



## CHAPTER 4

### GLOBALIZATION AND ITS THAI CRITICS

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#### Introduction

It has been argued that “globalization,” particularly the apparent acceleration of global economic integration, has diminished the ability of individual states to formulate and implement their economic policies. “States,” in an admittedly crude characterization, are thus losing their authority and autonomy to manage domestic political economies to “markets.”<sup>1</sup> The debate underpinning the nature, meanings and impact of globalization intensified throughout the 1990s as economic crises in the developing world became more frequent, costly and difficult to rectify. The crises among emerging-market economies were increasingly taken as evidence of limited state capacity to manage its domestic economic affairs in the face of the globalization of market forces. In particular, the “Asian crisis” of 1997-98 was widely viewed as a demonstration of the powerful forces of financial globalization and the constraints they place on the East Asian states’ ability to control their domestic economies.

This chapter explores the globalization debate with special reference to Thailand, the geographical genesis of the Asian crisis. Contrary to what is now the conventional wisdom in Thailand, I argue that the country’s economic crisis in 1997 was domestically rooted, with external factors playing a secondary role. In the aftermath of the crisis, a coalition of vested interests comprising disaffected business groups, with unwitting intellectual support from academics and NGOs who opposed neoliberal structural reforms mandated by the International Monetary Fund, arose to hinder, undermine and reverse Thailand’s post-crisis reforms and adjustments. This coalition eventually succeeded in realizing their agenda when the Thai Rak Thai party-led government of Prime Minister Thaksin Shinawatra took office in January 2001. Thaksin’s populist/nationalist policy platform has since turned Thailand further away from the structural reforms needed to propel the Thai economy forward into the 21<sup>st</sup> century. To demonstrate this argument, the chapter is divided into three sections. The first homes in on the primary, domestic causes of the crisis. The second section surveys alternative explanations. Finally, the anti-globalization movement is

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<sup>1</sup> See, for example, Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge, UK: Cambridge University Press, 1996; Strange, *Mad Money*, Manchester, UK: Manchester University Press, 1998.

pinpointed, highlighting the risks it has generated for Thailand's near-term economic growth under the Thaksin government.

### **Democratic transition: A domestic explanation of the 1997 crisis<sup>2</sup>**

Observers on the local scene would be hard-pressed today to locate the domestic causes of the Thai crisis, thanks to anti-globalization public perceptions that coalesced roughly around mid-1998 and to the Thaksin government's nationalistic preferences and "inward-looking" policies since January 2001. Remarkably, throughout the one-year administration of Prime Minister Chavalit Yongchaiyuth from November 1996 and through the first six months of the Chuan Leekpai government from November 1997, local debates were consumed by the search for domestic culpability. Newspaper headlines during much of the 1996-1998 period were dominated by domestic financial scandals. Commercial bankers, central bankers, and an unscrupulous assortment of financiers and elected politicians were exposed for their collusion in the shady extensions of bank loans based on shoddy collateral, with the implicit acknowledgement of the Bank of Thailand (BOT). This nexus of cronyism and corruption rotted the Bangkok Bank of Commerce (BBC), a mid-sized commercial bank whose insolvency in mid-1996 under the Banharn Silapa-archa administration was the catalyst for a broader financial sector collapse and the subsequent balance-of-payments crisis that was capped by a forced devaluation in July 1997. The pursuit of domestic sources of the crisis culminated in March 1998 when a blue-ribbon non-partisan panel of experts, headed by a respected former central bank governor, issued its findings.<sup>3</sup>

That the commercial bankers, BOT officials and elected politicians under both the Banharn and Chavalit coalition governments were able to systematically plunder the BBC and nonbank financial companies during 1995-97 was attributable to an institutional breakdown of Thailand's macroeconomic policy-making regime. Throughout the 1947-88 period, when the Thai economy averaged more than six percent growth per annum, macroeconomic policy management was supervised by a technocracy that became influential on the back of military-authoritarian rule. Economic policymaking in Thailand had been "bifurcated" between clientelistic microeconomic management located in line ministries and autonomous and insulated macroeconomic management anchored primarily around the Ministry of Finance (MOF) and the BOT. This bifurcation was underpinned by an "implicit bargain" between the military and the technocracy. The technocracy was granted substantial latitude in steering macro-policy institutions and macroeconomic policies, whereas the military controlled the clientelistic line ministries and sectoral policies. The technocrats were vested with the autonomy and authority necessary to spur and

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<sup>2</sup> This section is adapted from Thitinan Pongsudhirak, *Crisis From Within: The Politics of Macroeconomic Management in Thailand, 1947-97*, unpublished PhD thesis, London School of Economics, 2001.

