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The Crisis of Thailand and the International Monetary Fund

Not so long ago, I heard a provincial governor in Thailand say that »the current crisis is twice as bad as the burning of Ayudhaya«. The sacking of the old capital city Ayudhaya by the Burmese army in 1767, which marked the end of the so-called Ayudhaya period in Thai history (1350–1767) has traditionally been regarded as the country's worst national disaster. But to many Thais, the current economic crisis rivals and even surpasses this traumatic event. Few people blame outsiders for the outbreak of the crisis; most see it as homegrown. But many are united in regarding the IMF policies as having made a bad situation worse, and having caused a serious financial crisis, triggered by a currency devaluation, to deteriorate into an economic and social disaster.

The IMF's Success in Thailand

The original approach of the IMF and the Thai government to the crisis in Thailand placed top priority on regaining stability in order to regain the confidence of investors, as recovery was thought to be unthinkable without continued foreign investment. For this purpose, a stablized exchange rate was considered essential which in turn required high interest rates. These policies were expected to halt and reverse capital flight. To promote stability, a strict financial and monetary policy was seen as essential, i.e. reducing government spending, maintaining a budget surplus, and increasing taxes.

In a way, the policy has been successful: it has achieved its original objectives. The exchange rate has stablized which eventually helped reduce the high interest rates to pre-crisis levels (below 10 %) without undermining the stability of the baht or raising inflation.[1] Foreign reserves steadily improved. By April 1999, the net international reserves were estimated to be $ 22.3 billion, thus almost equal to the amount of short term debt.[2] Thailand has pressed ahead with major reforms, particularly in the financial sector. Sixty-eight financial institutions were closed. New regulations were introduced on capital adequacy ratios and loans. The parliament passed key legal reforms, including legislation on bankruptcy and foreclosure, which is expected to speed up corporate restructuring. In September 1998, the cabinet approved a Master Plan for State Enterprises that outlined a strategy and timetable for privatization in infrastructure and other key areas, including water and energy. Parliament has approved the Corporatization Law, which prepares enterprises for privatization by converting them into corporations. Final adoption, however, has been held up by an appeal.

There are some first indications that the crisis might have bottomed out: (1) the manufacturing sector is expanding for the first time since July 1997 (by 0.2 % in January 1999 and 3 % in February 1999); (2) most indicators of investment (such as imports of capital goods) seem to have stabilized, albeit at a low level, and (3) the situation in the region as a whole looks less threatening than in 1998. Foreign direct investment (FDI) has continued to grow. Preliminary data (final figures on 1998 are not yet available) suggests that FDI rose to a record high of US$ 7.0 billion, continuing a trend visible since the devaluation of July 1997.[3]

Overall, international investors' confidence in the region seems to have improved. The SET

1. The exchange rate fell from 25 Bt/US$ in July 1997 to 56 Bt/US$ in January 1998. It then stablized first at a rate of 40–41 Bt / US$, gradually gaining in strength throughout 1998 to reach an average of 34–35 Bt / US$ at the end of 1998. Inflation was 2.6 % for the first quarter of 1999 and is expected to be 2.5 % for the whole year.
2. *The World Bank Thailand Economic Monitor,* April 1999, p. 9; http: //www.worldbank.or.th/monitor.
3. *The World Bank Thailand Economic Monitor,* April 1999, p. 8.

(Stock Exchange of Thailand) composite index has risen considerably. In late April 1999, the international rating agency Moody' Investors Service upgraded its rating outlook to »stable« from »negative« for five Thai banks due to progress in bank recapitalization and declining risks in the financial sector, which gave a further boost to the stock exchange (by early May 1999, the SET index had climbed to over 500 points). Moody also upgraded its rating outlook for Thailand from »stable« to »positive« due to the »improved external liquidity position that has greatly reduced near-term vulnerability to sudden shifts in investors' confidence«.[4]

So is Thailand a success story for the IMF? Other than the IMF itself, and its closest allies in the Finance Ministry and Bank of Thailand, nobody sees it that way.

