Setting the stage: from IMF devaluation to attempted coup

by Sophie Tanapura

The stage for the Sept. 9 attempted coup in Thailand was set by the economic policies the Prem government has been following since it imposed a surprise devaluation of the Thai currency, the baht, in early November 1984. As this report shows, none of the benefits of such a devaluation promised by the International Monetary Fund have materialized. Instead, the IMF-World Bank austerity policies have triggered a chain reaction of economic disintegration. Unless Thai leaders are now able to unite around a program of economic development, centered around the construction of the Kra Canal which would act as the focus for industrialization and trade, the country will face protracted political destabilization as the economic crisis deepens.

November 1984: surprise devaluation

On the night of Nov. 1, 1984, Finance Minister Dommai Hoontrakul called an emergency meeting with senior officials of the Bank of Thailand. The next morning, a 17.3% devaluation of the baht ws announced, and the Thai currency was severed from the dollar. The surprise devaluation, it was learned later, was carried out on the recommendation of the International Monetary Fund.

The devaluation followed by one month, Sommai's unprecedented ouster of Bank of Thailand Governor Nukul Proachuabmoh, who had resisted the encroachment of supranational agencies such as the IMF on Thai economic policymaking. Sommai replaced Nukul with his own handpicked appointee, Dr. Kamchorn Sathiruakul. Within the government bureaucracy, the devaluation policy and subsequent austerity measures have been rammed through the policymaking process by a handful of U.S.-trained bureaucrats centered at the National Economic and Social Development Board (NESDB).

The devaluation had been put into effect ostensibly to boost Thai exports by lowering their price. This, in turn, was aimed at lowering Thailand's trade deficit. The measure however, has boomeranged dangerously, failing to reduce the trade deficit and acting to bring down the economy.

Even according to the incompetent textbook economics endorsed by such institutions as the Wharton School and the Harvard School of Business, the devaluation of the Thai currency has been a disaster. From 1978 to 1980, Thailand's annual exports growth-rate had climbed from 17.1% in 1978, to 29.7% in 1979, and 22.6% in 1980. Imports had risen somewhat faster, 33.8% in 1979 and 28.6% in 1980. In 1981, both import and export growth rates equalized at 8%. But in 1982, as the country weathered a mid-1981 devaluation and as the effects of the high-interest-rate regimen of Federal Reserve Chairman Paul Volcker began to show its effect, Thai exports started shooting downwards, in 1982 by 1.1%, and then by another 11.3% in 1983. In 1982, imports also nosedived by 14.1%. The following year, as imports that had been delayed from 1982's austerity regimen could no longer be postponed, imports shot upwards by 20.6% to new high levels of $10.3 billion, as exports continued their plummet downward by 11.3%.

In 1984, the situation had already begun to correct itself *before* the devaluation was put into effect. The devaluation occurred at the end of the year. But Thai imports for 1984 registered a slight 0.6% increase, while its exports rebounded by 20.1% to $7.4 billion. The devaluation of the baht was patently unnecessary.

1984-85: export decrease

The devaluation was not only unnecessary; it has proven to be disastrous to Thailand's production and export profile. The promised improvement of the export of agricultural commodities was nil. Instead, rice exporters and rice mill owners are being forced to continue business even as they are selling polished rice at a loss. Rice mills have been temporarily shutting down all over the country.

Simultaneous with the devaluation, the Wharton School graduates of the NESDB insisted that the Thai government halt subsidies for agricultural products and liberalize prices.

Under the cut-throat system thus introduced, many dealers were forced to sell their products at prices below production costs.

According to the Thai Board of Trade, the dollar value of exports of key agricultural products like rice, tapioca, and rubber, which has decreased since the devaluation, will continue to fall through the rest of 1985. About 4 million tons of Thai rice worth about $850 million will likely be the total export of rice this year, as opposed to a record 4.6 million tons worth $960 million in 1983. This is a decline of 13.04% and 11.33% in volume and value, respectively.

For tapioca products, the Bank of Thailand reported that Thailand has successfully explored new markets outside the OECD countries, including the Soviet Union, North Korea, Portugal, and Israel. However, even though this year's tapioca export will top 6.6 million tons at the total value of $490 million, it is down 4.21% and 20.58% in volume and value, respectively, from 6.89 million tons worth $615 million last year. As for rubber, world market prices have dropped by 6.25%. About 630,000 tons worth $480 million is expected to be exported this year, against 591,621 tons worth $481 million last year.

