

Thailand: Emerging from the financial Crisis

Country Analysis

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Executive Summary

1. Political development

Thailand's political development during the past decades has been rapid and radical. From the 1940s until the mid-1980s, political power was shared by military and business interests, in more or less fragile coalitions. The widespread corruption and vote buying characterizing parts of Thailand's political landscape is a well-documented heritage from these coalitions. Several opposition campaigns and uprisings were forcefully struck down, with the suppression of the student protests of 1973 and 1976 and the 1976-1983 military campaign against leftist guerillas as the most violent events. From the mid-1980s, civilian politicians began to challenge the power of the military and bureaucratic elites, with the government of Chatichai Choonavan leading the way. The response of the military came in the form of a coup in February 1991. In 1992, new violent protests erupted, and it was only the emergence of a broad-based coalition opposing military rule, together with a direct intervention by the highly respected King, that made it possible to avoid widespread bloodshed. Instead, the military junta was forced to withdraw, and an election was announced. In September 1992, Chuan Leekpai was elected Prime Minister, the first one without a strong military or bureaucratic background. The fact that Chuan became Thailand's 50th Prime Minister since 1932 illustrates the country's turbulent political climate. The four different governments that have been in power since 1992 have introduced gradual institutional reforms to further reduce the power of the military and bureaucrats, with the promulgation of a new radical constitution in 1997 as their main political achievement. Yet, serious problems with corruption and vote buying still remain. At present, Thailand has 10 major political parties, with a coalition headed by Chuan's Democratic Party in power. The coming elections in the year 2000 will provide the first tests of the new constitution.

2. Poverty

The rapid growth of the Thai economy from the mid-1980s to the mid-1990s led to significant progress in poverty alleviation. The share of the population with incomes below the poverty line was reduced from 32.6 percent to 11.4 percent between 1988 and 1996, while incomes grew from around USD 1,000 to nearly USD 3,000. The Asian crisis has reintroduced poverty as a major development problem. Although detailed data are hard to find, it is known that increasing unemployment and underemployment have reduced average real incomes by 10-20 percent since 1997, and that more than a million Thais were pushed below the poverty line between 1996 and 1998. The most severe real income reductions have occurred in rural areas, particularly the Northeast. This implies that the population groups that were already weakest before the crisis have probably taken the hardest hit, and that targeted support programs are needed.

3. Economic development

Thailand's economic development during the 1980s and 1990s, until 1997, was very successful and often seen as a model for other developing countries. GDP grew at an average rate of over 8 percent per year between the mid-1980s and the mid-1990s, industrialization and urbanization were fast, and the value of manufacturing exports grew tenfold. However, the basis for a financial crisis was also laid during this period. Liberalization of the financial sector, coupled with high domestic interest rates and a fixed exchange rate, created large inflows of foreign capital and rapid increases in asset prices. This caused relatively high

inflation, and encouraged investments in real estate and financial assets at the expense of investments in the export sector. The result was a reduction in the country's export competitiveness and increasing current account deficits and foreign indebtedness. In 1997, foreign investors began to seriously question the sustainability of the fixed exchange rate, and decided not to roll over maturing short-term debt. This led to an acute liquidity crisis, and the Thai baht was floated on July 2, 1997. The currency depreciated heavily against the major world currencies, and the crisis spread to the rest of Asia. Export incomes fell, companies were not able to service their debt, and the rapidly growing amount of non-performing loans threatened the solidity of the banking system. Thanks to a comprehensive support package coordinated by the IMF, Thailand weathered the acute crisis, and several institutional reforms since 1998 have contributed to what looks like a recovery. Foreign capital has been particularly important in strengthening the financial status of the banking system and the restructuring of large-scale industry. The recovery is still fragile, however. Large problems remain in small and medium-sized firms, where the remaining restructuring challenge is massive. Continuing instability in the regional economy, including Japan and China, may also retard the country's slow recovery.

4. Democracy and human rights

As a result of Thailand's history of military rule, as well as the wide inequalities in income, there have been large differences in people's possibilities to influence political decisions. Power has been concentrated in the hands of the military, bureaucrats, and economically influential individuals, while the democratic traditions have been weak. Corruption and vote-buying have been common. However, recent developments, leading up to the promulgation of the new constitution in September 1997, suggest that significant improvements are being made in democracy and human rights. The new constitution is unique because it has emerged from a process of public consultation involving large parts of civil society, in stark contrast to Thailand's previous 15 constitutions since 1932, which were introduced because someone seized power and tore up the old rules. The new constitution promises a system of proportional representation to reward broad-based national parties, direct election of senators to the upper house, an independent electoral commission, a bill of rights guaranteeing equality to all citizens, and the establishment of special courts to hear complaints about abuse of power by officials and politicians. These provisions strengthen people's ability to participate in public decision-making and to hold elected politicians and public officials accountable for their decisions, and pave the way for a more transparent and democratic political system.

5. Gender equality

Thai women have traditionally had a relatively strong position in society. The rapid growth of the Thai economy during the past decades has had a contradictory impact on gender differences. While increasing industrial employment has provided money, independence, and status for many women, they have not gained much influence in the important areas of politics, law, religion and the military. Many women work in jobs with low pay and low skill requirements, and many others have been drawn into the extensive commercial sex trade. Yet, on the basis of many quantitative indicators, Thai women have been better off than women in many other developing countries. The impact of the Asian crisis on the situation of women is also contradictory. While women are suffering from shrinking real incomes, they have been less severely affected by unemployment than men, because many women have been employed in the informal sector and in the export industries that have slowly started to expand. Other characteristics than gender, such as home region or level of education, seem to

make up the main dividing lines regarding the impact of the crisis. At the same time, there are worrying reports of increasing prostitution from Bangkok and other regions, and the increasing rates of school drop-outs and child labor may indicate that the long term effects on gender equality are more serious than the short term effects.

6. Environment and sustainable development

The past decades of rapid growth have had serious environmental consequences. Although forest concessions were banned already in 1989, deforestation has proceeded at a rapid pace, and the total forest area, excluding plantation forests, is likely to be well below 20 percent. Large land areas suffer from soil erosion, because sensitive forest areas and marginal slope lands are used without water or soil conservation measures. Water resources are subject to extensive exploitation, with deteriorating water tables and regular shortages as a result. Coastal aquaculture, mining, and residential developments have led to a destruction of large areas of coastal mangrove forests and coral reefs. In addition, urban and industrial pollution has grown rapidly. The lower sections of the major rivers suffer from very low oxygen levels caused mainly by domestic waste. The loads of biochemical waste from industry are growing continuously. The use of fossil fuels in industry contributes to severe air pollution, particularly in the Bangkok region. Although Thailand's National Environmental Quality Act from 1992 is one of the most advanced in the region, it has not been effectively enforced, particularly when it has clashed with industrial ambitions. The authorities have encouraged investments in selected industries by providing various incentives, in some cases neglecting the environmental consequences in this process. In the short run, environment has probably benefited from the Asian crisis, because of the generally lower level of economic activity. In the medium to long run, however, there is a risk that environmental concerns are again neglected in an ambition to rapidly raise exports and employment. Particular attention to environmental issues is therefore an essential task for the donor community.

7. Foreign assistance

After a couple of decades as an important aid recipient, the amounts of foreign assistance flowing to Thailand began to stagnate in the mid-1990s, as the Thai economy grew seemingly richer and less dependent on foreign support. The Asian crisis has changed the situation, and reintroduced poverty and other serious problems into the development agenda. Recognizing this change, the international community has mobilized significant resources to support Thailand's recovery. In addition to the USD 17.2 billion financing agreement designed by the IMF, which is concerned with stabilization, macroeconomic issues, and some institutional and legal reforms, numerous other multilateral and bilateral donors have also established programs to support reforms in poverty alleviation, health care, education and other social sectors. A very comprehensive reform program is now in place to address the problems created by the financial crisis. This, together with the incipient signs of recovery, suggests that the scope for bilateral Swedish involvement in the immediate after-care of the crisis is limited. Instead, increases in the degree of Swedish participation in Thai development should focus on some of the long-term issues that are relevant even after a recovery. The three most important areas are environmental protection, education and health care, and the strengthening of civil society. All three are areas where the needs of Thailand are obvious and explicitly expressed in the country's development plans, and well matched by Swedish competence and resources. In addition, it is likely that the development of the Thai economy and society over the next decade will provide knowledge and experiences that will be highly valuable for Sweden's partnerships with other developing countries, particularly in Southeast Asia.

Thailand: Emerging from the financial crisis

1. Introduction

Economics has been the favored topic in most discussions about Thailand during the past decade, for good reasons. The rapid economic development between the mid-1980s and mid-1990s – when Thailand's GDP growth rate, at over 8 percent per year, was among the fastest in the world – generated significant wealth and nearly tripled Thailand's per capita income level, from less than USD 1,000 dollars to almost USD 3,000. Industry and services expanded at the expense of agriculture and the value of manufacturing exports grew tenfold during this period. Although most of the new wealth was created in the urban industrial sector, there were notable income gains in all population groups. The share of the population with incomes below the poverty line was reduced from 32.6 percent to 11.4 percent between 1988 and 1996 (Brimble *et al.* 1999). This impressive performance led many observers to talk admiringly about the Thai economic miracle, and ask whether the Thai model could be replicated in other Third World countries (Dixon 1999:1; Warr and Phanupong 1996:2).

The outbreak of the Asian financial crisis in 1997, which drove Thailand into its worst recession in historical times, led to a distinct change in the debate. Although economics has remained at the center of most discussions, attention has shifted from explaining success to understanding failure. The news during the last couple of years have mainly told about bankruptcies, non-performing loans, insufficient regulation of financial markets, corruption, weak corporate governance, increasing unemployment and poverty, and other troubles. Very little is left of the admiration that was expressed a few years ago, and the question implicit in much of the debate has been whether East Asia's newly industrialized economies (NICs) will ever be able to return to the high growth rates of the late 1980s and early 1990s.

Quite predictably, this country report will also be concerned with economic issues. The attempts to resolve debt and productivity problems in Thailand's industry and service sectors, together with the efforts to reform regulations and institutions, dominate current events in the country and require much attention. Having said this, it is also necessary to note that the emphasis on economics has led to the neglect of some related issues that are of central importance for the overall development of Thai society. The export-oriented growth strategy pursued by successive Thai governments since the early 1980s has left its mark on most areas of the country's development. With a free market philosophy prioritizing growth and exports, it was difficult to avoid conflicts about natural resource use between urban commercial interests and rural populations. While dams, forest plantations, and shrimp farms are beneficial for industrial development, they often impose dramatic changes on the environment, livelihood and lifestyle of local residents. Poverty was reduced in absolute terms, but the limited interest for redistribution led to increasing income inequality, particularly between Bangkok and rural Thailand. The rapid expansion of Bangkok that followed created not only infrastructural bottlenecks, but also severe social problems. Meanwhile, it was clear that the political system was undermined by widespread corruption. Thailand's weak democratic tradition made it possible for powerful economic interest groups to exercise significant political power. It can be argued that some of these environmental, social, and political tensions caused by the growth oriented economic policies contributed to the crisis. Although the short run prospects for recovery depend mainly on economic and legal reforms, it is clear that sustainable development requires that some or all of these

conflicts are resolved. In addition to an overview of the main economic issues, this report will therefore also discuss some of the critical environmental, social, and political issues.