<sup>3</sup> Sor Por Ror I, *Raingarn phon kam wikrob lae vinitchai kor tejjing kiaoab satanakarn vikrit tang setthakit* [A Report on the Analysis and Assessment of the Facts Behind Thailand's Economic Crisis] (also known as "Nukul Commission Report"), Bangkok: Thailand Development Research Institute, 1998.

maintain macroeconomic growth and stability. The generals extracted sectoral rent from the maintenance and stability of macroeconomic growth.

As democratization made headway in Thailand from 1988, it empowered and emboldened political parties and elected politicians to penetrate and capture macro-policy institutions, shunting aside technocrats and undermining the military-technocracy bargain. Consequently, the MOF's and BOT's political insulation and macro-policy autonomy were eroded, as new coalitions of vested interests assumed electoral power. The MOF and BOT, as well as their related agencies such as the National Economic and Social Development Board (NESDB), became increasingly politicized and susceptible to clientelism. In turn, the growing empowerment of elected politicians and the marginalization of technocrats led to deleterious macroeconomic policy outcomes, as manifested first in financial sector distress sparked by BBC's demise and later in a full-blown macroeconomic crisis.

The domestic focus of crisis explanations waned soon after the Sor Por Ror I report was publicized. Why? First, the vested interests, particularly the oligopolistic commercial banks and their unviable debtors, stood against the reforms conditioned by the IMF assistance package. These reforms called for a wholesale restructuring of the financial sector, including the closure and liquidation of two-thirds of the 91 nonbank financial companies and the merger and consolidation of one-third of the banking sector. Second, the intellectual opponents of the IMF reforms along the lines of the "Washington consensus" provided the necessary backdrop in mobilizing public opinion against structural adjustments. Hence Thailand began to turn inward from mid-1998. And third, the Chuan government squandered its overwhelming mandate during its first six months of office, unable to persuade both the private sector and the public of the imperative of structural reforms. The upshot was that the pain of adjustment created an opportunity for Thaksin's populist agenda, a subject to which we shall turn in the last section. Before exploring Thailand's inward, anti-globalization drive, it is instructive to cite alternative explanations of the 1997 crisis in some detail.

### **Alternative explanations**

While this chapter has briefly highlighted adverse macro-policy consequences on institutional autonomy from democratization, and has taken a critical line against the corrupting role of certain individuals from both the public and private sectors, other perspectives on the Thai crisis differ. From a Marxist viewpoint, what happened to Thailand in the lead-up to July 1997 was merely another episode in "a global process of capital accumulation and cycles of crisis," emanating from "corporations...in the globalized capitalist system [which] produce and invest themselves into a crisis of overproduction, speculation and boom."<sup>4</sup> Underpinned by a seeming struggle among classes arising from a dialectical and unsustainable socio-economic hierarchy, the instability and contradictions intrinsic in Thailand's (and the world's) capitalist system were allegedly at fault.

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<sup>4</sup> Kevin Hewison, "Thailand's Capitalism Before and After the Economic Crisis" in Richard Robison, Mark Beeson, Kanishka Jayasuriya, and Hyuk-Rae Kim, eds., *Politics and Markets in the Wake of the Asian Crisis*, London: Routledge, 2000, 210.

