereignty;
- Urge political parties not to sell commercial banks or state enterprises to foreigners;
- Reform the central bank to make it more independent and efficient;
- Push for the endorsement of economic laws to strengthen small local businesses and to strengthen the country's marketing and export strategies; and
- Urge the public to study international agreements on economic issues before decisions are made.

Financial crisis and 'sticky' poverty

In the Vision Framework of its Ninth Development Plan issued in August 2000, the national development think-tank National Economic and Social Development Board (NESDB) openly admitted the imbalance of the past seven development plans, which focused mainly on economic growth at the expense of natural resources and cheap labour.[14] In the period covered by these plans, Thailand's *per capita* income grew from Bt 2,100 in 1961 to a high of Bt 77,000 in 1996. *Per capita* income in 1999 was Bt 76,000.

Recovery after the 1997-1998 meltdown, the agency said, depended on over-consumption of natural resources and dependency on foreign investment and technology. Thailand's own production bases were weak. Earnings in the agricultural sector were still concentrated in rice, rubber and palm oil, which provided about 61% of the total produce. Labour- and natural resource-intensive industries made up 66% of the industrial sector. Such concentrated production adversely affected income distribution and poverty alleviation.[15]

The main author of the World Bank's World Development Report 2000/1 was Ravi Kanbur.[16] Kanbur resigned when the final report was substantially changed, reportedly at the behest of US Secretary of the Treasury Lawrence Summers. The initial draft contained some important analyses of the relationship between growth, poverty and income distribution. A major finding was that many countries that followed the liberalisation agenda and initially experienced fast growth, subsequently went through an economic crisis like the one Thailand experienced. Moreover, while poverty was reduced and income distribution improved during the high-growth period, these gains were reversed by the crisis. Most importantly, after the crisis, countries found it much more difficult to recover the old trends of poverty reduction and redistribution. In the words of the draft report, poverty became "stickier", more difficult to get rid of.

There are several reasons for this. First, economic crises not only increase poverty but also reduce the ability of the poor to escape poverty because their assets, which accumulate very slowly, are rapidly destroyed in a crisis. Secondly, "liberalisation crises" often mark a turning point from a phase of relatively steady growth, to a phase of much greater volatility. The economy now alternately sprints and stumbles, driven by short-term swings in international confidence and capital movements. Growth is not only slower on average, it is also less effective in reducing poverty. Thirdly, governments emerge from such crises burdened with high public debts, and hence with reduced capacity to implement policies on poverty reduction and distribution.

The draft World Development Report concluded that economic crises increase poverty and inequality, and that countries find it very difficult to reverse these losses. In the final version of the Report, most of these findings have been censored out. Instead there is simply a reassertion of the World Bank line that growth reduces poverty.

Thailand has followed essentially the same pattern as described in the World Development Report. Generally steady year-to-year growth since the 1960s enabled Thailand to reduce poverty dramatically. The record on distribution was less positive. The Gini index got steadily worse from 1970 to 1992, and then began to improve slightly. Since 1996, poverty numbers have grown, and the long-term trend toward inequality has resumed. From 1996 to 1999, the number of persons living below the poverty line rose from 6.8 to 9.9 million.

The crisis destroyed social capital and the assets of the poor. Many students had to leave school. Pawnshops were one of the few businesses to prosper in the crisis. Debts of poor households increased. Many families lost some or all of their land. Even as growth returns, Thailand faces the problem of "sticky" poverty. ■

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12 *Ibid*, p. 9.

13 Anjira Assavanonda, report in the *Bangkok Post*, 12 November 2000.

14 NESDB, *Ninth Plan Development Vision Framework*, August 2000, p. 6.

15 *Ibid*, p. 8.

16 The analysis and reference to Ravi Kanbur's work in this and subsequent paragraphs was taken from a talk on the "Economic Growth, Crisis, Poverty and Development" by Prof Pasuk Pongphaichit of the Faculty of Economics, Chulalongkorn University, presented to the Political Economy Centre's annual seminar held in Bangkok, on 22 November 2000.