Section 2 of the report, following on this introductory section, provides a brief background covering economic and political developments in Thailand during the decades preceding the Asian crisis. Section 3 turns to the recent economic developments, with a focus on the period after the outbreak of the 1997 crisis and the subsequent reforms of the Thai economy. Section 4 discusses some of the environmental and social consequences of the earlier development strategies, and their relation to recent political developments, with particular emphasis on the process leading up the new constitution that was promulgated in October 1997. This section also examines the social impact of the crisis. Section 5, finally, discusses some possible areas for Swedish involvement in Thailand's development process.

It should be noted that the distinction between economic issues, on the one hand, and environmental, social, and political matters, on the other hand, is made solely for reasons of analytical convenience: it is hardly necessary to point out that developments in various parts of society are interdependent. In fact, some of these interrelations are important enough to emphasize repeatedly. We already noted the obvious connection from economic policy to environment, social issues, and political structure. In the following sections, we will argue that some of the reasons for the financial crisis are to be found in social and political structures, that environmental and social issues have had a significant impact on political development, that democratization has been facilitated by the economic crisis, and that democratization will probably also advance the recovery from the present crisis. These interrelations are important, not least because they confirm the value of a comprehensive framework for development, even in situations where the principal objectives of development cooperation are expressed in terms of sustainable economic growth. This is also the reason why the structure of the present report diverges from the standard 11-section template of Sida country analyses.

2. Background: from military to civilian government and from agriculture to industry

To understand the present problems and challenges facing Thailand, it is necessary to begin by briefly summarizing some features of the country's economic and political development during the past decades. The most important of these features is *change*. Both economic and political structures have changed fundamentally over the past half-century, with the rate of change accelerating from the mid-1980s. In the economic sphere, Thailand has evolved from a producer of agricultural commodities to a diversified industrial nation: although agriculture is still the livelihood of the majority of the population, its share in national production is diminishing fast. In the political arena, democratically elected civilian governments have taken over after a succession of military juntas that ruled the country for more than 50 years after absolute monarchy was abolished in a *coup d'état* in 1932.

This history of extensive and, during the past decade, rapid change has important consequences for the present situation. Firstly, it is clear that the radical transformation of the economy has resulted in frequent conflicts regarding the use of land, water, and other natural resources. Secondly, although growth has benefited the majority of the population, the high rate of change has also created unequal opportunities and widening income gaps, both regionally and between social groups, with social tensions as a result. Both of these features are important explanations for some of the present challenges in the political arena, where demands for further democratization and strengthening of civil society are at the top of the

agenda (as will be discussed in Section 4 below). Regarding economic development, a notable consequence of Thailand's brief industrial history is that few non-agricultural industries have a stable base in terms of technical knowledge and skills. Instead, much of Thai industry relied on cost competitiveness created by an abundant supply of cheap labor. Part of the explanation for the economic crisis that erupted in 1997 is that few firms were able to maintain their international competitiveness when the pool of surplus labor dried up and production costs started rising. One of the challenges in the economic arena is therefore to strengthen education at all levels, in order to create better conditions for sustainable industrial development.

Political development 1932-1992

The military coup that ended absolute monarchy in 1932 marked the beginning of a quarter-century of economic and political nationalism. Two features characterized the development plans produced by the military during the years following their seizure of power. First, emphasis was on rural development rather than on industrialization. Although import substitution was encouraged to some extent, investments were largely channeled to the development of railways and canals, irrigation, rural credit, and land colonization. Second, the plans stressed the central role of the state for the development of both agricultural infrastructure and industry. The state was expected to be the major economic power, and a major objective was to reduce the influence and power of the Chinese businessmen, who dominated both trade and industry at this time. The slogan was "a Thai economy for a Thai people" (Dixon 1999:63).

The 20 different governments that took turns ruling the country between 1932 and 1947 (see Appendix) were not able to establish a stable political environment, but they consolidated the economic power of the state. New state-owned enterprises were set up in several consumer goods industries, and many of the companies established by Europeans and Chinese were nationalized. In many cases, however, the nationalizations were not successful, because the state could not manage without Chinese expertise. Cooperation with the Chinese business groups was often necessary, and the resulting alliances between military decision-makers and businessmen were seldom transparent. In some cases, it was also necessary for businessmen to adopt a less Chinese profile to be able to operate in and with the formally state-owned enterprises (Dixon 1999:67).

The period after the end of Japanese occupation, from 1944 to 1947, was also marked by political instability, and five different civilian governments were in power during these three years. Corruption became more serious as well as more overt, as business interests competed to establish "strategic alliances" with each new government. A new military coup took place in 1947, at least partly in response to the mysterious death of King Ananda, who was found shot in his bed. The military government of Field Marshal Pibul Songkram, which came to power in 1948, was to stay at the helm for almost 10 years in spite of continued political turbulence. The government's strategy was still centered on nationalism and rural development, although the Chinese business interests played a more integral part in the economy than they had done before the war. One reason was that import substituting industry had expanded during and after the war, and became economically more important, especially in Bangkok. The result, according to Dixon (1999:70), was that "Accommodations had to be reached between a business community that was treated as 'alien' and an elite that needed access to its wealth-creating ability. As a result senior politicians and members of the bureaucracy and military joined the boards of major Chinese companies. In return Thai officials supplied government contracts, tax exemption and protection against

discrimination... By the mid-1950s all the major Thai-Chinese banking, rice trading and manufacturing groups that had emerged during the 1930s and 1940s had formed alliances with government figures.” In other words, corruption was institutionalized. Yet, industry was still of secondary importance, and Thailand was predominately an agricultural economy.

Although the Pibul regime may have had an aspiration to eventually develop a system resembling Western democracy, it had very weak political support. Pibul’s two power bases were the bureaucracy and the US, which appreciated his strong anti-Communist stand. The period 1948-1957 therefore remained clouded by political instability and power struggles within the military. Several coups were attempted in 1948-1951, and Pibul was eventually toppled in a coup in September 1957. In October 1958, yet another *coup d’état* brought Marshal Sarit Thanart to power. Sarit’s regime differed sharply from its predecessors on two points. First, absolute power was concentrated to the Prime Minister, the constitution was abolished, and rule by marshal law was introduced. Second, a more market oriented approach was adopted, and industrial development became a major development objective. Hence, Sarit’s accession to power is often considered as the beginning of Thailand’s modern industrial history.

The change in the direction of economic policy – from rural to urban - created new tensions. The need to establish a domestic industrial base required more intensive use of Thailand’s natural resources. The emerging domestic consumer goods industries demanded raw materials. Exports of primary products were needed to finance imports of technology and intermediates. The industrial sector, which was concentrated to Bangkok, also required a steady supply of labor from the countryside. This increasing pressure on the resource base had distinct political consequences. The expansion of agribusiness gradually led to the marginalization of traditional agriculture, changing cropping patterns, social relations, and the distribution of income and wealth in rural areas. Forest and water resources were exploited at an increasing speed, with severe consequences for the livelihoods of indigenous population groups. The settlers that moved to the clear-cut areas lacked land tenure rights, and regularly clashed with government agencies and corporate landowners. The income gap between Bangkok and rural areas widened. Increasing numbers of rural migrants moved to Bangkok to seek employment in the expanding industrial sector, where wages were low and unions prohibited (Pasuk and Baker 1995: 290).

By the late 1960s, these tensions had contributed to the emergence of an underground communist movement and a *de facto* guerilla war in parts of the country. By the early 1970s, there were also peasant protests, labor unrest and strikes, and an increasingly active protest movement among university students. Some businessmen began to question the corruption and lack of transparency in economic decision-making, and even King Bhumibol was encouraging the military junta to prepare for civilian government. Limited political reforms, including a Parliament with some freedom, had been introduced during the second half of the 1960s, but these were revoked in November 1971. The Prime Minister, Marshal Thanom, responded to a parliamentary refusal to grant extra funds to the military by carrying out a coup and dissolving the Parliament. This did not reduce tensions, but led instead to increasingly violent protests. In October 1973, the situation deteriorated into open violence with more than 100 students killed in clashes with riot police.

Thanom’s government appeared prepared to use further force to restore their authority, but they met with surprisingly strong opposition. General Krit, the army commander, refused to use his forces to suppress the demonstrations. The King himself intervened, ordering

Thanom's junta to leave the country, and appointing a new civilian Prime Minister. Policies during the following couple of years clearly aimed to reform the political arena, easing the strict anti-socialist stand of the military juntas and supporting increasing democratic participation from the countryside. The reform process, however, did not reach very far. By 1975, Thailand's right wing had regrouped and mounted a massive attack against the left. The rightist propaganda pitched "nation, religion, and king" and "communism" as absolute opposites, and wave of violence shook the country. Numerous student, peasant, and labor leaders, and left-wing politicians were murdered. On 6 October 1976, the situation deteriorated into something resembling a civil war. Various rightist groups attacked Thammasat University, killing over 100 students and detaining over 1,300. A military coup took place the same day. A new severely oppressive constitution was imposed, outlining a 12-year deadline before an elected Assembly would be restored, and over 8,000 people were arrested on the charge of being a "threat to society" (Pasuk and Baker 1995: 311). Thousands of students fled Bangkok to join the communist guerillas.

By the early 1980s, the military had largely defeated the communist insurgents. The degree of oppression had also been reduced, and two new elements had been introduced into the policies. Firstly, some kind of truce with the countryside was sought. The military used some of the infrastructure they had created in the fight against communism to support rural development. The Royal family was engaged in various rural programs. The development plans began to identify the reduction of rural poverty as a major goal. Second, ideology began to emphasize traditional values, such as nation, religion, and king, as a way to combat radicalism. These efforts were successful, in the sense that the violent conflicts between left and right slowly died out.

The new conflict that emerged during the 1980s was one where traditional military interests were pitched against business interests. Pasuk and Baker (1995: 361-362) identify three stages in this process. Until the mid-1980s, business and military shared power in a fragile alliance. From the mid-1980s, business interests started to challenge the military's claim to power. During this time, Thailand also shifted from the relatively oblique environment of import substitution to a more export oriented development strategy. In a third stage, from the election of general Chatichai to Prime Minister in 1988, elected ministers began to more directly cut into areas that had earlier been controlled by the military or the bureaucracy. The constitution was gradually revised, foreign policy was reoriented, and funds were diverted from military purposes to development projects. The process culminated in February 1991. Prime Minister Chatichai had refused a military request for a large arms purchase, and was preparing to replace the Supreme Commander. The response was another military coup. As several times before, Parliament was dissolved, some political groups were outlawed, the freedom of press curtailed, and a civilian Prime Minister was appointed. A new constitution, granting extensive power to the military, was established. An election was arranged in March 1992, and brought the junta's candidate, General Suchinda, to the post as Prime Minister.