The trouble with the Marxist line of interpretation is its all-encompassing, deterministic, and timeless assumptions, which lead to static and predictable conclusions. Economic booms fit its outlook, but so do busts and all economic events in between. Given their rigidly deterministic approach, Marxist standpoints on the Thai crisis lack dynamism in analysis and efficacy in practical policy implications. Because their explanatory utility is deterministic and path-dependent, they are unable to differentiate and explain convincingly the timing, depth and underlying dynamics of the Thai crisis, except to note that economic crises are inevitable in capitalist systems. But crises can also engender processes of “creative destruction,” to borrow from Schumpeter.<sup>5</sup> Booms can lead to busts just as frequently and fiercely as busts can beget adjustments and reforms, which can motivate and fuel a continual process of systemic self-renewal. Far from being inevitable, the Thai crisis was critically homemade. As previously stated, it arose from a shift in institutional arrangements, which adversely affected macroeconomic management, and by the empowerment of a coalition of vested interests encapsulated in political parties, the private financial sector, and the politicized technocracy.

While Marxist analysis of the Thai crisis has enjoyed limited currency, the interpretation that has claimed much attention and fame, with a concrete policy agenda in action, is the economic nationalist, “sufficiency” movement. Mirrored by the anti-globalization crusade abroad, Thailand’s “sufficiency” coalition, comprising NGOs, the academic left and the business interests who lost out in the aftermath of the crisis, has viewed Thailand’s economic adversity as having been imposed from *without*. Global financial markets, American economic hegemony, and the IMF’s and the World Bank’s sinister agendas to bring developing countries to their knees were, ostensibly, the culprits.<sup>6</sup> To these critics of globalization, Thailand was forced to open up from as far back as the mid-19<sup>th</sup> century, and has since been dominated by foreign capitalists and multinationals, whose Western-aligned interests are preserved and perpetuated by international financial institutions like the Fund and the Bank. As a consequence, the Thai economy has become too open and too dependent on exports and foreign investment, which makes it susceptible and vulnerable to the whims of powerful external economic forces. Escaping the jaws of foreign economic domination and subjugation requires a greater *inward* reliance on local resources, less on the fickle and unequal international economy.

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<sup>5</sup> Joseph A. Schumpeter, *The Theory of Economic Development*, Cambridge, MA: Harvard University Press, 1951.

<sup>6</sup> See Walden Bello, Shea Cunningham, and Li Kheng Poh, *A Siamese Tragedy: Development and Disintegration in Modern Thailand*, London: Zed Books, 1998; Nicola Bullard, Walden Bello, and Kamal Malhotra, “Taming the Tigers: The IMF and the Asian Crisis” in K. S. Jomo, ed., *Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia*, London: Zed Books, 1998; Saet Siam [pseudonym], *Sabarut america: yutbasart krongkham penjao* [The United States of America: Strategy to Maintain Control], Bangkok: Kroangkarn Withitat, 1998; Bello, “The Asian Financial Crisis: Causes, Dynamics, Prospects”, *Journal of the Asia Pacific economy* 4 (1), 1999, 33-55; Chatthip Nartsupha, *The Thai Village Economy in the Past* Translated by Chris Baker and Pasuk Phongpaichit from original work published in Thai in 1984, Chiang Mai: Silkworm Books, 1999; Kamol Kamoltrakul, *Songkram karn ngoen: muang thai luea tae chen* [Financial Warfare: Thailand Has Only Its Name Left], Bangkok: Mingmit, 1999; Pittaya Wongtrakul, “Botnam” in Pittaya, *Wikrit lok: paen world bank yued prathet thai* [Introduction] in [World Crisis: The World Bank’s Plan to Seize Thailand], Bangkok: Kroangkarn Withitat, 1999; Pasuk Phongpaichit and Chris Baker, *Thailand’s Crisis*, Chiang Mai, Thailand: Silkworm Books, 2000.