In all of the three examples cited, it should be noted, the export earning is less per ton exported. In other words, selling cheap has not resulted in a significant increase in the country's revenue in foreign currencies. Rather, it has simply provided a boon for the the international cartels dealing in agricultural products.

To top it all off, Thailand among other Asian countries could soon to be hit by a tariff barrier on textiles exports to the United States, if the Thurmond-Jenkins bill is passed and takes effect. Sixty percent of Thailand's textile industry and 80% of Indonesia's would be affected by the Thurmond-Jenkins Textile Protection Act.

Meanwhile, the increase in prices of imports has caused a downturn in industrial production, as prices on imports for manufacturing moved out of reach.

The annual debt service has also skyrocketed because of the devaluation. The Electrical Generating Authority of Thailand, for example, was forced overnight to shoulder an additional 8 billion baht in project costs—more than $290 million, just by Sommai's whisk of the pen. "The devaluation resulted in bigger debts and the collapse of many firms," reported former EGAT governor Kasame Chatikavanij. "Most of the country's foreign earnings go to purchasing oil and automobiles, and the national income from rice, rubber, and tin is not even enough for buying oil."

At the end of the first quarter of 1985, the finance ministry suddenly discovered that the devaluation had contributed to a 16 billion baht shortfall in revenue. To cover this, the ministry announced plans to revamp the tax structure to raise 21 billion baht more by 1986.

The cabinet agreed upon a 100% increase in excise taxes on liquor and cigarettes; a 10-20% increase in land taxes; and a 2% hike in service fees on land transactions to 9%. The government also moved to increase taxes on diesel fuel and to slap on an additional 5% tax on fixed deposits. Thai Farmers' Bank Senior Executive Vice-President Narong Srisa-arn warned that the tax would decrease bank deposits, forcing a decline in investment and production. Finance Minister Sommai replied: "In socialist countries, such deposits are considered idle money and subject to higher taxes."

June 1985: IMF standby loan conditions

Following the June 1985 meeting of the IMF in Washington, the green light was given for Thailand to receive an IMF loan of $585 million as a standby credit. The conditions for the loan had already in large part been carried out: the devaluation of the baht. However, the IMF also urged the government to proceed with its campaign for privatization of state enterprises, first initiated by the World Bank. Given that most of the state-sector industries are by no means unprofitable, the drive for privatization in combination with the devaluation creates a bargain basement sale of Thailand's equity. The IMF standby loan specified that Thailand should make its financial environment more congenial for foreign investors, while keeping a tight hold on domestic credit.

The IMF also pressed for increased prices for public services, including transportation, and advised removal of protective measures for the local import-substitute industries.

On June 18, Finance Minister Sommai pushed through cabinet approval of Thailand's use of its foreign reserves to enter into currency swap agreements. Under this system, Thailand would not use its foreign reserves to invest in building the Thai economy, but would use the funds for speculative purposes in other currencies over a 30-60-day period. Sommai reported that one of the 12 international banks involved in such currency gambling would direct Thailand's swap agreements.

One effect of the coup

From the standpoint of the IMF controllers who have put the Thai economy "in the barrel," one beneficial effect of the attempted coup on Sept. 9 is that the instability it has introduced will tend to blunt any resistance to the austerity rule Finance Minister Sommai has so efficiently introduced. Over the summer months especially, a growing chorus of highly influential voices has risen in Thailand questioning the promises of the IMF and the finance ministry, and demanding that Thailand reject such poor advice and take a new leap in developing its productive economy.

On July 4, R. Kukrit Pramoj, head of the Socialist Action Party and a former prime minister, fielded a straight-on attack on the IMF in parliament. Kukrit charged that the country had ceded its independence in fiscal and monetary policy formulation to the Fund. It is the IMF, he said, which ordered the baht devaluation and the tax increases in April. Thailand must limit its foreign borrowing, which has made it vulnerable to the IMF, he demanded.

On July 18, highly respected Thai economists held a seminar on "Thailand's Future." Their prognosis: "Thailand's future does not look rosy with the economy in the worst shape it has ever been, a lack of political and national leadership, a misguided educational system, a stagnant bureaucratic system, and dwindling national resources."

The participating panel was composed of former Foreign Ministry Permanent Secretary Anand Panyarachun, Bangkok Bank executive board chairman Dr. Amnuay Virawan, and Social Action Party Deputy leader Dr. Kasem Sirisirisamphan.