However, business interests were opposed to the military's intervention in Thai politics. The economy had become more outward oriented, and the deterioration of Thailand's reputation carried significant costs in terms of reduced foreign investment and trade contacts, as well as shrinking number of tourist arrivals. They were joined by the urban middle-class, students, workers, and various NGOs. Widespread demonstrations started in April 1992, escalating into street violence in May. With the threat of a repeat performance of the 1976 bloodshed in mind, King Bhumibol again intervened, ordering both General Suchinda and the main opposition leaders to stop the violence. General Suchinda resigned on May 24, and elections

were eventually held in September 1992. The Democratic Party emerged as the largest party, and with support from several other parties that had opposed the military junta, Chuan Leekpai, leader of the Democrats, became Prime Minister. Chuan was not only Thailand's 50th Prime Minister since 1932, but also became the first democratically elected Prime Minister to serve his full term. Although the military's influence over Thai politics remains significant and has diminished only slowly since 1991, there is now a consensus that new military coups are very unlikely, at least for the time being.

Economic transformation 1950-1995

Until the 1950s, Thailand's economy was based on a narrow range of primary commodities, mainly rice, rubber, tin, and teak. Industrial development was limited, both because of the political tension between the nationalistic military governments and the Chinese business community, and because the military leaders insisted on controlling economic affairs directly, by running their own companies (Pasuk and Baker 1995, chapter 4). As noted above, most observers date the beginning of Thailand's industrial development to around 1957 and the establishment of Marshal Sarit's repressive but market oriented military regime. With the support of US aid and foreign investment, more congenial relations with Chinese business, and a steady stream of foreign exchange from primary commodity exports, Sarit's regime was able to embark on a strategy of import substituting industrialization, that was maintained for more than two decades. The results were remarkably good. Manufacturing expanded rapidly, and the annual growth rate of manufacturing production averaged 9 percent from the early 1960s to the mid-1970s. The overall growth rate of the economy was around 6 percent. Capital accumulation was rapid, and power concentrated in the industry groups that had emerged during the previous decade. These industry groups were centered around a few large banks that mobilized savings and channeled them into selected investments. Pasuk and Baker (1995:140) note that economic power was largely shared by the alliance of First Army generals and Chinese business interest, most prominently the Bangkok Bank, that had been established during the 1940s and 1950s. Together, they "...secured the promotional deals from the Board of Investment ... pocketed the government contracts and licences ...[and] were positioned to make the right connections with incoming foreign capital."

However, by the mid-1970s, it became clear that Thai industry had exhausted the growth possibilities provided by the protected domestic market. Industry had expanded and diversified, but Thailand was still an agricultural economy. Primary commodities accounted for 80 percent of exports (Dixon 1999:114) and about 80 percent of the population were still employed in agriculture. With the lower growth potential in agriculture, the overall growth rate began to diminish. The situation was not made easier by the protest movements and the student uprising of the early 1970s. The government resisted pressures for a change in the development strategy until after the second oil crisis and the mid-1980s, when the economy was hit by a recession. At this time, Thailand made the same decision as most other East and Southeast Asian countries: the strategy shifted from import substitution to export promotion. The exchange rate was devalued, trade barriers were reduced, capital markets were liberalized, and inflows of export oriented foreign investment, as well as exports in general, were encouraged with various investment and tax incentives. These policies were supported by fortunate external developments. The price of oil, Thailand's largest import item, fell significantly during this period, while the Japanese yen began a rapid appreciation. The reduced oil bill freed significant amounts of foreign exchange for investment purposes, while the appreciating yen facilitated exports to Japan and created a flow of foreign direct investment from Japan to Thailand.

The results showed very rapidly. The growth rate of GDP jumped to an astonishing 13 percent in 1988, and remained above 10 percent for two more years. Thailand's total exports almost quadrupled in value between 1985 and 1991, and doubled again by 1996. The boom was driven by the manufacturing and service sectors. While primary products had accounted for about two-thirds of exports in the early 1980s, their share was down to less than one-third by the early 1990s. The export boom also led to a secondary boom in the home market. The growing export revenues led to increases in labor incomes, and domestic demand expanded rapidly. The emergence of an urban middle class in Bangkok fuelled rapid growth in property development, retailing, consumer goods industries, and financial services. As noted earlier, and as discussed in detail below, the home market boom also started to hurt export competitiveness. The exchange rate was more or less fixed, so rising domestic prices led to a real appreciation of the currency. The shortage of educated manpower made it hard to improve productivity and to stay competitive in international markets. It was often easier to make money by focusing on the domestic market. The big profits were seemingly in real estate and financial assets.

3. Economics: reform and restructuring

The event that triggered the Asian financial crisis – the decision of the Bank of Thailand to abandon the fixed exchange rate of the baht on July 2, 1997 - should not have been a great surprise to observers of the Thai economy. The first half of the year had been marked by heavy speculation against the baht, as it had become increasingly clear that the large imbalances in the country's external accounts could not be sustained. The current account deficit had grown to 8 percent of GDP in 1996, which would have posed a financing challenge even in good times. However, these were not good times, for several reasons.

The double-digit growth rate of exports that had become a Thai standard during the previous decade vanished in 1996. A real appreciation of the currency (caused largely by the fixed rate between the baht and the appreciating US dollar) coupled with structural weaknesses in the industrial sector (that made it impossible to upgrade exports into products with higher value added) led to an erosion of Thailand's international competitiveness. The value of exports fell by almost 2 percent in 1996.¹ The resulting reduction in cash flow and profits worsened the already weak financial position of Thai industry. Many companies had taken on large debt to finance risky investments in real estate or financial assets, lured by several years of seemingly endless increases in asset prices, and the slowdown of the economy made it hard to service these debts.

Large inflows of foreign portfolio capital, together with an insufficiently supervised liberalization of financial markets, had created a bubble in asset markets during the preceding years. This bubble had begun to deflate in the mid-1990s, when the supply for office space, hotels, and condominiums in Bangkok surpassed demand, and the falling asset prices began to undermine the solvency of the financial system. The value of the real assets created by the investors was simply much smaller than the value of the debt. Moreover, the saturation of the property market cut into the cash flow of many real estate investors. Apartments and offices could not be sold or rented for the amounts projected at the height of the bubble, which meant that there was not sufficient income to service debts. Real estate and finance companies began to default on their debt.

¹ See Kokko (1998) for a more comprehensive discussion about the causes for the Thai crisis.

Soon other companies followed. Without the projected incomes from their real estate investments, and with diminishing export revenues, industrial companies also began to have problems servicing their debt. As a result of the imperfect institutional environment of Thailand, these cash flow problems soon turned into a serious debt problem and contributed to the creation of enormous amounts of non-performing loans (NPLs). The foreclosure and bankruptcy laws were largely useless, and it was estimated that it might take several years for creditors to recover their collateral. One consequence was that banks and other financiers were unwilling, or perhaps even unable, to cut off financing for companies that encountered various kinds of problems. Instead, banks continued to finance loss-making firms in the hope that they would survive and eventually recover: the alternative was to lose the funds that had already been lent to the customers, since it was practically impossible to appropriate the collateral. This process probably started at a significant scale already around 1994.

A couple of years later, when the crisis had worsened and banks could no longer afford extending new loans to weak companies, the weak legislation also contributed to the ballooning NPL problem. The lack of foreclosure and bankruptcy laws meant that banks and finance companies had no sanctions against companies or individuals that defaulted on their loans. In fact, non-payment of interest and principal on loans was the preferred way to handle cash flow problems. Suppliers of raw materials and other inputs could cut off essential deliveries, whereas banks could only threaten to hold back future lending. By the beginning of 1997, several banks and finance companies had run into problems of such a magnitude that the authorities had to intervene, by injecting capital into some companies and by freezing the operations of others.

In this environment, it was not surprising that foreign and domestic actors began to speculate about a baht devaluation, even though the government assured the market that the fixed exchange rate was a cornerstone of the country's economic policies. The reactions of foreign investors to the weakening of the Thai economy were particularly detrimental for the ambitions to uphold the exchange rate (as well as for the banking sector's ability to finance Thai industry). About half of the flow of foreign capital to Thailand's financial sector was short-term loans with a maturity of less than one year. When the extent of Thailand's debt and competitiveness problems became clear during the first half of 1997, many foreign creditors decided not to roll over their loans. The credit risks were simply considered too high. Instead, loans were called back, and foreign exchange started flowing out of the country. Together with outright speculation, this led to a rapid depletion of the Bank of Thailand's international reserves. Unofficial reports suggest that the foreign exchange reserves fell to about USD 800 million during the summer of 1997, from USD 38.7 billion at the end of 1996. The liquidity crunch was also hard on the banks and finance companies, that were obviously guilty of one of the major errors that appear in many financial crises: borrowing short on international markets and lending long at home.

Although the decision to abandon the fixed exchange rate was absolutely necessary – both because the funds available to defend the old rate started running out and because a cheaper baht was needed to restore the country's international competitiveness – it also made matters worse in the short and medium run. The debt crisis worsened when the baht value of foreign debt rapidly doubled, and the profitability and cash flow problems also became more serious when domestic and regional demand collapsed as the crisis spread to the rest of Southeast Asia. The severe situation forced the government to turn to the IMF for help already in July 1997. The USD 17.2 billion rescue package that was agreed the following month provided some badly needed liquidity, but came at what many initially thought was too high a cost.

Unlike earlier IMF-led rescue packages, this one combined austerity requirements with demands for significant structural reforms. Strict monetary and fiscal policies were called for – initially, the objective was a 1 percent surplus in the government budget – as well as privatization of state enterprises, legal reforms, and financial sector restructuring. The structural measures were criticized because they were seen as an attempt to force troubled Asian countries to adopt Western style institutions and liberalism in a situation where they simply had no choice. The austerity measures were even more severely attacked, since it was feared that high interest rates and cuts in government expenditures would worsen the recession. However, in the short run, these were probably necessary to halt the weakening of the currency and to ensure that some foreign capital remained in the economy. Even more important is perhaps that the tight monetary policies kept inflation at a remarkably low level: although many import prices doubled, the rate of inflation stayed at about 8 percent in 1998 (to be compared with an average of about 6 percent in the period 1995-1997). As we will discuss below, this is essential, since it has facilitated a reduction in nominal interest rates, which in turn provides some badly needed scope for debt restructuring.