The sufficiency coalition was crucially boosted in December 1997, when the Thai monarch in his annual birthday speech called for a “*por piang*” (“enough”) economy. Although the king’s wording might have been translated as “restraint” or “self-restraint,” scholarly critics of globalization and export-led, market-based neoclassical economic development—in an alliance with well-intentioned but misguided NGOs and social activists along with opportunist business interests (e.g. distressed bankers, delinquent debtors and over-leveraged firms)—gleefully hijacked the *por piang* exhortation and spun it first into a “self-sufficiency” and “self-reliance” campaign, which later became the “sufficiency” drive. A powerful reaction to the crisis and its impact, the sufficiency bandwagon promptly accumulated many local converts who were frustrated by and resentful of the deepening crisis. During the first year after July 1997, as the first section of the chapter has alluded to, domestic criticisms of the crisis were vented at the failures, corruption, and collusion among private bankers and financiers as well as elected officials and central bankers, crystallizing in the Sor Por Ror I report. But from mid-1998, as the economic reform momentum flagged and the pain of economic adjustment spread, the sufficiency campaign took the driver’s seat. It has gathered steam since, and was used as an ideological basis for the populist rise of wealthy telecommunications mogul Thaksin and his Thai Rak Thai party (TRT), which won the January 2001 lower house election by a landslide on a nationalist economic policy platform.

In fact, the sufficiency movement is not new. It harks back to a debate on “subsistence” from a generation ago before “globalization” became a buzzword. That debate centered on the alleged moral superiority of “subsistence” agriculture.<sup>7</sup> It was argued that traditional social relations and institutions of “risk-averse” farmers living on subsistence agriculture in halcyon agrarian economies broke down because of capitalist penetration, resulting in social decay and institutional deterioration of rural societies. Opponents of this view contended that farmers acted out of an expected utility perceived to be available from participating in the capitalist economy. Farmers were, in a word, “rational.”<sup>8</sup> They took part in the market economy because they wanted to benefit from it. In the Thai context, the subsistence debate has been reincarnated in the sufficiency movement. Whether Thailand should take its open economy into the future or withdraw it back into a more self-contained past is probably the most contentious question locally since the 1997 crisis.

On this subject, no one has written more than Pasuk and Baker.<sup>9</sup> Their prolific output has closely tracked Thailand’s economic development, especially during the pre- and post-crisis periods. Critical of neoliberal policies in particular and of neoclassical economics in general, they have pinned their critique of the technocracy-driven, outward-oriented economic development prior to 1997 to such ills as income disparity, urban sprawl, environmental degradation, labor migration from upcountry to Bangkok, prostitution, and AIDS. When the crisis struck, their focus shifted. The

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<sup>7</sup> James C. Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia*, New Haven, CT: Yale University Press, 1976.

<sup>8</sup> Samuel L. Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam*, Berkeley, CA: University of California Press, 1979.

<sup>9</sup> See <http://pioneer.netserv.chula.ac.th/~ppasuk/>.

eccentricity of capital flows, the “Washington consensus,” and IMF policies and conditionalities were to blame for 1997 and its aftermath. Ironically, Pasuk also has produced a long line of work, with indigenous researchers, on local corruption.<sup>10</sup> As she has neglected to square off the two bodies of publications between the apparent menace of both globalization from outside and corruption from within, Pasuk has been given to rail against globalization and corruption alternately without considering the weight of causation between them.<sup>11</sup>

This chapter aims to reconcile the two causes. It maintains that the Thai crisis was caused largely from within. The liberalization of the financial sector and the capital account, undertaken for primarily domestic reasons, increased Thailand’s vulnerabilities to external shocks and internal instability, but it need not inevitably lead to the 1997 crisis. The pivotal factor was the role of domestic politics and its impact on macroeconomic management. As with rational farmers who wanted to gain from the market economy by finding the means to acquire modern amenities—such as electric fans, air conditioners, refrigerators, telephone lines, televisions, stereos, electricity, piped water, motored vehicles, and so on—Thailand opened up to the forces of globalization because the country wanted to enjoy the benefits it brought, such as capital inflows, productive technology, and management know-how, not to mention information technology, overseas travel, luxury imports, satellite and cable television, and the like. Moreover, globalization is not a one-way street of exploitation. As foreign companies invested in Thailand prior to the crisis, a number of Thai firms also expanded abroad, including in the United States, United Kingdom, and China.<sup>12</sup>

What happened in 1997 was a lost opportunity, attributable to the unfavorable macroeconomic consequences of political change and to the role of corrupt individuals, as mentioned earlier. The ten-year period during 1988-97 following the semi-authoritarian administration of General Prem Tinsulanond was, in many ways, a wasted decade. Globalization and foreign economic forces did not take the decade away; Thai institutions and certain domestic vested groups squandered it. In and of itself, globalization was not a problem as long as the apportioning of its costs and the sharing of its benefits were effectively managed. As Puey Ungphakorn, the consummate technocrat in the 1950s and 60s, and his generation of technocrats demonstrated, the involvement of foreign capital can be harnessed for local benefit (e.g. World Bank loans to build infrastructure and the attached conditionalities to undertake needed reforms).