The »Side Effects» of the IMF Policies

The IMF regarded the burden of higher interest rates as temporary, and as preferable to further depreciation of the baht, which would have undeniably raised the burden of dollar-denominated debts. But the negative side effects of this policy have been significant and by no means temporary, causing the economy to contract much more than anticipated. Thailand gets solid marks from the IMF, but both in the financial sector and in the »real economy«, most observers agree that it is too early to declare victory.[5]

The Thai banking system remains »extremely weak and substantially undercapitalized«.[6] With many firms working at hardly more than 50% of capacity, they are unable to service their debts. According to the Bank of Thailand, non-performing loans account for 49.7% of total loans (as of January 1999).[7] Escalating loan losses erode the banks' capital and earnings; loan-loss provisions remain insufficient to cover losses. The largest banks have made progress toward recapitalization, but medium-sized and small banks are well behind. To support recapitalization, the Thai government introduced a package on 14 August 1998, offering to inject Bt. 300 billion into the banking sector, but demanding leverage to spur reform in return. Banks must accept writedowns by setting aside provisions for ailing loans before seeking capital from the government. The program was not compulsory, however, and many of the family-owned banks have resisted it for fear of loss of control and ownership.

As a result of persistent problems, new lending remains scarce, which in turn hampers the prospects for recovery in the »real economy«. Firms across the manufacturing sector are operating at little more than 50% capacity, with labour-intensive products faring worse than high-tech products. Production has remained at this low level since January 1998. Without increasing output, a further increase in bankruptcies and resulting layoffs is likely.[8] Domestic demand has declined steeply without showing signs of improvement. Consumers remain reluctant to spend.

The hope of being able to »export our way out of the crisis« has not materialized. Export volume growth has been stagnant since early 1998, and export prices have been contracting on a year-on-year basis.[9] Most Thai exports go to the likewise crisis-ridden ASEAN countries. While there have been no dramatic new shocks, neither has the situation in the region improved significantly, and demand is expected to be weaker rather than stronger. Thailand is particularly hard-hit by the persisting crisis in Japan, as Japan took 25% of Thailand's exports.

The size of the slump in demand and production and the absense of growth in exports all pose grave threats to long-term recovery, leading to charges that the IMF's medicine was worse than the disease. Many Thai observers see the improving macroeconomic indicators as possibly supportive of, but not as signs of, a real recovery. In fact, the indicators often reflect the persisting crisis: (1) The

4. *Bangkok Post,* »Moody's revises rating outlook to positive«, 4 May 1999.
5. See *International Herald Tribune,* »Image vs. Substance in Asia's recovery, 14 April 1999.
6. Moody, as quoted by the *Bangkok Post*, »SET soars 6,2% after upgrade for five banks«, 1 May 1999.
7. *The World Bank Thailand Economic Monitor,* April 1999, p. 20.
8. *The World Bank Thailand Economic Monitor,* April 1999, p. 1, 6.
9. *The World Bank Thailand Economic Monitor,* April 1999, p. 6–7. In addition to the high cost of credit during much of 1998, exporters faced long-standing problems such as high import duties on certain raw materials and a slow return of VAT on exports.

strengthened currency – the cornerstone and pride of the IMF policy and its allies in the Ministry of Finance and the Bank of Thailand – has been regarded by many policy makers (including the Minister of Commerce and the World Bank) as problematic. They argue for a weaker baht to boost exports. (2) The current account has moved from a deficit to a surplus, but critics point out that this has come about as a result of a dramatic collapse of demand and imports, not as a result of a resurgence of exports. (3) Interest rates have declined only nominally. Falls in interest rates have not matched the slowdown in prices, thus causing the real interest rate to rise.[10] (4) The upswing in foreign direct investment reflects mergers and acquisitions, rather than new productive investment.[11] The number of such deals has increased as foreign investors obtain Thai assets at bargain-basement prices.

As a result, most observers do not agree with the IMF's optimistic prediction of a 1% growth rate for Thailand in 1999. They rather expect the crisis in emerging markets, including Thailand, to persist.

The Social Costs

The crisis has imposed high social costs. Unemployment has increased sharply and continues to rise. Neither employers nor workers are required to register lay-offs, so the true extent of unemployment can still only be estimated. The figures vary depending on the source. The World Bank and the Asian Development Bank (ADB) assume an unemployment rate of about 5.3% (at the end of 1998). Many of those who still have jobs are underemployed, as employers have cut working hours. The ADB has estimated that the number of underemployed has risen from 5.3 Million in 1997 by 2.1 Million.

The social safety net is in no way prepared to help under the current circumstances. It provides support in the case of illness, child birth, disability, and death, but covers only those who paid into it (i.e. workers in the formal sector) and provides no benefits for the unemployed. Unemployment insurance is part of the 1990 Social Security Law, but no enabling law was ever passed. An older law requires severance payments for laid-off employees, but many companies simply ignore this. The labour courts are clogged with lawsuits demanding that the compensation be paid.