Table 1 summarizes some of the macroeconomic effects of the two first years of Thailand's financial crisis. A few comments are warranted. Firstly, there is no doubt that the financial crisis has had a serious real impact. GDP has fallen by more than 10 percent during the past two years, with severe effects on incomes and welfare. Aggregate investment has dropped by over a third. Exports have contracted by some 10 percent, even though the exchange rate against the dollar has depreciated sharply, by about 50 percent. As a result of the contraction, capacity utilization in manufacturing fell from a level of 75 percent during the first half of 1997 to a low of 50 percent that was not reached until the second half of 1998. The need to use a large share of the available foreign exchange to reduce (short-term) foreign debt has also forced a large reduction of imports. The balance-of-payments reveals a large current account surplus, which marks a significant net outflow of capital, in sharp contrast to the current account deficits and capital inflows that supported growth in the years before 1997. In the financial sector, things are also in serious imbalance. The amount of NPLs has continued to grow until recently, reaching over 45 percent of the total lending stock at the end of 1998. Four commercial banks and 57 finance companies have had to be closed, and several others have been taken over by the state.

Secondly, although the crisis is serious, it is important to note that it is in many respects similar to other recent financial crises, e.g. those plaguing Finland and Sweden in the early 1990s. The depreciation of the baht is of roughly the same magnitude as the depreciation of the Swedish krona in 1992-93. Thailand's GDP loss of 11 percent is somewhat larger than that experienced in Sweden 1991-1994, but smaller than that in Finland during the same period.² Open unemployment has grown somewhat, but not nearly as much as it did in the Nordic countries. The point where the Thai crisis differs from those in Sweden and Finland is the significantly higher level of NPLs, caused by the less developed financial and legal system.³

² It may also be noted that the financial crises in several Latin American countries in the 1980s (e.g. Chile and Argentina) were more severe, partly because they were accompanied by hyperinflation. See Kokko and Zejan (1999).

³ Another obvious difference is, of course, the large gap in income and development levels between Thailand and the Nordic countries. This means that the impact of the Thai crisis on disposable income is likely to be larger, since the social welfare system is less developed. The social consequences, in particular in the lower urban income groups, will therefore be more severe, as discussed further in section 4 of this report. Another possible difference is that the deterioration of Thai government finances may be less serious than that in the Nordic countries. The crisis led to a very large automatic increase in the government deficit in Sweden and Finland, and eventually a large debt burden that now limits the scope for public sector policy. Although the Thai

Table 1 **Macroeconomic indicators, Thailand 1996-1998.**

	1996	1997	1998
GDP (billion baht, current prices)	4,596	4,775	4,779
Real GDP growth	5.5	-1.3	-9.4
Agriculture	3.8	1.5	2.8
Manufacturing	6.9	-0.7	-12.6
Construction	8.1	-7.9	-26.8
Others	6.0	0.3	-6.3
Consumption growth	6.7	-1.5	-8.3
Investment growth	6.0	-14.5	-29.2
Fiscal expenditure growth	17.9	9.7	-15.5
Consumer price inflation	5.9	5.6	8.1
Current account balance (% of GDP)	-7.9	-2.0	12.8
Exports (billion USD)	54.6	56.7	52.9
Imports (billion USD)	70.8	61.3	40.6
Exchange rate to USD (year-end)	25.64	47.10	36.60
Capacity utilization (manufacturing)	76.9	58.8	55.2
Open unemployment (August)	1.6	1.2	3.6
Stock Exchange Index (year-end)	832	373	356

Sources: Brimble et al. (1999), World Bank (1999a).

The fact that the Thai crisis does not differ significantly in magnitude from earlier financial crises gives some reason for optimism. The experiences of other countries, including Sweden, indicate that recovery may be relatively rapid after the necessary institutional and structural reforms are implemented. It is therefore appropriate to shift attention to the ongoing reforms and the management of the recovery process. Two areas, in particular, are essential for recovery: recapitalization of the financial sector and restructuring of corporate debt. Both these issues are related to the large NPL problem. In addition, in the short run, it is necessary to stimulate domestic demand to avoid more serious unemployment problems.

Table 2. **Non-performing Loans in Thailand, December 1998**
(Billion baht and percent of outstanding credit)

	Non-performing loans	
	billion baht	% of outstanding credit
8 private banks	1,245.15	40.65
4 state-owned banks	1,036.69	62.45
Foreign bank branches	74.24	9.81
Finance companies	325.36	70.52
Total	2,681.45	45.13

Source: Parista Yuthamanop, "NPLs to begin easing in April", *Bangkok Post*, March 24, 1999.

Table 2 provides a closer look at the structure of non-performing loans at the end of 1998. Overall, NPLs accounted for over 45% of outstanding credit, with the most serious problems in finance companies and state-owned banks. The high NPL level in finance companies is

budget deficit has increased, it is unlikely to reach much above 7 percent of GDP even during the present budget year: fiscal expenditures have accounted for less than 20 percent of GDP in recent years.

largely the result of reckless lending to speculative investments in the real estate sector. The reason for the large NPL problem in the state banks is not primarily that they have been less effective than private banks, but rather that the category includes three very weak banks that have recently been nationalized. The relative solidity of foreign bank branches is also notable, and mainly due to their lower involvement in real estate affairs.

Recapitalization of the financial sector

The main challenge facing the banking and financial sector is to recapitalize, since most of the existing equity capital has been written off to cover losses from bad debt. Recapitalization is essential for recovery, since the lending capacity of banks is directly related to the stock of equity capital, via formal capital adequacy requirements: the bank's own capital, i.e. equity and subordinated debt, must reach at least 8.5 percent of total lending. Although little progress was made in this area before mid-1998, the process has accelerated during the past year. The Thai government set aside 300 billion baht in 1998 under the so-called tier-1 support program, and several banks have benefited from public funds, as well as private capital injections, since that time. In the tier-1 program, the government pledges to buy banks' preferred shares to an equal proportion to that taken up by private investors, domestic as well as foreign. The government will also invest in tier-2 capital in the form of loans equal to the amount of losses incurred as the result of debt restructuring.⁴ This liquidity guarantee will encourage banks to actually go through with debt restructuring programs. The government has also announced that the government shares in the tier-1 program would eventually be sold back to the private sector.

Initially, the large family banks that have dominated the Thai economy for the past decades were unwilling to participate in these recapitalization schemes, to avoid losing ownership control. The reason was that the government insisted that existing capital should be used to cover bad debt before the injection of public funds, which would automatically have reduced the equity of the old owners. In fact, the bank nationalizations that have taken place after the crisis have followed this model. Instead, some of the banks – mainly Bangkok Bank and Thai Farmers Bank – have tried to strengthen their balance sheets by issuing various innovative (tier-2) debt instruments, as well as new shares. However, the costs for these capital injections turned out to be so high that few other banks have managed to follow their example: some of the debt instruments issued by these two banks in 1998 carried coupons yielding between 11 and 23 percent per year, depending on the bank's profitability. Furthermore, the government set a June 1999 deadline for loan loss provisioning, which has forced the banks to speed up recapitalization, in some cases using the tier-1 scheme. This means that four sources of fresh capital are available to and have been used by the Thai banking sector: private capital contributions (domestic as well as foreign), injections of government funds under the tier-1 scheme, partnerships with foreign banks, and voluntary or involuntary nationalizations of the weakest banks (Jiwamol 1999). Approximately THB 350 billion in private and public capital – including USD 2.1 billion classified as foreign direct investment, but excluding the contributions of government funds into nationalized banks – had been injected into the banking system by May 1999.

The restructuring and recapitalization process has also reached other parts of the financial sector. Altogether, at least a dozen finance companies have been nationalized, in addition to the 57 finance companies that were closed. Moreover, foreign capital owners have invested in

⁴ Tier-1 capital includes common shares and preferred shares, while tier-2 capital includes warrants and subordinated debt. The 8.5% capital adequacy ratio may include up to 4.25% tier-2 capital.

several of the remaining finance companies, securities firms, property firms, and insurance companies - more than 35 such merger and acquisition deals were reported between July 1997 and April 1999. International investors have also purchased financial assets from the closed finance companies, which the government is trying to auction off to repay creditors.

Taken together, an assessment of the bank recapitalization in Thailand must be relatively positive. Some 350 billion baht have been mobilized to strengthen the banks' balance sheets, as noted above, which appears sufficient in the short run. The long run capital needs are hard to estimate. It is obvious that the banking sector would collapse if the entire stock of NPLs, amounting to nearly 2,700 billion baht, were lost. Restructuring and recovery will, however, mean that many borrowers will be able to start servicing their non-performing loans. The widely diverging estimates by Thai experts suggest that the total recapitalization needs of the banking system amount to between 500 billion and 1,000 billion baht in a 2-3 year perspective: if an active corporate debt restructuring process can be established, it is likely that the lower figure is the more realistic.

Debt restructuring

The main challenge to Thailand's non-bank sector posed by the high level of NPLs is to handle the debt overhang from the past few years, and to restructure operations in order to restore competitiveness. In contrast to South Korea, where a limited number of large *chaebol* account for the bulk of the country's domestic and foreign debt, non-performing loans are distributed among thousands of small and medium-sized enterprises. This means that Thai debt restructuring will probably be a more complicated process, for two reasons. Firstly, the process will involve a large number of debtors and creditors, which makes it difficult to reach consensus agreements about restructuring. Secondly, although foreign investment is an important element in the recovery process, there are relatively few companies that are large enough to be attractive for foreign investors. Institutional solutions for debt restructuring are therefore critically important in Thailand.

The most important reforms in the institutional area concern the new foreclosure and bankruptcy laws that were passed after an intensive debate in March 1999.⁵ These have strengthened the legal framework for bankruptcy protection of debtors and foreclosure rights of creditors, and the first large bankruptcy cases were completed already by mid-1999.⁶ The establishment of the Thai Central Bankruptcy Court in June 1999 is expected to further simplify the administration of bankruptcy cases, particularly those involving small and medium-sized enterprises.⁷ Other legal changes include a new foreign investment law (opening up new sectors for FDI), amendments to the land code (including better opportunities for foreigners to own land), and a new corporitization law (to facilitate the

⁵ The government's proposal was heavily criticized by several parliament members (and a parliamentary vetting committee) as being too creditor-friendly. Among other revisions, the critics proposed rules stating that bankruptcy action cannot be initiated if the collateral value matched the value of debt at the time loan contracts were signed, that bankruptcy action cannot be taken against individuals who issued personal guarantees for debtors with bad loans, that individuals declared bankrupt would be allowed to keep 'appropriate' shelters, and that individuals declared bankrupt would regain normal legal rights after one year. None of these proposals was accepted, although a compromise was made to allow bankrupt individuals to regain their legal rights after a three-year waiting period.

⁶ The first large case, involving the high-tech IC firm Alphatech, was actually resolved after a significant investment by the Swedish company Investor.

⁷ However, Thai commentators argue that the foreclosure laws are still ineffective, and that opportunistic large companies are still able to delay the conclusion of a foreclosure process for 9-11 years by contesting the case through three court levels (Woo 1999).

privatization of state enterprises). These facilitate restructuring because they allow foreign capital in sectors where it has traditionally been restricted. A financial institutions law is expected within the next few months. This law will strengthen supervision procedures and provide the Bank of Thailand with clear and full supervisory responsibility. A deposit insurance law is also being drafted, to replace the blanket guarantee for the financial system that was introduced at the early stages of the crisis. If the already completed and planned legal reforms can be properly implemented, then one of the preconditions for recovery and restructuring will be in place.

