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Globalisation and the Impact of the Asian Financial Crisis on Thailand

Thailand – Boom & Bust. The Global Context and the Arrival of Mr. Donut

Chiang Mai is located 750 kilometres north of Bangkok and was founded as the capital city of the Kingdom of Lan Na Tai by King Mongrai in 1296 A.D. The city was 700 years old in 1996. In the opening chapters of his book, *Three Pagodas* (1996), Christian Goodden complains bitterly about how the city of Chiang Mai has been transformed in the last 15 years from a quiet “Rose of the North” to a hustling-bustling, traffic jammed, noisy tourist trap whose historic skyline has been scarred by condominium and office blocks. How open-air markets are being replaced with air-conditioned shopping plazas proclaiming the arrival of Kentucky Fried Chicken, Burger King and Mr. Donut. In one sense, Goodden’s complaint epitomises what Kurstan Hastrup refers to as “imperialism nostalgia,” that is “the mourning of the disappearance of what we, the imperialists, have ourselves transformed...” (1995:2). In another sense, Goodden is correct in his observation. Chiang Mai and indeed Thailand have changed over the last 15 years – quite dramatically under the impact of globalisation.

Before July 1997 which is when Thailand floated its currency and began a sequence of events which have since become known as the Asian Financial Crisis, Thailand was being touted as the newly emerging economic miracle in the region and was expected to achieve Newly Industrialised Country (NIC) status by the year 2000. From 1985 to 1992, the Thai economy doubled in size. The Thai baht was pegged to the \$US and was trading at Bht25.28 to the dollar and Bht38 to the pound. Towering skyscraper office blocks, luxury hotels and apartments suddenly sprang up all over the Bangkok skyline and factories and business parks connected Bangkok suburbs with the beach resort of Pattaya nearly 2 hours away on the eastern seaboard of the Gulf of Thailand. Huge fortunes were amassed by Thai business families who took full advantage of the era of trade and financial liberalisation. Travellers from Japan, Australia, Europe and the US enjoyed the relative low-cost of living as the southern beach resorts developed rapidly to accommodate the continued growth in the tourist industry. Backpackers stayed in Thailand’s inexpensive Guest Houses which

funnelled income into some of the poorer sections of society. (Cummings, J. 1997:34).

Currently however, (August 1998), unemployment is expected to reach 4 million by the end of the year. The country is now burdened with over \$US96 billion in foreign debt. The impact of the financial crisis will cost Thailand between 30-40 per cent of its GDP (The Nation, Thursday, June 25 1998:B8). Bankruptcies are at an all time high and may take years to sort out in the Thai civil courts due to inadequate bankruptcy legislation. The baht has lost 39 per cent of its value against the dollar and 46 per cent of its value against the pound. In June, the baht slipped further against the dollar and “a depreciation of one baht to the dollar increases the country’s foreign debts by some 87 billion baht” or £1.26 billion. (Bangkok Post, Wednesday June 16, 1998).

There appears to be a dual process of on the one hand, a deflationary spiral for consumer goods such as clothes, leather goods and shoes with sales quite common throughout the Bangkok and Chiang Mai areas advertising a 50-80 per cent reduction in prices. On the other hand, there is a sharp increase in the price of foodstuffs which appears to be affecting every level of society. There is an IMF imposed ‘Credit Crunch’ caused by high interest rates which is causing cash flow and liquidity problems for Thai companies. During my visit to Thailand in June, I observed half empty shelves in many of the Charoen Pokphand Group’s (CP) owned 7-Eleven franchises. To overcome it’s liquidity problems, CP has recently sold 36.75 per cent of it’s holdings in Lotus and Sunny Supermarket chains to UK-based Tesco Plc, a deal which generated Bht12 billion for the group. Indeed much of the Thai business infrastructure is now up for sale with companies like Microsoft, Barclays Bank and Tesco moving into buy-up assets at vastly deflated prices. Research conducted by the Deutsche Bank has found that “unprecedented movements in exchange rates and asset prices have destroyed more than \$US1.5 trillion of financial wealth in the affected countries alone.” The World Bank stated on June 16, that the region was “plunging into depression” and warned that “a global economic slump could be just months away.” (The Nation, Wednesday, June 17 1998:B4).