Women are particularly hard-hit by layoffs. The 1998 Labour Department Statistics revealed that 57% of the laid-off workers were women, but the real figures are likely to be higher.[12] According to a study by the Friends of Women Foundation of women workers in two industrial zones north of Bangkok, 70% of the laid-off workers in the Omnoi-Omyai Industrial Zone are women; in the Rangsit Zone, 90% of those laid-off are women. In the absence of any kind of safety net, about half of the laid-off women try to cope with the crisis by accepting jobs below the minimum wage rate, often under hazardous working conditions. 10–15% become self-employed, trying to make ends meet for example as vendors and garbage collectors. Another 5–10% become home-workers, often with very meagre pay. Only a handful succeed in going back to farming – contrary to the oft-repeated assumption that laid-off workers are re-absorbed by the agricultural sector.[13]

The return migration to the countryside seems to be a convenient myth, not supported by evidence. In 1998, a survey of the International Fund for Agricultural Development (Ifad) in villages in the poor Northeast of Thailand showed that most migrants are not returning, because »they do not want to create difficulties for their relatives.« Older people are somewhat more likely to go back to their villages (as their age makes it even more difficult to find another job), and unemployed parents also at times send back young children to be cared for by relatives. But younger adults at most return temporarily. Many no longer have farming skills

10. They range from 8%–18.5%, acccording to the *World Bank's Thailand Economic Monitor,* April 1999.
11. William Shaw, principal author of the Global Development Finance Report of the World, as quoted in *The Nation,* »World Bank sees long wait for recovery«, 14 April 1999.
12. The official statistics only cover those who petition the Labour Department for assistance. They are the well-informed and well-organized, and many women workers are neither.
13. Study by the Labour Division of the Friends of Women Foundation, as reported by the *Bangkok Post,* »A life of hard labour«, 15 April 1999.

and jobs in the rural areas are scarce, so many return to Bangkok.[14]

The family safety net is being overwhelmed. Many government officials still assume that any kind of public social safety net is to be avoided, as it undermines the traditional system of family self-help. But in a rising number of cases, the magnitude of the current problem is beyond the ability of families to cope and actually tears them apart, as shown by the increasing rates of divorce and abandoned children.

Nothing reveals the social crisis more clearly than the problems of children. State-run hospitals and welfare homes report a 9.7 % increase in the number of abandoned children under the age of five, and a 34 % increase in abandonment of children between the ages of six and eighteen. Malnutrition among children, which had decreased from 19.6 % to 7.9 % between 1990 and 1996, is up again and affects no less than 25.5 % of all children in the poor Northeast of Thailand, and 8.4 % of the children in Bangkok. The National Economic and Social Development Board (NESDB) reported falling levels of education as parents take their children out of school because they can no longer afford the fees and other costs. 126,000 children left school in the middle of the school year, another 276,000 did not return after holidays. 7.2 % of the children have shifted to schools with lower fees.[15]

Poverty is rising rapidly. An NESDB survey concluded that average income has dropped by 25 % while prices have risen by 40 %.[16] According to the Socioeconomic Survey (SES) in 1998, the proportion of the poor rose to 13 % and 12.4 % in the first and second quarter of 1998 (7.6 to 7.9 million people), compared to 11.3 % in 1996.[17] Many observers assume that the number of people below the poverty line is much higher than the official government figures, if one considers for example the high number of farmers who are unable to pay their debts.

There are increasing signs of social stress. Drugs top the list of problems, with slum children as main buyers. Theft has soared: slum dwellers break into each others' hovels and carry away what has resale value. Prostitution is up, often done on a part-time basis by women desperate for income.

The Critique of the IMF in Thailand

During the first half of 1998, more and more people in Thailand – social critics, NGO representatives, trade unionists, academics, but also business people – concluded that Thailand was getting no rewards for »being the pet of the IMF master«. People lost confidence in the IMF, which came to be seen more as a predator than as a helper, unable to understand the implications of its own policies. Criticism soon extended not only to the policy in Thailand, but to the entire development model.

The IMF is perceived as highly secretive and arrogant. All »Letters of Intent« (the policy agreements negotiated between the IMF and the Thai government) were secret until they were finalized. Nobody outside exclusive government circles was ever informed, let alone consulted. The Fund generally does not seem to regard it as necessary to engage in dialogue and to explain the rationale behind policies. At best, dialogue occurs with a small elite of government representatives and academics.