One of the obstacles to debt restructuring is the lack of experience and skills regarding the necessary negotiations. The government has therefore strengthened the procedures for inter-creditor and creditor-debtor mediation and arbitration. This program is directed by the newly established Corporate Debt Restructuring Advisory Committee (CDRAC), which employs various experts in industrial, financial, and legal areas. Their objective is to help find company-specific solutions combining rescheduling of debt, reducing interest payments (which is possible since the nominal interest rates have fallen significantly), swapping debt for shares in the ailing company, or by issuing new shares to raise capital.

Debt restructuring has also been facilitated by large inflows of foreign capital, not only to the banking sector, but also to industry and services. In heavy industry, foreign investors have raised their stakes in several key sectors, including oil and gas, chemicals, building materials, and cement. In the auto industry, companies like BMW, Ford, Mazda, and Volvo have injected several billion baht into their Thai affiliates, while others, like Renault and Mercedes-Benz, are studying Thailand as a prospective export base. Massive new investments in electronic products, such as hard disk drives, semiconductors, and integrated circuits, have been made (or are planned) by international giants like AIG, Canon, Seagate, Lucent Technologies, and Fujitsu. Foreign direct investment in food and consumer products, by companies like Coca Cola, Frito Lay, Del Monte Foods, and Procter & Gamble, will also add to production and employment in the medium run. Moreover, foreign investment in retail trade, hotels, telecommunications, and other services - such as consulting, power generation, and transportation - has increased sharply. For instance, international investors have taken important equity positions in several retail chains, phone companies, law firms, power generation companies, and transportation companies.

Brimble *et al.* (1999) estimate the total FDI inflow in 1997 and 1998 to nearly USD 11 billion (including the recapitalization of the financial sector), or only slightly below the USD 11.5 billion received during the entire 1991-1996 period. Some of these investments are green-field ventures that have been made because the depreciation of the baht and the liberalization of investment regulations have made Thailand a more attractive and competitive investment location. The severe debt and liquidity problems plaguing many Thai firms have also led to significant reductions of real asset prices, and a wave of foreign takeovers: between a third and half of the FDI entering Thailand during the past two years has been in the form of mergers and acquisitions. The rapid increase in foreign ownership has raised some concerns about “de-nationalization” and foreign domination, but a more appropriate perspective on the FDI inflows should perhaps focus on the benefits rather than the costs. It is reasonable to assume that many of the companies that have been forced to accept foreign equity shares would not have survived on their own. Hence, unemployment, corporate debt, and the pressures on the government budget would all have been worse without foreign investment inflows. Although the injections of foreign equity contribute to easing these short run debt problems, it is likely that the long run effects are more important. The new foreign owners

will in most cases supply technology and management expertise to ensure that the future operations of the Thai affiliates will be competitive and profitable.⁸ It can therefore be expected that the "internationalized" part of the Thai economy will be able to successfully restructure its operations within the next few years.

The prospects for local small and medium sized enterprises are much less optimistic, both regarding debt resolution and restructuring of operations. On the whole, Thai SMEs are still plagued by heavy debt and weak competitiveness, and the real restructuring challenge concerns this segment of Thai industry. Because of their weaknesses, most small firms are not eligible for new credits from commercial banks. Banks and other creditors are also likely to be less willing to enter into lengthy and complicated debt restructuring negotiations than in their contacts with large firms. Most SMEs are also too small to be considered as partners or acquisitions for large foreign MNCs. Considering that the manufacturing sector remains dominated by small firms – 60 percent of workers were employed in plants with less than 50 employees in the mid-1990s (Dixon 1999:137) – it is likely that slow restructuring of SME operations is the main threat against Thai recovery.

Demand management

To support a recovery of domestic demand, the government announced in March 1999 a 53 billion baht economic stimulus package aiming to create employment and improve consumer demand. The package is entirely financed by the World Bank and the Miyazawa foundation. In addition, the VAT was lowered from 10% to 7% in April 1999: it is estimated that these two measures together will add some 130 billion baht to aggregate demand during the coming year. As a result, the government budget is expected to record a deficit of 6 percent of GDP during the present budget year (8 percent if the costs for the recapitalization of the banking sector are included). However, it should be noted that some observers have questioned the government's ability to disburse large amounts of funds quickly and efficiently. Since the automatic stabilizers - such as social security and unemployment benefit programs are virtually non-existent - it will be administratively costly to spend large amounts of money. Specific projects will have to be designed, approved, and monitored, which is hard to achieve with the present administrative capacity. In fact, there have been reports about fraud and widespread waste of resources in connection with disbursements of the Miyazawa funds. Another spending package was announced in August 1999,

Another important determinant of overall demand is the exchange rate of the baht, which influences the international competitiveness of Thai producers. Although the currency rate is presently market-determined, it is also widely debated by different interest groups in Thai society. For instance, exporters (often multinational corporations) would benefit from a weaker baht and argue for looser policies, while Thai debtors would lose from the higher debt-servicing burden that would result if the baht depreciates. Moreover, export growth has been sluggish during the past year, after rapid expansion from mid-1997 to mid-1998. With the exception of the auto sector, exports have remained stagnant, and it may be difficult to reach the official export growth target of 4 percent for 1999. The central bank estimates that a weakening of the currency by one baht against the US dollar would lead to an export expansion of approximately 15 billion baht (USD 400 million), but it would also result in a 86 billion baht increase in the baht value of the country's foreign currency denominated debt (Tong and Nopporn 1999). These contradictory effects suggest that interventions in the

⁸ Strategic mergers and acquisitions, where the objective is to acquire a Thai firm in order to close it and move production to the investor's home country, are likely to be very rare in Thailand. The main reason is the weak currency, which has reduced the country's import capacity.

currency markets are not very likely in the short run, and that Thai recovery will mainly depend on the possibilities to restore domestic demand.

Table 3 summarizes Thailand's Economic Rehabilitation Program, which is the umbrella for the policy responses to the financial crisis. The Table illustrates both the comprehensive nature of the ongoing reform programs, and the fact that Thailand's own efforts to reform and recover have received wide support from the international donor community, including multilateral agencies as well as bilateral donors.

At present, in September 1999, it appears that most signs indicate that a recovery is under way. The main reasons for optimism are the successful recapitalization of the financial system, the progress in debt restructuring, particularly in the segment of Thai industry that has benefited from foreign investment, and the reduction of the interest rate, which makes it possible to renegotiate much outstanding debt. The government's own analysis suggests that the economy has bottomed out and that a positive growth rate can be achieved in 1999. Many observers agree. Both Standard & Poor and Moody's upgraded their ratings outlook for Thailand in early May, from negative to stable (although the ratings for the country are still not at "investment" grade). It is also notable that the IMF waived its customary three-months policy review scheduled for May, since it was thought that Thailand was progressing at a satisfactory pace. Assuming that the NPL problems in small and medium-sized Thai firms begin to diminish in the near future, it appears reasonable to agree with these fairly optimistic assessments.

Table 3 Thailand's Economic Rehabilitation Program: Selected Components

Program and Program Objectives	Responsible Agencies	Short-term Measures	Medium and Long-term Measures
<i>Financial Sector Reform</i> To strengthen financial sector	Thai: BoT, MoF, FRA, FIDF, AMC Foreign: IMF, World Bank, ADB	Recapitalize banks Reform bankruptcy and foreclosure laws Promote debt restructuring	Privatize state-owned banks Improve system of accounting and public disclosure to increase transparency Improve efficiency of super- vision of financial institutions Strengthen autonomy of SEC Bring loan classification and provisioning rules in line with international standards
<i>Monetary and fiscal policy</i> To establish macroeconomic stability and growth	Thai: BoT, MoF Foreign: IMF, World Bank	Limit inflation Establish current account surplus Manage appropriate fiscal deficit Support aggregate demand	Increase gross international reserves Re-establish economic growth Manage inflation Limit current account deficit to 2% over the medium-term Improve macroeconomic management and monitoring capability

<i>Bureaucratic reform</i>	Thai: Office of the Civil Service Commission, State Enterprise Policy Commission Foreign: World Bank, ADB	Restore confidence in government Speed up privatization of state enterprises	Increase efficiency and accountability of public personnel and government Reduce costs by down-sizing civil service Improve quality of personnel Increase transparency and political neutrality of civil service Continue privatization of state enterprises
<i>Industrial restructuring</i>	Thai: MoI, BoI, NSTDA Foreign: IFCT, EXIM Bank, SIFC	Contribute capital and technical expertise to upgrade operations Define industry level strategies for rationalization Promote debt restructuring	<i>Improve business environment:</i> Strengthen corporate governance Upgrade human resources and technology to increase value-added of production Support development of equity capital markets Seek strategic foreign partners

Source: Adapted from *Ambassador's Digest*, Vol. 1, No. 6, 1998, Ministry of Foreign Affairs, Bangkok.

A word of caution is still warranted. International observers, as well as Thai authorities, have warned that the country is still sensitive to external shocks and political infighting within the regime. The financial sector's net external debt is still equivalent to some 25 percent of exports. Exports are sluggish. Lending has not yet recovered, and there is significant excess liquidity in the system. An example of the problems is provided by the state-owned Krung Thai Bank, which announced in early 1999 that it would extend 10 billion baht in new loans to small and medium sized corporations over a two-year period. Very little lending has taken place since then. The bank reports that most loan applications have been turned down because firms were asking for loans to repay existing debts rather than to raise production or upgrade technology. The most important caveat is perhaps related to the willingness of investors and capital owners to accept the great changes that have taken place. A recovery is unlikely to be sustainable unless the losses from past failed investments are written off. Many small and medium sized enterprises have, so far, refused to realize their losses.

4. Social, environmental, and political challenges: causes and consequences of the crisis

Thailand's rapid growth during the 1980s and the first half of the 1990s produced impressive advances in incomes and social welfare. As noted earlier, average incomes tripled and poverty was reduced throughout the country. Between 1988 and 1996, the number of people living below the poverty line was more than halved, from 17.9 million to 6.8 million. The proportion of the population with access to safe water increased from 66 percent to 81 percent. Immunization rates more than doubled, while child malnutrition was reduced by over two-thirds. As a result, infant mortality fell, and life expectancy increased (World Bank 1999).

Social tension

Yet, the benefits of growth have not been shared equally, despite the reduction in absolute poverty levels: the success at the macro level has masked continued poverty in segments of the population, large gaps in social safety nets, and rising inequality of incomes.

Development has largely been concentrated to the Bangkok metropolitan region, which accounts for three-quarters of the country's GDP. Rural poverty remains widespread, particularly in the Northeast. The Gini coefficient, a common measure of income inequality, was estimated at 0.50 in 1996, suggesting remarkably large (and, in fact, growing) income gaps. The average for the rest of Southeast Asia, by contrast, is around 0.38; the Scandinavian countries register about 0.25. By the first half of the 1990s, the income share of the poorest 10 percent of the population was 2.5 percent, while the richest decile earned over 37 percent, or about 15 times more. In Sweden, the richest decile earns about 5 times as much as the poorest one, before taxes.

