

Thailand's response to the crisis falls short of real changes

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During the last months of 2008, the Thai authority's response to the global financial meltdown was sluggish, with no clear direction. This could be due to the on-going domestic political turmoil involving more than ten thousand demonstrators occupying the government house for almost 200 days, who later closed down Bangkok by blockading both of the capital's international airports. Beside the inability of the government at the time to focus on economic matters, it could also be because of its high level of confidence in the arguably healthy macro-economic indicators. For example, during the last quarter of the year, the total external debt was around 66 billion USD (65% of it long-term), while the international reserve was comfortably above 100 billion USD. Overall public debt stood at only 36% of the GDP. Moreover, no banks have shown sign of distress, and no official intervention in the banking system by the government or the Bank of Thailand was needed. In fact, at the end of 2008, local banks even registered a total annual net profit of 2.4 billion USD.

Up to mid-October of last year, the focus of the government and the established media was on the Stock Exchange of Thailand (SET) which saw its index plummet to the similar range as during the Asian Financial Crisis of 1997. The scene at the stock exchange, however, did not create much anxiety among most of the population, considering that only less than 300,000 out of 64 million Thais actively engage in this market. However, in the longer term, indirect effects would be felt by a much larger group of people. This is because an increasing number of saving schemes such as pension funds have been investing in the equity market. The most prominent one, the Government Pension Fund (GPF) which has more than 1.5 million government officials as members, saw its capital reduced by 14% from 2007 to 2008. At the end of 2008, GPF announced its annual loss of 5.12%, resulting in an overall increase in its asset of only 7.04% over the period of 12 years since its creation, which is much lower than the average inflation of the same period. The national Social Security Fund has also invested significantly in the equity market; its loss is still not known to the public. On this matter, the government came out with a number of measures, mainly tax incentives to stimulate the market. In addition, the Deputy Prime-Minister in charge of economic matters, in October 2008, indicated that the government should mobilise a large amount of resources, possibly as much as two billion USD, to shore up what was believed to be under-priced stocks in order to push the SET Index upward. At the time, there was less apparent effort in assisting the real sector and the poor and vulnerable population.

The situation and policy direction changed, however, when the new government took office in January 2009. It came up with speedy measures in the attempt to mitigate the crisis.

To be fair to the previous government, the remnants of which now constitute the main opposition party, the signs of trouble were much more visible at the beginning of 2009 in comparison to the previous year, especially when the effect of the airports shut-down caused severe panic among the public and the business community, particularly the tourism industry. The number of tourists fell by 21% on the year-on-year record. Also, the mobilisations in the streets became more subdued when compared to what the previous government had to confront.

It is vital to note that the crisis which Thailand is now facing has not derived from financial

mismanagement nor unsound monetary or fiscal policies, but essentially a result of its economic structure and long term development strategy which have been increasingly reliant on exportation and foreign investment as the engine of growth. Export accounts for 70% of the national income. Total foreign investment in 2006 was 1.4 trillion USD while the GDP was 2.5 trillion USD in the same year.

The year-on-year export level has been in decline for the last four months since November 2008. Even with the sharp increase in the export of gold, jewelry and ornaments due to high prices, the policy makers went into a state of shock when it was revealed that the total export plunged by 26.4% in January 2009. External demands for electronics, auto parts, electrical appliances, agricultural and agro-industrial products have dried up. At the same time, imports also plummeted by 40.3% in February, the sharpest drop in 11 years. This was not only because of the 20% contraction in consumption as the decline also happened in all categories of imports, especially energy, -54.78%, capital goods, -23.8%, and raw materials, -45.3%. These figures confirmed that the economy was facing diminishing production and economic activities in general.

Due to the high level of significance of export to the national economy, it was calculated that with the 26.4% reduction of exports that Thailand is facing, the GDP would decrease by at least 5%. And if each 1% drop in GDP costs 200,000 jobs as widely believed, Thailand will see its workforce become unemployed by a million within this year. This is unemployment due solely to primary export reduction. The government has already admitted that if nothing is done, or if the government measures fail to deliver, the GDP could plummet by 9%, and the total unemployment level could reach nearly 2 million, from 510,000 at the end of 2008, due to accumulated effects.

This level of anticipated lay-off has not been seen since the Asian financial crisis of the late 1990s. Unfortunately, unlike a decade ago, the rural sector has presently much less ability to absorb back laid-off workers from factories. Moreover, the price of agricultural produces has collapsed by around 21% compared to the previous years. Rural households have also accumulated larger amounts of debt due mainly to the volatility of the market and the rising costs of inputs. The government continues to finance price support schemes to reduce the pressure in the agriculture sector. Still, since the money stays in farmers' hands for only a very short period of time before being transferred to the landlords, chemical inputs companies, and local money lenders, without addressing structural problems in the sector, such schemes will hardly lead to an improvement in the quality of life of small rural producers. Furthermore, the amount of budget used for agricultural price support and similar measures is expected to be capped at around 13 billion baht, a reduction of 6 billion baht from the current level, if the WTO Doha round reaches conclusion.