Furthermore, the Fund has at no point admitted that its own policies might have been wrong or caused serious »side effects«. On the contrary, the Fund appears rather self-congratulatory, which observers attribute to the fact that the Asian crisis has not badly affected Western economies. In response to the persistent criticism, the IMF has stated that the policy of high interest rates was necessary and successful in preventing an even worse fall of currency value, thereby ignoring

14. Numerous problems in the rural areas make an large-scale absorption of returnees difficult and unlikely: (1) The rural economy is badly affected by the bust, as various local enterprises (often set up with the savings of returned migrants) are now collapsing from lack of demand. The village economy is being shrunk back to its agricultural core. (2) The problems of the farming communities are myriad: lack of secure land tenure, high indebtedness, degradation of soil, low productivity, high production costs, and loss of land due to speculative sales.

15. The figures are drawn from studies by the Health Intelligence Unit (on abandonment) and by the Public Health Ministry and the Health Systems Research Institute (on malnutrition), as reported by the *Bangkok Post*, »Children worst hit by the slump«, 16 April 1999.

16. *Bangkok Post,* »Survey: Poor hit hard by crisis«, 22 March 1999.

17. *The World Bank Thailand Economic Monitor,* April 1999, p. 14.

other criticism that focuses on the wisdom of prescribing a tight fiscal policy of a surplus budget and a financial restructuring in the midst of a crisis.[18]

Thai and many international critics believe that the Fund did indeed adopt the wrong policy in Thailand. The country's problems stemmed from heavy private sector borrowing, not from public sector spending. Under these conditions, the IMF policy mix of high interest rates and a tight fiscal policy caused huge problems in their own right: (1) Investors interpreted them as a sign of great dangers ahead, making them more reluctant to invest. The Harvard economist Jeffrey Sachs accused the IMF of worsening rather than solving problems: »In normal times, high interest rates can pull in capital, but in abnormal times, they can provoke a deepening panic«.[19] (2) The high interest rates in combination with Fund-mandated austerity measures and the IMF's insistance on strict capital adequacy ratios pushed indebted companies much more quickly from illiquidity to insolvency, hitting small businesses particularly hard. This caused rapidly rising unemployment and increasing poverty. (3) The collapsing production and demand became a serious threat in its own right, hardly any less dangerous than the previous currency devaluation.

As a result of the IMF's many miscalculations, people have lost confidence in the Fund. Too often, basic assumptions of the IMF policy makers proved wrong as the economy deteriorated much faster than expected. The IMF is accused of having grossly underestimated the extent of the economic contraction and has had to revise forecasts several times (from an expected positive growth rate of 2.5 % in August 1997, to 0.6 % in December 1997, to -3.5 % in February 1996, to -7 to -8 % in May of 1998). Letters of Intent became outdated shortly after being formulated.[20]

Many Thais are still at ease with the IMF-mandated financial sector reforms. They do not deny problems (for example the fact that under the current legal structure, there is little social stigma and legal risk if a debtor defaults). But they resent the insistance on »crony capitalism« as the root cause of the crisis and point to the problems caused by the sudden flows of short-term capital.

The IMF has long lobbied for lifting all capital controls. The Fund now seems to think that the worst of the crisis is over, and that there is no need for any major change in the international financial system, including the free movement of capital. Many Thai observers, however, rather support the idea that countries must build the right infrastructure before they ease capital controls. Critics conclude that the legal reforms and financial restructuring are leading toward the attempt to replace Asian capitalism (with its preference for bank loans rather than share capital, and its preference for family and personal connections rather than strict legal relations) with the Anglo-American variant.[21]

Another bone of contention in the IMF policy basket is the push for privatization. Critics describe it as a fire sale that passes on the burden of the economic crisis to the poor. While the gains of the boom era disproportionally benefitted the business elite, the costs of the bust are now socialized – and this in a country where the gap between rich and poor did not narrow, but widened during the boom times. State enterprises are up for sale at what is perceived to be a low price, causing more suffering. Past experience leads people to believe that: (1) A private monopoly will replace the public one, with no gains in efficiency of services. (2) The prices of services will go up, which will further affect the poor. (3) Some people will lose their jobs in the midst of a crisis; all will lose their job security. Privatization is being pushed on Thailand at a point when the country has little bargaining power. Not only workers, but also business people see it as a form of selling off the country when the country is broke.