In conjunction with the inequalities in income, there have been large differences in people's possibilities to influence political decisions. The widespread corruption and vote buying characterizing parts of Thailand's political landscape are well documented (see e.g. Bello *et al.* 1998; Pasuk and Baker 1998; Backman 1999). Somewhat rhetorically, Mallet (1999:228) asks whether Thailand was hit by the financial crisis because it was democratic, and therefore chaotic, or because it was run by undemocratic authoritarian politicians. His answer is both: he argues that the democratic system was abused by corrupt politicians, who used an estimated USD 800 million to buy votes during the 1996 election campaign. These "investments" in the election were made under the assumption that a great deal more could be recouped by the politicians from corrupt business deals if they were elected.

In addition to the lack of political transparency, development before the crisis was characterized by an urban, industrial, and export oriented bias. Decisions regarding the use of natural resources were made centrally, generally without consulting the affected local communities, and these decisions were often designed to benefit urban industry, not the local population. In many instances, development meant ruthless exploitation of natural resources, without much concern for environmental consequences. The establishment of forest plantations and the building of dams to provide raw materials, electricity, and water for export-oriented industry and agriculture are typical examples. The increasing industrialization of the country also led to increasing tensions between labor and capital, with employers gaining a dominant position already from the 1970s and the political repression of left-wing parties (Ji 1997; Ji 1999).

The large gaps in economic power have had important social consequences. In its summary of the country's eighth development plan, the National Economic and Social Development Board noted that the income gaps have had "a negative impact on people's behaviour, bringing about a lack of discipline, declining ethical and moral standards, and the rise of practices which centre around self-interest and the exploitation of others. These unfavourable trends are threatening the traditional Thai values and way of life, and they have contributed to the collapse of families, communities and local cultures" (NESDB 1996:6). While somewhat cautious, these statements reflect growing problems with corruption, prostitution, drug abuse, and criminality, with additional strains caused by the HIV/AIDS epidemic.

The gender issues raised by Thailand's rapid export oriented development were significant, but not as dramatic as the broader regional and social consequences. Thai women traditionally had a relatively strong position in society, participating equally with men in agriculture and often dominating trade sectors. There were no marked preferences for boys over girls, no tradition of confinement or foot-binding (as in China), and Thai women gained voting rights in 1932, significantly earlier than in the rest of the region (Darunee and Pandey 1997). Development and export orientation had a contradictory impact on women. While

increasing industrial employment provided money, independence, and status for many women, there were limits to their participation in decision-making. Women gained little influence in the important areas of politics, law, religion and the military (Darunee and Pandey 1997:120). Many women's jobs were in sectors with low pay and low skill requirements, and many women were drawn into the extensive commercial sex trade that developed during the Indochina war. Yet, in many ways, Thai women were probably better off than women in other Asian countries. Gender tension or gender antagonism was not severe, and various quantitative indicators suggest that the status of Thai women was relatively good. In an ASEAN perspective, the general conditions of Thai women were second only to Singapore. The female rate of labor force participation was the highest in the region, and conditions in health and education were better than in most other countries (Darunee and Pandey 1977:97).

Environmental degradation

The environmental consequences of several decades of uninterrupted (and, in some respects, unregulated) growth are equally obvious as the social tensions. Although forest concessions were banned already in 1989, deforestation has continued at a pace of about 1.5 million rai per year: in the mid-1990s, the total remaining forest area was estimated at 83 million rai (or around 26 percent of total land area. 1 rai = 0.16 ha). The latest estimates, excluding plantation forests, are even lower. The cause for the loss of forests is not only illegal logging, but also clearing for agricultural use: high population growth and widespread poverty are major causes for forest encroachment. Large land areas suffer from soil erosion, because sensitive forest areas and marginal slope lands are used without water or soil conservation measures. Water resources are subject to extensive exploitation, with deteriorating water tables and regular shortages as a result. Coastal aquaculture, mining, and residential developments have led to a destruction of large areas of coastal mangrove forests and coral reefs (see e.g. Bello *et al.* 1998).

Although these traditional sources of environmental degradation from primary sector activities remain significant (and some new ones have emerged, such as in-land shrimp farming, which may damage the surrounding environment because of the salinity of waste water), it is likely that the rapidly growing urban and industrial pollution is even more damaging. The concentration of population and industrial activities puts particular pressure on the Bangkok region. The lower sections of the major rivers – Chao Phraya, Tha Chin, and Mae Klong – are in a critical state, with very low oxygen levels caused mainly by domestic waste. The loads of biochemical waste from industry – mainly from production of tapioca, pulp and paper, monosodium, and distilleries – are also growing continuously. The Gulf of Thailand is estimated to receive some 14,000 tons of hazardous heavy metal sludge every year, largely generated by basic metal, chemical, and electronic industries (Baetz and Yen 1997:439). The chaotic traffic situation in Bangkok contributes to significant increases in emissions of carbon monoxide and dust particles, because of incomplete combustion. Industry adds to air pollution mainly through its use of fossil fuels for energy generation. In Thailand, industry has a preference for lignite, which is by far the “dirtiest” source of energy, producing several times as much sulfur dioxide, nitrogen oxide, and dust particles as coal (Baetz and Yen 1997:443). Altogether, Bangkok is considered as one of the 10 most polluted cities in the world.

On paper, the National Environmental Quality Act from 1992 is one of the most advanced in developing Asia. However, environmental concerns have to some degree clashed with other priorities. To promote industrial development, the authorities have encouraged investors in selected industries by providing various incentives, in some cases neglecting environmental

consequences in this process. This lack of enforcement of existing regulations undermined public confidence in the rule of law, and contributed, together with the mounting social tensions, to a strong movement for political change. A coalition of civil society organizations - representing various interests ranging from the environmental movement, religious organizations, social action groups, and others – started pushing for political reform and increasing social awareness already from the early 1990s.

The social and environmental problems began to undermine the successful economic performance from about the same time. Two factors appear to have been particularly important. Firstly, the skewed income distribution meant that investments in education and human capital were unevenly distributed. While the upper middle class in Bangkok could invest in prestigious higher education, there were fewer opportunities for the majority of the population. The weak human capital base made it impossible to respond to the real appreciation of the baht in the mid-1990s by raising productivity in industry. Secondly, the concentration of activities to the Bangkok region led to severe congestion, with various negative effects on competitiveness and growth potential.

Protests and democratization

Popular opposition to the military coup in February 1991, which led to a near civil war situation in May 1992, when the coup general Suchinda Kraprayoon was appointed prime minister, was a first sign of a more active Thai civil society. Pressure for constitutional change from democracy-oriented middle-class organizations led in 1994 to the appointment of a broad-based Committee on Developing Democracy, and subsequently to the establishment of a Constitution Drafting Assembly. Mallet (1999: 229) argues that the educated elite of Bangkok was simply “no longer prepared to tolerate the incompetent and corrupt politicians elected by rural voters whose support has been bought for a few dollars by a local ‘godfather’.” This included business interests as well, represented e.g. by the Business Forum for Democracy, formed during the May 1992 uprising. In a parallel development, farmers, forest villagers, slum dwellers and other less advantaged groups began to make their voices heard. Together, these developments created a momentum for social and political change that culminated in a new radical constitution in 1997.

In March-April 1996, thousands of members of a nation-wide network of individuals and NGOs called Assembly of the Poor stage a one-month rally outside of Government House in Bangkok, demanding reforms. The network represented a variety of interest groups, and protested against some of the social and environmental problems discussed above. The list of grievances focused on hardships brought about by the use of forests, the building of dams, and the appropriation of land for industrial estates. To end the rally, the ruling Banharn government promised to compensate local populations for land appropriation and livelihood losses. However, little progress was made. Less than a year later, in January 1997, the Assembly of the Poor was therefore back outside Government House, now numbering some 10,000. They stayed until the beginning of May, demanding social, economic, and political reforms. In particular, the demands focused on improving the access to the governmental decision-making system for ordinary people and communities. Some of these, concerning e.g. community rights and environmental impact assessments, were picked up by the Constitution Drafting Assembly, which was getting close to a draft proposal at this time.

It is useful to look briefly at the mobilization of civil society as expressed through these two institutions, the informal Assembly of the Poor, and the formal Constitution Drafting Assembly, before commenting on the contents of the new constitution. The Assembly of the

Poor represented some 20,000 individuals from 35 provinces, and brought together rural and urban interest groups in a rare coalition. In addition to the grievances concerning land use and dams presented in 1996, the Assembly had taken up a number of new cases in 1997. These covered the promotion of alternative agriculture, the livelihood of small fishermen, conditions in urban slums, and occupational health cases related to industrial pollution. Although dominated by “normally” powerless people from rural areas and urban slums, they also included some NGOs and academics. What was unique was, firstly, the broad coalition with widely different interest groups, and secondly, the relative independence from specific interest groups demands as well as the absence of manipulation by incumbent politicians. Both these represented important steps away from the patron-client relationship traditionally characterizing Thai politics (Prudhisan 1998:269).

The 99-member Constitution Drafting Assembly (CDA) was established in May 1996.⁹ The majority – 76 members – would represent the 76 provinces of Thailand. The idea was that self-nominated candidates should choose ten representatives for each province, and that Parliament would then select one of these 10 to represent the province. The remaining 23 members would be professionals with experience of public law (8), political science and public administration (8), and national politics and constitution-drafting (7). Candidates for these posts were to be suggested to the Parliament by higher education institutions. The elections to the CDA were held in late 1996. Nearly 20,000 people applied from the provinces, most of them representing professional and cause groups. Only a quarter of the 76 places went to former parliamentarians. A few of the 23 professionals chosen were well-known political figures, but most were thought of as politically independent.

By March 1997, a framework for the principles and guidelines of the new constitution was presented and put to a first round of public debate. Debates were arranged in each province by special committees chaired by the provincial representative and the remaining provincial candidates who were not selected to the Assembly by Parliament. In all, it is estimated that around 600,000 people participated in these debates. Various civil society organizations and interest groups – including the Assembly of the Poor – also organized their own meetings, and submitted their specific recommendations to the Constitution Drafting Assembly. The resulting opinions were then studied by the CDA and drafted into legal documents. A draft was ready in early May, and subjected to public hearings organized throughout the country by CDA members and independent civil society groups. The public hearings involved some 126,000 people, and another 87,000 responded to questionnaires. The final draft of the constitution was presented by the CDA in mid-August 1997, and approved by parliament in late September, in spite of hard opposition by important interest groups that stood to lose some of their power. The expected support from the King, and somewhat more unexpected support from the Thai military, helped overcome the opposition. One reason was the financial crisis that had erupted by this time. Prudhisan (1998:284) notes that “civil society pressure was aided by the financial crisis in creating an environment wherein vested interests in political society had to acquiesce to the reform Constitution”.