To be sure, there is a compelling case to be made for the anti-globalization movement. Pressing issues such as income disparity, rural poverty, and the urban-rural divide pose grave concerns, which should never be taken lightly. Certainly,

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<sup>10</sup> For example, Pasuk Phongpaichit and Sungsidh Piriyaransan, *Corruption & Democracy in Thailand*, Chiang Mai, Thailand: Silkworm Books, 1994; Pasuk Phongpaichit, Sungsidh Piriyaransan and Nualnoi Treerat, *Guns, Girls, Gambling, Ganja: Thailand's Illegal Economy and Public Policy*, Chiang Mai, Thailand: Silkworm Books, 1998; Pasuk Phongpaichit, Sungsidh Piriyaransan, Nualnoi Treerat, and Kanoksak Kaewthep, *Utsabakam kan phanan*, [The Gambling Industry], Chiang Mai, Thailand: Silkworm Books, 2000.

<sup>11</sup> Pasuk Phongpaichit, “Corruption: Is There Any Hope At All?”, paper presented at the Prajadhipok Institute Workshop on Governance, Pattaya, Thailand, November 1999; Pasuk Phongpaichit, “Globalisation and Self-reliance”, 2000. Original draft of article written for *Newsweek*, < <http://pioneer.netserv.chula.ac.th/~ppasuk/>>.

<sup>12</sup> Pavidia Pananond, *The Making of Thai Multinationals*, unpublished Ph.D. thesis, Department of Economics, University of Reading, 2001.

Thailand is beset by myriad economic inequities and social injustices. Hence it is somewhat tragic that the grassroots and liberal elements within the sufficiency movement have failed to make a fervent case for income redistribution, fiscal reforms, and the rule of law. Fiscal reforms, in particular, should include such disparity-bridging mechanisms as stringent taxes on inheritance, real estate and land ownership, and capital gains. The progressive income tax brackets should be made steeper. Tax collection ought to be overhauled, as the MOF-controlled excise, customs, and revenue departments are commonly known to be corrupt. These kinds of domestic economic and structural reforms would go a long way in solving the problems that have been alleged to stem from globalization. Because they are so bent on fending off the foreign influences from globalization, sufficiency proponents have unintentionally diverted attention and energy away from urgent reforms at home.

In addition, the sufficiency movement has inadvertently committed a second unintended mistake. Its fixation with globalization has provided a cushy refuge for the coalitions of interests, which have exploited globalization for their own ends at public expense. As the sufficiency coalition gathered pace, the same individuals who were instrumental in causing the crisis hid behind the anti-globalization shell and beside the poor enforcement of Thailand's weak legal infrastructure, biding their time until the crisis dissipated. By 2001, under the Thaksin government, a host of these individuals have been curiously exonerated, rehabilitated and resurrected as political appointees on the pretence that the 1997 crisis was caused by globalization and that "all concerned" were responsible in the domestic systemic failures.

### **Post-crisis prospects: Populism and "Thaksinomics"**

Whatever their intentions, the rise of the sufficiency movement has been profoundly consequential for Thailand's post-crisis economic policy direction. In the January 2001 general election of the lower house, the Chuan Leekpai-led Democrat Party was rejected by voters en masse for having complied with some of the IMF-mandated reforms. For the first time in Thai political history, the Thai Rak Thai party under Thaksin garnered an outright majority in the lower house, thanks to subsequent mergers with two junior coalition partners, namely Seritham and New Aspiration Party. The TRT's landslide victory relied on a populist policy platform. It won a massive following by pledging a raft of credit injections and public expenditures, under the rubric of so-called "Thaksinomics", including rural debt suspension, investment funds for all 77,000 upcountry villages, national healthcare at minimal costs, a financial sector vehicle to offload more than Bt1.3 trillion of non-performing loans, and the establishment of banks to lend to small- and medium-sized enterprises and retail entrepreneurs under lenient terms. These deficit-spending programs constituted a bonanza of government handouts in an ostensible effort to boost local consumption and thereby spur economic recovery. The Thaksin government indicated that its greater reliance on consumption and domestic demand would enable Thailand to regain economic sovereignty lost to the globalization of economic forces.