Some critics concede that privatization might bring some gains to consumers, and that it might not be bad in principle, but they argue that transparency is a prerequisite and transparency requires a strong civil society. For now, privatization is

18. *The Nation,* Chang Noi: »This is not the time for IMF complacency«, 28 April 1999.
19. *The Nation,* »No solution for panic selling«, 25 March 1999.
20. The Fund says that it did not have full access to the requisite information. But the problem of inadequate data in Thailand is well known and should have made the Fund extremely cautious. The IMF also argues that its policy would have been perfect but was undermined by the unexpected contagion around the region. But countries in the region tried to help Thailand because they were well aware of the possibility of a contagion.
21. The Nation, Chang Noi: »This is not the time for IMF complacency«, 28 April 1999.

only expected to extend the reach of »crony capitalism«, as fair competition is not yet very likely under the prevailing conditions. The regulatory mechanisms in the state and in the civil society are not yet strong enough.[22]

In short, the IMF is seen as being far more interested in »serving others, not the Thais« and in safeguarding the interests of foreign creditors, rather than avoiding collapse in Asia. Anti-Western sentiment – though not strong – is being expressed. The Thai businessman Amarin Khoman, chairman of the Thai Star Group of Companies, for example, accused the IMF of being »a tool of the superpowers which take advantage of countries in trouble«. The author advocated self-reliance as in Malaysia, and warned that countries that have followed the IMF found that »after gaining economic recovery...their banks, their businesses were in the hands of rich people from North America, Europe, and Asia. The local people remain poor, or are even poorer«.[23]

Policy Changes

The deepening economic and social crisis has led to two responses of policy makers and development experts in Thailand: (a) attempts to reverse the original, IMF-mandated government policy, and (b) increased discussions of alternative development models.

By the middle of 1998, the Thai government had come under mounting pressure from a deepening recession and vocal critics. Not only the »usual suspects« in the academic community, NGOs, trade unions, and farmers' associations, but also economists and business people urged the government to part company with the IMF's original prescriptions and to try to revive domestic demand. Business representatives charged that the IMF ignored the »real economy« and that the persistent lack of liquidity condemned them to death. Activists complained that the policies favoured the rich at the expense of the poor and threatened to demonstrate.

The government re-negotiated with the IMF and changed course quietly but dramatically with the 4th and 5th Letter of Intent to »minimize any further decline in the economy and bring about an early recovery«.[24] Deflationary austerity was replaced by a more expansionary fiscal policy designed to compensate for the fall in demand. The public sector could now run a deficit, allowing the Thai government to inject billions of baht into the system to directly address social problems. The first Letters of Intent had talked about installing social safety nets, but had made no concrete proposals. The 4th and 5th Letters of Intent laid out more concrete plans, including programs for employment creation. Liquidity was improved with a number of measures such as increasing the money base, selling assets of the closed financial institutions and offering new bonds on the international market. Interest rates were brought down from 20% at the beginning of 1998 to 9.8% in the first quarter of 1999. All of these measures contradicted what was regarded as IMF orthodoxy.

On 30 March 1999, the Thai Finance Minister Tarrin Nimmanhaeminda announced an additional stimulus package of Bt. 130 billion (to be financed by Japanese and World Bank loans) to increase domestic demand and lower production and export costs. This so-called »Tarrin fund« combined the planned (but not yet spent) Bt. 53 billion additional expenditure from the 6th Letter of Intent with new tax cuts (such as a reduction in the VAT from 10% to 7%) and measures to lower energy prices. The majority of the new expenditures were to be used to create new jobs, for example through improvements of infrastructure, waste disposal and water supplies. Furthermore, money was to be spent directly on localities, e.g. to subsidize school lunches and to extend a scheme that helps elderly people through small monthly payments.

...with Few Effects

So far, the policy shift has brought little if any beneficial effect for those most adversely affected

22. State enterprise workers demand (a) that the state should hold 70% of the shares of each privatized firm, (b) that income from the state enterprise stock sale should not be used to pay the debts of the Financial Institutions Development Board and (c) that a public referendum should be used to solve the persisting deadlock in negotiations.
23. *The Nation*, 11 October 1998.
24. *The Nation*, Chang Noi: »Thailand's quiet revolution against the IMF«, 25 November 1999.

by the crisis. The government has announced numerous schemes designed to help people, but has been slow and inefficient in implementing them. Almost two years into the crisis, the people mostly are left to fend for themselves.