The new constitution and the process leading up to it is unique in the sense that it was the first Thai constitution to emerge from a process of public consultation. The previous 15 constitutions during the past 65 years were introduced because someone seized power and tore up the old ones. The degree of public consultation is also unique, not only for Thailand but even in a broader comparison. Prudhisan (1998:273) estimates that the process involved

⁹ The following sections are largely based on Prudhisan (1998).

some 850,000 people and more than 300 organizations and argues that “an unprecedented level of opinion-aring and brainstorming went on and aided popular identification with the ensuing document”. Finally, it is clear that some of the provisions in the new constitution can be characterized as revolutionary. These include “a system of proportional representation to reward broad-based national parties, direct election of senators to the upper house, an independent electoral commission, a bill of rights guaranteeing equality to all citizens, and the establishment of special courts to hear complaints about abuse of power by officials and politicians” (Mallet 1999:230). Together, these provisions aim to “strengthen the people’s ability to exercise their rights, to enjoy their liberties, to participate in public decision-making, and to hold elected politicians and public officials accountable, and hence pave the way for cleaner politics and a more participatory form of democracy” (Prudhisan 1998:273-4). In short, the drafting process confirmed the increasing strength of Thailand’s civil society, and the new constitution itself marks an important step on the way to a more democratic political system.

However, it is important to note that Thailand still has a significant way to go before it can be characterized as a Western type democracy. Although it appears for the moment that the military has decided to allow the political forces to determine the development of Thai politics, there are still clear breaches of the basic rules of democracy. The new constitution has not yet been tried in national elections, and there are fears that the old style of vote-buying will still decide election results. An example of the remaining problems was provided during the municipal council elections in Samut Prakan outside Bangkok in early May 1999. Press reports of vote rigging were common, and it was claimed that supporters of one candidate stormed several voting centers, stuffing ballot boxes with marked votes. More generally, several academics have criticized the slow pace of the political reform process, which has made little headway since the promulgation of the new constitution. The reason is arguably efforts by incumbent politicians and other groups with vested interests to slow down the reforms.¹⁰ It is not entirely clear how the cautious recovery from the crisis will affect this process. Stabilization may, on the one hand, provide an opportunity to focus on the next stage of political reform, which will probably be an election where the new rules are tried out for the first time. On the other hand, recovery may also lead to an easing of the pressure that has pushed reforms in various sectors, and allow a relapse into old flawed habits.

Effects of the crisis on social sectors

At the same time as the social and environmental tensions probably contributed to the crisis, the crisis also neutralized some of the vested interests that had so far obstructed reforms and change. This is one reason why the parliamentary vote on the constitution resulted in a great affirmative majority. However, in the short run, the crisis has also worsened the situation for some of the most vulnerable groups in Thai society. The World Bank (1999a) points to four channels for the social impacts of the crisis: lower demand for labor, price increases for essential commodities, reductions in government spending on social programs, and erosion of the social fabric.

The reduced demand for labor has caused serious problems with unemployment and underemployment, although the overall impact, particularly outside the construction sector, has probably been smaller than what many have feared. The open unemployment rate did not

¹⁰ See e.g. *Bangkok Post*, May 31, 1999, “Self-interest puts brakes on reforms”.

reach higher than about 4.5 percent in 1998.¹¹ Yet, the effects on the poor have been significant. The largest increases in unemployment are seen for people with education equal to or below the primary level. Underemployment and price increases have meant that real wages have fallen across the board, by between 10 and 20 percent, and there are reports that the highest real income reductions have occurred in rural areas, particularly the Northeast. This implies that the population groups that were already weakest before the crisis have probably taken the hardest hit, and that targeted support programs are needed. However, it should also be remembered that the correction of the overvaluation of the baht will probably benefit rural groups in the longer run, since it raises the competitiveness of agriculture and reduces the urban bias. In other words, the price changes that have taken place have mainly hurt the urban poor, who spend a large share of their income on food products. Given these partly contradictory observations, it is not possible (and probably not useful) to pinpoint which groups are worst hit by the crisis: it is sufficient to note that the situation of the less advantaged in general has deteriorated as a result of the crisis.

The IMF's initial requirement in connection with the establishment of the rescue package in August 1997, that the government budget should record a surplus of one percent of GDP, led to significant cuts in fiscal expenditures. The budget for 1997 was cut from 984 billion baht to 925 billion baht, and the budget for 1998 was further reduced to 830 billion baht. Spending on education fell by 9 percent, while the appropriation for public health fell by 15 percent. (Expenditures are not expected to decline any further in 1999, since the government aims to generate a deficit of up to 8 percent of GDP.) These cuts in expenditure occurred at the same time as people tried to shift from private to public sector service providers, in order to reduce their own expenditures. The result is that public schools and health facilities are strained, and that the quality of services has dropped. Rural areas are more severely affected, since they were relatively under-funded to start with. In the education sector, the outcome is a significant increase in school dropouts, which worsens the already existing problems related to human capital development. In the health sector, efforts have been made to protect the services to low-income patients. However, NGOs report significant decreases in their ability to provide health-related services, which may cause problems in the future. For example, funding for free condom distribution programs and various AIDS/HIV drug programs have been cut. The need to increase investments in these public services areas is obviously large; in particular, the education sector will require significant investments, considering the commitment in the new constitution to provide 12 years of free education to all Thai nationals. It is clear that this is impossible in the short run, and a 5-year preparation period has therefore been announced before the commitment can be fulfilled.

Regarding the impact of the crisis on social capital, World Bank (1999a) points to some worrying developments. It is noted that the number of street children more than tripled between 1997 and 1998, and that the crisis has led to increasing rates of school dropouts, child labor, and child prostitution. Crime rates have risen and drug use and drug trade have surged in the past years. This development is considered as "a serious threat to the long-standing cohesion of Thai society" (World Bank 1999:14). While it is probably true, there are also reports of gains in social capital. Family and community networks appear to cushion some of the effects of the crisis, as unemployed people returning from cities are taken in by their extended family or local temples supported by their villages. Group loans are being repaid before individual loans. Working hours in non-farm rural enterprises are reduced, so

¹¹ In countries without well-developed social welfare systems, open unemployment seldom grows very high. This is not only a result of statistical problems, but rather a reflection of reality: if there are no unemployment benefits to be had, people are forced into the informal sector rather than into open unemployment.

that the number of people employed is maximized. Although the social problems have worsened, there is reason for cautious optimism, since the social networks - including civil society organizations of various kinds - seem to respond to the challenges. With an economic crisis at hand, however, it is necessary to mobilize international support, in addition to what is available locally.

The impact of the Asian crisis on the relative position of women is contradictory. While women are suffering from reduced real incomes, they have been less severely affected by unemployment than men. The World Bank (1999c) reports that over 60 percent of the unemployment caused by the crisis has affected men. The reason is presumably that many women have been employed in the export industries, which have been among the first to recover, and the informal sector, where the crisis led to underemployment rather than unemployment. Overall, it seems reasonable to conclude that other characteristics than gender, such as region or level of education, seem to make up the main dividing lines regarding the impact of the crisis. At the same time, there are worrying reports of increasing prostitution from Bangkok and other regions, and the increasing rates of school dropouts and child labor may indicate that the long term effects on gender equality are more serious than the short term effects.

Table 4 below summarizes some of the Thai government's policy responses to the problems brought about by the crisis. A large share of the measures included in Thailand's Social Sector Program is financed by various international donors, who are also actively involved in carrying out the programs. Without discounting the severity of the crisis, it must now be recognized that the *de facto* impact of the crisis in many social sectors has been less severe than what was feared at its early stages. The reason, according to the World Bank (1999b:1) is a combination of an effective policy response and a higher degree of flexibility than in many more developed societies: "a growing body of evidence is showing that families and government programs have acted to cushion impacts in health and education" and "Health and education outcomes have shown little or no discernible declines from past positive trends."

Table 4 Thailand's Social Sector Program: Selected Components

Program and Program Objectives	Short-term Measures	Medium and Long-term Measures
<i>Labor Market and Social Welfare</i>		
Support for laid-off workers and the unemployed	Establish a center for laid-off workers	Establish targeted programs to provide employment to vulnerable workers and the unemployed
Poverty alleviation in the informal sector and rural areas	Extend social security coverage for laid-off workers	Allocate budgets for poverty alleviation programs to provincial authorities
Private sector investment in training	Provide tax deductions for vocational training in private firms	Establish action plan to improve competitiveness of labor force
Improve competitiveness of labor force	Limit minimum wage increases	
<i>Education</i>		
Reduce the incidence of drop-outs	Increase budget for student loans	Establish independent school inspection body
Improve quality of priority education programs	Establish mechanism to monitor expenditures for priority programs	Increase budget allocation to general education relative to
Establish new personnel	Maintain teacher training and	

management system	instructional material budgets	vocational education at upper
Decentralize decision-making and management	Increase student/teacher ratio at primary level; redeploy at secondary level	secondary level
Promote private sector involvement in education and training	Delegate authority for non-salary budget to higher education institutions	Establish personnel administration and salary system for public primary and secondary school teachers
	Maintain budget share of primary and secondary schools at FY1997 level	Establish performance based monitoring system to support decentralization of management of higher education
		Confirm commitment to make all public universities autonomous by 2002
		Reform regulatory framework to eliminate inequities between private and public education

Health

Protect the poor	Increase budget for health program for the poor	Increase budgets for Public Assistance Scheme and Voluntary Health Care Scheme
Prioritize programs for women and children	Maintain existing programs for maternal and child health and HIV/AIDS activities	Redeploy health staff to rural areas
Improve health care services in rural areas		Corporatize at least one rural hospital and decentralize management accordingly
Enhance efficiency through corporatization		

Source: Adapted from *SSPL Quarterly Newsletter*, October 1998, National Economic and Social Development Board, Bangkok.

5. Swedish participation in Thai development

In terms of economic and social development, it is clear that the financial crisis has been very costly to Thailand. More than 10 percent of GDP have been lost during the past two years, resources have been redirected from long-term development to short-term stabilization, and the recession has put particular pressure on already vulnerable groups, such as the urban poor, landless rural laborers, and young entrants to the labor market.

Recognizing these problems, the international community has mobilized significant resources to support Thailand's recovery. In addition to the USD 17.2 billion financing agreement designed by the IMF, which is concerned with stabilization, macroeconomic issues, and some institutional and legal reforms, numerous other multilateral and bilateral donors have also established programs to support reforms in poverty alleviation, health care, education and other social sectors. As discussed earlier, a very comprehensive reform program, covering economic, institutional, as well as social issues, is now in place to address the problems created by the financial crisis. This, together with the incipient signs of recovery, means that the scope for bilateral Swedish involvement in the immediate after-care of the crisis is limited. Instead, an increase in the degree of Swedish participation in Thai development should focus on long-term issues that are relevant even after a recovery from the acute problems.

The appropriate starting point for identifying these issues is The Eighth National Economic and Social Development Plan, covering the period 1997-2001 (NESDB 1996). This plan came into effect in October 1996, almost a year before the outbreak of the financial crisis, and it was largely focused on strengthening the sustainability of the country's long-term development. As noted earlier in this report, the plan reflected a perhaps-surprising degree of

awareness about many of the problems that surfaced to more general discussion after July 1997 (and anticipated some of the reforms in the new constitution, which was adopted in October 1997).