Yet economic growth in 2001 came in at just 1.5 percent. As the costs of its populist policies roll in, the government of Thaksin Shinawatra has found itself increasingly cash-strapped. The planned 2001-2002 budget of Bt 1.07 trillion

envisages further deficit spending to the tune of Bt 200 billion, or four percent of GDP, a slight deficit increase on the previous year. Of the next fiscal year's budget, twenty-one percent is pegged to investment, with seventy percent reserved for fixed expenditures, mainly civil service salaries, pensions, and benefits. The remainder is allotted for public debt financing. However, as public debt has trebled since 1997 to 58.5 percent of GDP, or Bt 2.9 trillion, in the face of subdued revenue from lower economic growth, the Thaksin administration has taken an overly optimistic view of its debt financing burdens. Fiscal prospects for 2002 suggest that Thailand's public debt will reach 65 percent of GDP.<sup>13</sup> A sharp fall in revenue and/or adverse external shocks, such as a precipitous rise in world interest rates, would stretch the budget to a breaking point. Indeed, Thailand now faces a looming fiscal crisis unless the Thaksin government reins in its promises of future spending. To be sure, the country's public debt is not all that alarming in a comparative context. Most developing and developed countries have tolerated much higher domestic debt. But for a country that has long benefited from macroeconomic discipline underpinned by fiscal prudence, the threefold increase of Thailand's domestic debt in the past five years merits serious concern.

More alarmingly, Thaksin has surrounded himself with individuals who were integral in paving the road towards economic collapse in 1997. A media mogul, the owner and manager of the *Poojadkarn* (Manager) Group, is a close Thaksin associate. This mogul was involved in the collusion for bogus loans from BBC in the mid-1990s. With a new lease of life from Thaksin, however, his media group's soured loans have been revived, and the group has received fresh credit from state-owned Krung Thai Bank. He also has received lucrative contracts to operate programs on state-run television.<sup>14</sup> In addition, unsavory elements from the Banharn and Chavalit administrations, which manipulated share prices on the local bourse and defrauded BBC in the mid-1990s, have re-entered the political limelight in Thaksin's cabinet. The central bank governor, who was instrumental in allowing BBC to deteriorate beyond repair, is now a chief economic advisor of the Thaksin government. Alas, it appears that the coalition of vested interests who brought on Thailand's economic crisis have lined up behind Thaksin and the TRT. As he has consolidated his control of the lower house, Thaksin is now poised to ram through his government's spending spree to the longer-term detriment of stable economic growth and stability in Thailand.

## Conclusion

Domestic politics laid behind Thailand's economic crisis in 1997, whereas external factors assumed a complementary role. A coalition of commercial bankers, central bankers, and elected politicians colluded to defraud the BBC, provoking financial sector instability that ended with the baht devaluation and a general economic crisis. The aftermath of the crisis left a void for anti-globalization proponents to fill, including the academic left and NGOs, who unwittingly provided an intellectual

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<sup>13</sup> *The Nation*, 2 January 2002, 1B.

<sup>14</sup> See *Bangkok Post*, 7 March 2002, 1.



foundation for Thaksin and the TRT to exploit. As the Thaksin administration took office from January 2001, its populist policies have jeopardized Thailand's future fiscal health but have failed to deliver impressive growth rates as promised. At the same time, the Thaksin government quickly became the rehabilitation den for those who were involved in the lead-up to the 1997 crisis. This has led some observers to question whether Thaksin has simply made errors of judgment in appointing unsavory individuals to run his government. Others question whether Thaksin's coalition of supporters is merely a systematic and well-planned reincarnation of the individuals who led the Thai economy to ruin in the first place.