The Thai government seems to be inexperienced when it comes to implementing a Keynesian strategy with a stimulus package. As one observer noted, »the scheme cuts across ingrained bureaucratic attitudes about conserving money and not wasting it on the poor. It must negotiate its way through a minefield of bureaucratic corruption and contractor gangs«.[25] One problem is the extremely slow disbursement of funds. Examples abound: The government has allocated US$ 29.5 million to training schemes, in hopes of bringing no less than 1.53 million people into the workforce. However, the Ministry of Labour has not yet received any money from the Finance Ministry.[26] Wherever one looks, disbursement seems to be moving at a snail's pace. Contractors complain that as much as Bt. 160 billion earmarked for investment projects in the 1999 budget (which ends on 30 September) have not yet been spent.

The slow disbursement is blamed on inefficiency and inertia, but also on fearful inaction in the face of rapid change. Bureaucrats are used to follow regulations step by step and adapt badly to new requirements. The Land Department, for example, was reluctant to comply with new rules that allow a waiver of property tax transfer to facilitate debt restructuring. The matter had to be brought back to the cabinet several times for confirmation before the Land Department officials felt it was safe to implement the new policy.[27]

Funds are also held back by government officials' demands for kickbacks. A contractor who wants money often has to »hold special discussions with the official«.[28]

A number of government unemployment projects have flopped due to poor publicity and slow implementation. The already cited study by the Friends of Women Foundation found that two thirds of the workers do not know about any government measures designed to help laid-off workers. Those who do turn to the government for help are often frustrated by red tape. To be eligible for government loans, for example, a woman needs a government official to act as a guarantor, a frequently forbidding requirement.[29]

In light of these experiences, many observers are sceptical about the chances for success of the »Tarrin Fund«. Critics point out that expenditure allocations across ministries have been made without any public or parliamentary discussion and wonder out loud if goals of transparency and efficiency can be met.[30] The Minister of Finance himself seems to have no faith in the implementation capacity and honesty of the usual government spending channels and plans to pass the funds directly to the local units of ministries (such as public health and public welfare departments). To prevent the ever present »leakages«, he wants to set up a special task force of »good men« to oversee the scheme. In short, its chances of success are doubtful.

Critics charge that the principal motivation behind the stimulus package is the government's desire for political survival, which means winning an election some time next year. The government has come under fire for lack of concern with and effective support for the poor. The stimulus package will do little to solve the fundamental problems of the rural communities. But as one observer concluded, in a drought, even a shower is welcome.[31]

The Role of the World Bank

The World Bank's main response to the crisis has been the so-called Social Investment Project. A »Social Investment Facility« (SIF) was set up to make Bt. 21.6 billion available. The main goal was

25. *The Nation,* Chang Noi: »A bit late, but Tarrin's fund is worth the risk«, 1 March 1999.
26. *Bangkok Post,* »Critics target Tarrin as revival loses steam«, 4 March 1999.
27. *The Nation,* »Red tape ties up contractors' cash«, 6 April 1999.
28. Numerous big corruption scandals were exposed in the course of 1998, among others in the Public Health ministry (fixing procurement prices at above market level), in the Agriculture Ministry (buying overpriced seeds), in the school and university system (where reports and grades involve paying teachers with goods and money), and in the Police (extortion by high way policemen with false emission readings).
29. *Bangkok Post,* »A life of hard labour«, 15 April 1999.
30. *The Nation,* »New IMF targets impossible to achieve«, 6 April 1999.
31. *The Nation,* Chang Noi: »A bit late, but Tarrin's fund is worth the risk«, 1 March 1999.

to provide funding for labour intensive projects and training, creating jobs for 1.7 million people and training for 920,000.[32]

For the implementation of the program, the World Bank primarily relies on government agencies, even though in its analysis of the country situation, the World Bank had doubted the capacity of the state agencies to implement the programs. Not surprisingly, the World Bank programs have run into »implementation constraints« – they are plagued by the same set of problems that have beset the government programs. The Government Savings Bank, for example, which is charged with disbursing funds to community based organizations, is accused by observers of »gumming up the social safety net schemes of the World Bank«.[33] Only about 10 % of the funds set aside have been spent. Furthermore, there is by now a rather bewildering array of funds, schemes, and programmes, financed by the World Bank and other international institutions and set up to aid various forms of industrial and agricultural restructuring. They all seem to have in common that few projects have been approved, let alone been started.