More specifically, in order to “deal effectively with the challenges of social change, as well as the present unbalanced path of development – characterized by economic success combined with social problems and threats to sustainable growth”, the Eighth Plan set the following objectives for development:

1. To foster and develop the potentials of all Thais, in terms of health, physical well-being, intellect, vocational skills and ability to adapt to changing economic and social conditions.
2. To develop a stable society, strengthen family and community, support human development, improve quality of life and promote increasing community participation in national development.
3. To promote stable and sustainable economic growth, and to empower the people to play a greater role in the development process and receive a fair share of the benefits of growth.
4. To utilize, preserve and rehabilitate the environment and natural resources in such a way that they can play a major role in economic and social development and contribute to better quality of life for the Thai people.
5. To reform the system of public administration so as to allow greater participation of non-governmental organizations, the private sector, communities and the general public in the process of national development.

The measures proposed to attain these objectives include the following:

- Increase the availability of good quality care and education for well-balanced early childhood development
- Improve the quality of education at all levels and extend basic education from six to nine years. (Subsequently, the new constitution from 1997 introduced the right to 12 years of free education.)
- Provide continuous training for all schoolteachers.
- Upgrade the skills and basic knowledge of industrial workers.
- Upgrade and expand infrastructure provision in the regions and rural areas.
- Reduce the incidence of poverty to less than 10 percent of the total population.
- Preserve and rehabilitate forest areas to cover no less than 25 percent of the country.
- Increase awareness of sustainable alternative agricultural methods.

It is clear that both the objectives and proposed measures are well in line with those characterizing Swedish development assistance. However, it appears that Swedish competence and Thai objectives are particularly well matched in three broad areas. Firstly, environmental issues are of utmost importance to achieve sustainable development in Thailand. Sweden and Sida have considerable expertise in issues related to the conservation and rehabilitation of forest resources and the reduction of industrial pollution that should be highly relevant. In some cases, experiences from Sweden are probably directly applicable to the Thai situation; in other cases, there is likely to be a need for research and development efforts to adapt existing technologies. In particular, there appears to be a need for more research on the sustainable use of rehabilitated tropical forest areas, including economic as well as social dimensions of sustainability.

Secondly, over the coming decade, Thailand will face unprecedented demands at all levels of the educational system. The universal right to 12 years of free schooling introduced in the new constitution will stretch existing resources at the primary and secondary levels, the objective to upgrade the skills of industrial workers provides a new challenge, and the upgrading of value-added in industry calls for increased resources to higher education and research. Sweden has high competence in all of these areas, perhaps with particular emphasis on higher education and research. Thailand is at a level of development where skills and competence at the university level are sufficiently developed to facilitate research cooperation in many areas. However, the relatively limited stock of qualified researchers, coupled with the high fixed costs and economies of scale inherent in many research activities, suggest that collaboration with foreign counterparts is essential. The most promising (and most urgent) areas for research collaboration between Sweden and Thailand are probably found in environmental technology, natural resource management, agriculture, medicine, and other natural sciences.

Thirdly, the development of Thailand's civil society has accelerated during the crisis, partly because of the process leading up to the new constitution preceded the crisis, and partly because many vested interests were weakened by the crisis, and therefore unable to obstruct reforms. To support the reforms and to strengthen the continued development of civil society, it is important that momentum is not lost. In particular, it appears necessary to find institutional solutions to allow the people, in many cases through their membership in communities and non-governmental organizations, to participate in the political decision-making process. Sweden has a well-developed institutional structure involving and integrating various interest groups into this process. It is possible that this is the area where Sweden's potential contributions are most valuable.

An additional argument for increasing Swedish participation in Thailand is that the developments over the next several years are very relevant and interesting for Swedish programs in many other developing countries. At present, Thailand is going through a unique reform process that is probably not matched by any other country. In the economic and institutional sphere, Thailand has accepted and is now carrying out most of the suggestions and propositions presented by the World Bank and the IMF. The great majority of developing countries are considering similar reforms, but many are hesitant, partly because there is little international evidence of the short and medium term costs and benefits of such reforms. In the political sphere, Thailand's democratization and development of civil society is unique, and will, if successful, make up a model for other developing countries. In research and education, Thailand has areas of excellence where it is advanced enough to make important contributions, not only to its own development, but also to the benefit of the entire region. It is probable that the experiences gained as an active participant in the next decade of Thai development would make Sweden a more competent partner for many other developing countries, not least in Southeast Asia.

Appendix

Thai Governments and major political events since 1932.

Government	Date	Event / Prime Minister
	<i>June 1932</i>	<i>Coup d'état, end of absolute monarchy</i>
1	28 Jun 1932 - 09 Dec 1932	Phraya Manopakorn Nititada
2	10 Dec 1932 - 01 Apr 1933	Phraya Manopakorn Nititada
3	01 Apr 1933 - 20 Jun 1933	Phraya Manopakorn Nititada

4	21 Jun 1933 - 16 Dec 1933 <i>October 1933</i>	General Phraya Phahol Pholphayuhasena <i>Coup d'état attempt</i>
5	16 Dec 1933 - 22 Sep 1934	General Phraya Phahol Pholphayuhasena
6	22 Sep 1934 - 09 Aug 1937	General Phraya Phahol Pholphayuhasena
7	09 Aug 1937 - 10 Dec 1937	General Phraya Phahol Pholphayuhasena
8	21 Dec 1937 - 11 Sep 1938	General Phraya Phahol Pholphayuhasena
9	16 Dec 1938 - 06 Mar 1942 <i>December 1941</i>	Field Marshal Pibul Songkram <i>Beginning of Japanese invasion</i>
10	07 Mar 1942 - 01 Aug 1944	Field Marshal Pibul Songkram
11	01 Aug 1944 - 31 Aug 1945	Major Khuang Abhaiwongse
12	31 Aug 1945 - 17 Sep 1945	Mr. Tawee Boonyaket
13	17 Sep 1945 - 15 Oct 1945	M.R. Seni Pramoj
14	31 Jan 1946 - 24 Mar 1946	Major Khuang Abhaiwongse
15	24 Mar 1946 - 08 Jun 1946	Dr. Pridi Banomyong
16	08 Jun 1946 - 09 Jun 1946	Dr. Pridi Banomyong
17	11 Jun 1946 - 23 Aug 1946	Dr. Pridi Banomyong
18	23 Aug 1946 - 30 May 1947	Rear Admiral Thawal Thamrong Navaswadhi
19	30 May 1947 - 08 Nov 1947	Rear Admiral Thawal Thamrong Navaswadhi
20	10 Nov 1947 - 21 Feb 1948	Major Khuang Abhaiwongse
21	21 Feb 1948 - 08 Apr 1948 <i>April 1948</i>	Major Khuang Abhaiwongse <i>Coup d'état</i>
22	08 Apr 1948 - 24 Jun 1949 <i>October 1948</i> <i>February 1949</i>	Field Marshal Pibul Songkram <i>Coup d'état attempt</i> <i>Coup d'état attempt</i>
23	25 Jun 1949 - 29 Nov 1951 <i>June 1951</i>	Field Marshal Pibul Songkram <i>Coup d'état attempt</i>
24	29 Nov 1951 - 06 Dec 1951	Field Marshal Pibul Songkram
25	06 Dec 1951 - 08 Mar 1952	Field Marshal Pibul Songkram
26	24 Mar 1952 - 25 Feb 1957	Field Marshal Pibul Songkram
27	21 Mar 1957 - 16 Sep 1957 <i>September 1957</i>	Field Marshal Pibul Songkram <i>Coup d'état by Sarit Thanart</i>
28	21 Sep 1957 - 26 Dec 1957	Mr. Pote Sarasin
29	01 Jan 1958 - 20 Oct 1958 <i>October 1958</i>	Field Marshal Thanom Kittikachorn <i>Coup d'état by Sarit Thanart</i>
30	09 Feb 1959 - 08 Dec 1963	Field Marshal Sarit Thanart
31	09 Dec 1963 - 07 Mar 1969	Field Marshal Thanom Kittikachorn
32	07 Mar 1969 - 17 Nov 1971 <i>November 1971</i>	Field Marshal Thanom Kittikachorn <i>Coup d'état by Thanom Kittikachorn</i>
33	18 Nov 1972 - 17 Dec 1972	Field Marshal Thanom Kittikachorn
34	18 Dec 1972 - 14 Oct 1973 <i>October 1973</i>	Field Marshal Thanom Kittikachorn <i>Student uprising</i>
35	14 Oct 1973 - 21 May 1974	Professor Sanya Dharmasakati
36	27 May 1974 - 21 Jan 1975	Professor Sanya Dharmasakati
37	21 Feb 1975 - 06 Mar 1975	M.R. Seni Pramoj
38	17 Mar 1975 - 12 Jan 1976	M.R. Kukrit Pramoj
39	21 Apr 1976 - 23 Sept 1976	M.R. Seni Pramoj
40	05 Oct 1976 - 08 Oct 1976 <i>October 1976</i>	M.R. Seni Pramoj <i>Rightist violence and coup d'état</i>
41	22 Oct 1976 - 20 Oct 1977 <i>March 1977</i>	Mr. Tanin Kraivixien <i>Coup d'état attempt</i>

	<i>October 1977</i>	<i>Coup d'état</i>
42	12 Nov 1977 - 29 Feb 1980	General Kriangsak Chomanan
43	12 Mar 1980 - 19 Mar 1983	General Prem Tinsulanonda
	<i>April 1981</i>	<i>Coup d'état attempt</i>
44	30 Apr 1983 - 05 Aug 1986	General Prem Tinsulanonda
	<i>September 1985</i>	<i>Coup d'état attempt</i>
45	05 Aug 1986 - 29 Apr 1988	General Prem Tinsulanonda
46	04 Aug 1988 - 23 Feb 1991	General Chatichai Choonhavan
	<i>February 1991</i>	<i>Coup d'état</i>
47	02 Mar 1991 - 06 Apr 1992	Mr. Anand Panyarachun
48	07 Apr 1992 - 24 May 1992	General Suchinda Kraprayoon
	<i>May 1992</i>	<i>Democracy movement</i>
49	10 Jun 1992 - 22 Sep 1992	Mr. Anand Panyarachun
50	23 Sep 1992 - 19 May 1995	Mr. Chuan Leekpai
51	13 Jul 1995 - 27 Sep 1996	Mr. Banharn Silpa-Archa
52	25 Nov 1996 - 06 Nov 1997	General Chavalit Yongchaiyudh
	<i>November 1997</i>	<i>New constitution</i>
53	09 Nov 1997 - Present	Mr. Chuan Leekpai

Source: Pasuk and Baker (1995: 416); Dixon (1999: xvi); Thai Government website at <http://www.thaigov.go.th/em-thai.htm> (September 1999).

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(As customary, Thai authors are referred to by their first names.)

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