Anand, now president of the Saha Union Company, reported that the Thai economy has ceased to grow at a time when there are 80,000 unemployed graduates and about 700,000 unemployed in total. Dr. Amnuay further pointed out that the budget allocation for 1986 designates 50% of the budget to the military and to service on foreign debts, leaving next to nothing for the expansion of the economy.

"Twenty years ago," Dr. Amnuay pointed out at the July 22 seminar, Thailand "was on a par with South Korea and Singapore as far as technology goes. But they strived to develop their own technology and this is where they have the advantage. Korea has a slightly smaller population than we do, but they have 23 times more scientists and technicians than we. We, on the other hand, have 6 times as many social scientists as they do."

What Thailand requires, said Amnuay, is good leadership, "someone who will dare to speak and dare to do things."

The seminar drew a quick response from the World Bank. On July 25, World Bank official Andrew Speer worried out loud in the press that "recent comments forecasting a gloomy future for Thailand's economy could prompt what they see as harmful changes to the structural adjustment policy, better known as belt-tightening," reported one Thai daily. The World Bank officials stationed in Bangkok, reportedly "fear that criticism of the government's handling of the economy may force economic ministers to seek a 'quick fix' to tackle politically embarrassing problems such as recession and unemployment."

Simultaneously, a public dispute broke out between Minister of Communications Samak Sundaravej, a strong supporter of the Kra Canal, and the World Bank. Minister Samak announced to the press July 16 that, unless the World Bank agreed to change its provisions for contractor responsibility in its recent agreements, "we will seek financing from other alternative sources."

On July 27, a World Bank senior loan officer publicly attacked Samak, demanding that he raise railway fares by 15%, close "uneconomic" lines, and reduce the workforce on the State Railway of Thailand. Samak refused, declaring publicly: "So long as I remain the Minister of Communications, I will find my own way to improve the operation of the State Railways without relying any more on World Bank loans, which charge high interest rates and put the borrower at a disadvantage."

Thailand's development plans do not have to rely on the World Bank's support and loans, Minister Samak said. He added that if the conditions of the World Bank loan for the river dredging were unacceptable to Thailand, the government would look for other sources of assistance. Ongoing projects under the jurisdiction of the communications ministry, he said, will not seek further World Bank loans.

The positive proposals put forward for dealing with the economy are twofold: the construction of the Kra Canal in southern Thailand, and the creation of an ASEAN free market, whereby the ASEAN countries would pool their resources for joint projects to develop their economies.

The Kra Canal, an old idea revived in 1983 by the U.S.-based Fusion Energy Foundation, would provide the vehicle for developing the highly underdeveloped region of southern Thailand, and the creation of a superport at Songkla would open whole new areas of expansion for Thai trade and employment. The proposed canal is now the subject of study for a parliamentary commission, which is expected to pass high recommendations for the project within the next month. In addition, the Democratic Party has called for inclusion of the Kra Canal in the Sixth Five-Year Plan.

On Sept. 2, the Harvard-trained technocrats of the NESDB stripe registered their extreme worry that the Kra Canal might go through. In an article in the *Bangkok Post,* Professor Surrin of Thammasat University warned that if the canal should go through—which he expects unless a campaign of opposition is mounted against it—it will destroy Thailand's security and break the solidarity of the ASEAN nations. Surrin cited as his authority the British, who stipulated in a now-abrogated treaty, signed after World War II, that Thailand could never build the Kra Canal without Britain's permission, since such a canal might have effects on British-held Singapore.

The concept for ASEAN integration was put forward on Aug. 6 by Kukrit. In a press conference, the former prime minister called for an ASEAN heads-of-state summit to discuss the deterioriation of the region's economies. The purpose of the summit, he said, should not only formulate the outlines for an ASEAN economic treaty and common market. The summit must send a "strong warning," Kukrit said, to the industrialized countries that the ASEAN countries, with their 285 million people, will "not watch the fruits of their development destroyed by international economic deterioration and growing protectionism."

It may not be at all relevant that on, Sept. 9, Thai Prime Minister Prem was in Jakarta, Indonesia, meeting with President Suharto on how to organize the summit Kukrit had called for and proceed with plans for drawing together what would be, in effect, an ASEAN economic defense pact. It is just such initiatives that those who seek to destabilize ASEAN are determined to forestall.