Despite this criticism, the World Bank has been perceived in a more positive light than the IMF. It has decentralized, giving the Bangkok office more say in policy making for Thailand. The representatives are willing to expose their analyses and themselves to debate by participating in seminars and by inviting others, for example the representatives of local NGOs, to comment on their country analysis. But participants in this process express doubts how committed the World Bank really is, and what its real intentions are. While the World Bank office seems to take a greater interest in solving social problems and occasionally consults those who are immediately affected, the real meaning and impact of such »consultations« are unclear. The consultations can also hardly make up for the general lack of participation of poor people in designing policies that immediately affect them.

Development in Thailand – Lack of Capital or Lack of Democracy?

The magnitude of the Thai crisis has triggered many discussions of Thailand's development model. Three points of view dominate the debate:

(1) The »globalizers« essentially hang on to the export-oriented model that has guided Thailand's policy making since the mid-1980s. They see foreign capital, foreign markets and liberalization as key to development. Thus they push for reform of the financial sector along the lines of more transparency and tougher laws and regulations to assure greater influx of foreign capital, and they oppose capital controls. In their opinion, the crisis forces Thailand to integrate more closely with the outside world, as barriers of various kinds are dismantled. They argue that Thailand has always benefitted from being open to the world, and that it now must reform its businesses and social institutions (including the bureaucracy) to survive and do well in the future. These more neo-liberal globalizers have fierce debates with those of a more Keynesian persuasion who have long argued for deficit spending, and who favor a weaker currency and the nationalization of non-performing loans. Both types assume that Thailand does not have the option to opt out of globalization, and that further modernization in all areas of society – from education to the public sector and agriculture – is both necessary and desirable.

(2) The »localists« point to the negative results of Thailand's rapid modernization under the export-oriented policy. The quickly growing economy caused widespread environmental degradation (witness the disappearance of the Thai rain forest). The gaps between rich and poor and between the city and the village deepened. Money overwhelmed politics and corrupted most involved with it. Agriculture was neglected and the educational system could not keep up.

For the critics, this crisis showed not that Thailand cannot adapt to the standards of a modern society as defined by the West, but that this whole process is of dubious value for Thailand. The collapse of the economy demonstrates that

32. Most of the money is made available to government agencies (e.g. the Tourism Authority of Thailand for Construction and Renovation). A smaller part is used as »Social Investment Loan« of the World Bank (Bt. 4.8 billion), and is accessible to NGOs. Bt. 1.2 billion is to be used for investment projects in cities and villages. The Thai government, the World Bank, ADB, UNDP, and the Overseas Economic and Cooperation Fund all participate in funding the program.

33. *The Nation,* Chang Noi: »A bit late, but Tarrin's fund is worth the risk«, 1 March 1999

the top priority of the past decade has been the »development of wealth«, not the »development of the society«. The crisis has been seen as a chance to redefine the priorities. A new balance has to be found between the power of the market and the traditional strengths of Thai society. The crisis can be confronted successfully by invoking Buddhist values such as self-examination and moderation and by learning again to rely on local knowledge. The new society has to build from the community level upward, rather than from the world downward. The concept of self-sufficiency, at the heart of Buddhist economic thought, must replace capitalist production and consumption, which is marred by its disregard for the social, environmental and cultural consequences.[34]

There has been a surge in local barter networks, small-scale integrated farms, and microcredit schemes. Proponents have gathered locally and nationally to exchange ideas and experiences. While the »localist movement« might have some (though limited) impact on development thinking in the long run, it is unlikely to change the direction of national policy in the short run, as it is scattered and fragmented, up against a government firmly committed to a different concept, and devoid of a strategy for managing the economy above the community level.[35]

(3) The concept of »limited de-globalization«, as proposed by Walden Bello, the head of the Center for the Global South at Chulalongkorn University in Bangkok and one of the most outspoken critics of the IMF in Asia, offers such a strategy. Bello shares much of the localists' critique, such as the charge that the years of high growth in Thailand have left behind little of lasting value but have cost the country dearly (e.g. in form of a dangerously depleted »natural capital«). He argues that the financial flows benefit only a small elite. Nonetheless, the crisis is being used to more thoroughly integrate the financial sectors of developing countries into the global, Western-dominated financial system.