The current Democrat-led government came up with its first stimulus package only days after taking office by approving a 1.15 trillion baht (3.5 billion USD) supplementary spending budget for 2009. This amount accounted for approximately 1.4% of the GDP. With the substantial decrease in government revenue due to the economic condition, the package will force the government to run a 3.6% budget deficit, including seeking financial support from countries like Japan and China, and from international financial institutions such as the World Bank and the Asian Development Bank. The spending bill will finance 18 separate projects with the main objectives of helping finance new jobs and giving a boost to the flagging economy. According to the Minister of Finance, the government's approach is to "put money back in the hands of the public, rather than keep it in the hands of the government". The 18 projects include:

Project

Amount (in million Baht)

1. Funds to cover treasury reserve withdrawals [This is to cover the amount which was spent already but was not in the existing budget (2008-2009). The government is required by law to propose a new budget to cover advanced withdrawals from the treasury reserve. So, this fund may not result in stimulating the economy from this point onwards as such, but without it the government would not be able to use more money.] (19,139.5)
2. Free education for 15 years (19,000)
3. Subsidising living cost of civil servants and social security fund members earning less than 15,000 Baht (18,970.4)
4. Sufficiency economy promotion (mainly in rural areas) (15,200)
5. Six months free bus, rail travel and utilities (11,409.2)
6. Old-age pension (9,000)
7. Training for the unemployed (6,900)
8. Health volunteers recruitment (3,000)
9. Reserve budget in case of emergencies (2,391)
10. Irrigation projects (2,000)
11. Housing for junior police (1,808)
12. Basic facilities at village level (1,500)
13. Health stations improvement (1,095.8)
14. Commerce Ministry's cheap goods markets (1,000)
15. Tourism promotion (1,000)
16. Small reservoirs construction (760)
17. Promotion of the food industry and SMEs (500)
18. Rehabilitation of the national image (325)

Under this first stimulus package, the government will allocate nearly 19 billion baht (it has later been raised to around 20 billion) to finance a 2,000 baht grant per head for over 8 million employees and 1.5 million civil servants earning less than 15,000 baht per month. A further 11.4 billion baht would be used to pay for a six-month extension of the subsidy programme offering free water and electricity for low-income households as well as free bus and train rides for commuters. The largest single item in the budget is education, with 19 billion baht set aside to finance 15 years of free schooling. Shortly after the first announcement of the package, the government supplemented it with an additional budget of nearly 30 billion baht to support local small and medium size enterprises and export industries.

It is impossible to truly evaluate the effectiveness of the stimulus measures employed by the current government at this point since most of the projects will be realised only by April 2009. The first 2,000 baht cheque was released less than a week ago. Nevertheless, the country's leading economists have already criticised the package as inappropriate. Of the 18 projects, the 2,000 baht allowance for low income population came under the most fire. Many believe that most of the 20 billion baht earmarked for this project will just disappear; it will not stimulate the economy because it is a one-time payment. Some called it a charity fund which could be used up in a few days. Another project which attracted a lot of criticism is the 6 billion baht skills training scheme aimed at creating new entrepreneurs. The main point was that at a time when the economy had slowed and the purchasing power restricted, it was unwise to encourage small-scale operators, especially those with limited experience, to invest as there is a high risk of their businesses going under.

The government defended its decision, saying that the package was well balanced with special attention to the low-income group of people. One of its main goals is to raise quickly the domestic consumption spending in the second quarter in order to compensate for the drop in external demand, and prevent the economy to go into a coma. According to the Prime Minister Abhisit Vejjajiva, the most effective and speedy way to boost the economy, is to allocate funds directly to the people. Furthermore, the government announced recently that the second package of 140 billion baht will be ready for the third quarter in which the emphasis will be on investment in infrastructure over the next three years and stimulus measures for the yet undisclosed target industries.

It could be accepted that the multiplier effect of demand stimulation through a scheme such as the 2000-baht allowance would be greater in contrast to public spending through normal government channels, including less chance for corruptions. Also, because it is aimed at lower income people, the redistribution effect should be bigger. Nonetheless, the government has not, thus far, shown any clear intention to resolve the current structural imbalance of the national economy which is so dependent on external markets and capital. The exposure ratio is such that any demand stimulating scheme by the government would be inadequate. The measures revealed in the first package only reflect the aim to keep the engine running until the external demand picks up again.

At the same time, the government is dangerously deepening the current one-sided economic approach. On this, numerous actions have been taken. Thailand took the key role in speeding up FTA deals including the ASEAN-Australia-New Zealand trade agreement inked in the beach resort town of Hua Hin just weeks ago. It also stated that the problematic Alien Business Act will not be amended in way that might upset foreign investors. It allocated 5 billion baht for the EXIM bank in the hope of boosting export. The most unexpected move was that the government went as far as sending the prominent Deputy Commerce Minister to the United States in an attempt to recommence the Thai-US FTA negotiation which was shelved more than three years ago.

This shortsighted strategy by the Democrat-led government might lead the country to disaster if the global crisis is prolonged. At best, it will diminish the ability of the country to mitigate similar economic turbulence in the future. Although the government has asserted the idea of introducing property and inheritance tax as part of the country's tax reform, it remains to be seen whether it is a genuine endeavor or simply a tactical political manoeuvre. Moreover, the government did mention about stimulating the economy by investing in alternative energy and green development but no details have been given so far. In short, all this together could mean that the hope for change in the case of Thailand has not vanished just yet, but it certainly would need extraordinary courage on the part of the politicians and the immense strength from progressive social groups. A paradigm shift can never come about easily: it is probably impossible during normal times, but we are in a time of crisis, a time when genuine change could be closer than anticipated.

P.S.

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