Walden Bello advocates: (a) Growth must be financed primarily from domestic savings and investment, which requires a progressive taxation system. (b) While export markets are important, they are in his opinion too volatile to serve as reliable engines of growth. Bello proposes that development be re-oriented around the domestic market as principal engine of growth. This links growth and equity – enlarging the domestic market to stimulate growth means bringing more consumers into the market via asset and income redistribution, including land reform. (c) Bello advocates devising a set of effective capital and trade controls as well as regional cooperative arrangements that allow for a re-orientation of the economy toward a more inner-directed pattern of growth. The experiences of India, China, Chile, and Malaysia are cited as examples of capital control policies worth studying.[36]

Bello does not analyze how this concentration on domestic production and consumption would differ from and avoid the problems of the long-vilified »import substitution« strategy. The idea of capital controls, however, may be gaining support even among people who once were firmly in the »IMF camp«. During the first year of the crisis, many clung to the orthodoxy of the free market and trusted in the ability of the IMF. But now, more and more mainstream economists in Thailand are dismayed about the IMF's self-congratulation in the face of persisting problems. They resent the attempts to reform along Western lines a system that served the country well for decades and they fear that none of the steps taken so far is likely to prevent the re-occurrence of a similar crisis. Even Amma Siamwalla, one of Thailand's most eminent economists, who long argued for liberalization, now favors »some degree of capital controls« and the Chilean model of discouraging short-term inflows by taxing funds that exit too fast.[37]

But perhaps the key challenge of the future is not so much the lack or regulation of capital, but the lack of democracy, i.e. the public's non-participation in social and economic policy-making. In September of 1997, the Thai parliament passed a new constitution that aims at guaranteeing human rights, the rule of law, and political participation. Thus the preconditions for a more de-

34. *The Nation,* Chang Noi: »Don't expect a widespread revolution«, 30 December 1998.
35. *The Nation,* Chang Noi: »Don't expect a widespread revolution«, 30 December 1998.
36. *The Nation*, Walden Bello: »Don't let global elites devise the financial architecture«, 23 March 1999.
37. *The Nation*, Chang Noi: »This is not the time for IMF complacency«, 28 April 1999.

mocratic decision-making process in Thailand are good. However, the poor continue to be marginalized not just economically, but politically. To date, no effective representation of their interest has emerged, no political party has consistently championed their needs. Politicians and civil servants feel little need to pay any real attention to the poor, as they occupy a low position in Thailand's highly hierarchical society, and their organizations (trade unions and farmers' associations) are fragmented and weak. Thus the indifference of politicians and bureaucrats, their failure to develop a clear and comprehensive social policy and their tendency to concentrate their best efforts on the financial sector reform are hardly surprising. At present, the welfare debate in Thailand is conducted not in parliament, but on the streets, as pressure groups try to communicate demands, for example for an unemployment insurance or land reform. So far they have not been very successful.[38]

At a conference in Seoul, South Korea, in March 1999, Amartya Sen, winner of the 1998 Nobel Prize in economics, put the lack of democracy in the center of a debate on the economic crisis in Asia: »The recent problems of East and Southeast Asia bring out, among other things, the penalty of undemocratic governance.« He insisted that the development of the financial crisis in some of these economies has been closely linked with the lack of transparency in business, and in particular with the lack of public participation in reviewing financial and business arrangements. »The absence of a democratic forum has been consequential in this failing. The opportunity that would have been provided by a democratic process to challenge the hold of selected families or groups could have made a big difference...The newly dispossessed did not have the hearing they needed. A fall in gross national product of say even 10 % may not look like much if it follows the experience of past economic growth of 5–10 % every year for some decades, and yet that decline can decimate lives and create misery for millions if the burden of contraction is not shared together but allowed to be heaped on those who can least bear it, the unemployed or those newly made economically redundant«.[39]

A sustainable solution can be worked out only once Thailand's gains in political democratization are translated into the participation of people also in economic and social decision-making. ◀

38. Thailand's largest labour congress, the Labour Congress of Thailand (LCT), proposed in a letter to Prime Minister Chuan Leekpai, that the government »urgently consider organizing a special fund to assist the lives of the unemployed and to prevent further social unrest that might appear in the future«. The LCT proposed a mixture of cash hand-outs, low-cost loans, housing, and transport subsidies, and free health care to be funded by multilateral aid. But the government response has been anything but interested. Political parties rely more on rural votes. None have championed the urban poor.

39. Amartya Sen, as quoted in *The Nation*, »The poor don't get a hearing«, 17 March 1999.