Contemporary explanations of the Asian Financial Crisis range from blaming the IMF’s late intervention to explanations which focus on the lack of transparency, crony capitalism or the Chaebol’s flawed mix of “business, bankers and bureaucrats.” (Miller, M 1998:4). Discussing the crisis, Alan Greenspan, Federal Reserve Board

chief told the US Congress in May 1998 that “We do not as yet fully understand the new system’s dynamics. We are learning fast and need to update and modify our institutions and practices to reduce the risks inherent in the new regime. Meanwhile, we have to confront the current crisis with the institutions and techniques we have.” (www.wsws.org).

To explain both the boom and the bust, it is necessary to look briefly at the contradictions that existed in the global economy prior to 1983 and in particular the role of Japan in the region.

As the four original Tigers of South Korea, Hong Kong, Taiwan and Singapore followed a development path of export industrialisation which flooded the world with cheap electronics, shoes and clothes, Thailand was seen politically as “an old-fashioned mix of kings, coups and generals. Its economy was a classic third-world blend of agriculture and tourism.” (Phangpaicht, P. Baker, C. 1996:1).

When the second oil crisis began to have an impact on the world economy, Japan held down its currency exchange rate and attempted to export its way out of the crisis and its dependence on imported petroleum. As a result, Japan built up huge trade surpluses with its western trading partners, especially the United States. The political response of the developed countries resulted in the October 1984 Plaza Accords which forced Japan to revalue the yen. Between October 1984 and 1988 “the yen rose 89 per cent against the dollar.” (Phangpaicht, P. Baker, C. 1996:2).

In 1985 therefore, the drive for Japanese business was to ‘escape the value of the yen.’ This led in part to Japanese investment in Europe and the United States with for example the construction of the Toyota car manufacturing plant in Kentucky which produced the Camry model for the US market. After the first oil crisis in the early 1970s, capital had moved to the Tiger economies but labour and production costs had now also increased in those countries.

Following the second oil crisis, Japanese business began to also look for new ‘low-cost sites’ and started moving their manufacturing operations into Thailand, Malaysia and Indonesia. Many companies based in the Tiger economies quickly followed. Between 1986 and 1993 “Japanese firms invested \$US47 billion in Asia mainly to manufacture goods for export.” (Phangpaicht, P. Baker, C. 1996:4). More foreign capital was invested in Thailand between 1987 and 1990 than in the previous thirty

years and for three years before the financial collapse, there was one Japanese factory scheduled to open up in Thailand every 3 days. (Phangpaicht, P. Baker, C. 1996:34). Between 1985 and 1995, the export of manufactured goods “multiplied twelve times and drove up total exports seven times.” (Phangpaicht, P. Baker, C. 1996:4). During the same period the urban population doubled as did per capita income. In 1980, Thailand’s main exports, approximately three-fifths, were agricultural products such as rice and cassava chips. By 1995, four-fifths of Thailand’s exports consisted of textiles and manufactured goods produced by a growing pool of cheap labour drawn from the rural areas. Christian Goodden’s bitterness about the rapid changes in Chiang Mai was part of a breathtaking transformation in the Thai economy under the impact of Japanese investment strategy – one begins to fully understand both his observation and Kursten Hastrup’s comments about ‘imperialism nostalgia.’

Globalisation

Anthony Giddens defines globalisation as “the intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice-versa.” Quoted in Sreberny-Mohammadi et al, 1997:19). At the same time that car workers were on strike in Detroit against General Motors, GM were running full-page ads in the Bangkok Post recruiting workers for a new plant it intends to build near Bangkok.

Globalisation is a multifaceted phenomenon and reflects capitalist expansion and accumulation at a qualitatively higher level than at previous periods in history. Driven by the logic of competition, Japan's need to ‘escape the value of the yen’ in 1984 had a major impact upon Thailand, Indonesia and Malaysia. The crisis in the region is now having an impact upon Japan and the developed countries as the crisis threatens to go global. Mitsubishi and Siemens have both closed down silicon chip manufacturing plants in the US and UK due to a collapse in the price of 94 per cent. The collapse in the price has been caused by competition from Asian countries, in particular, South Korea. Due to an overall slow-down in manufacturing in the region, demand for oil has dropped dramatically as has the price, adversely affecting 16 oil-producing countries. OPEC has cut back on oil production by over 3 billion barrels a day in an attempt to stabilise the price. The phenomenon is an ongoing dialectical process.

However, what is particularly interesting about Thailand's rapid economic development which in the view of Phangpaicht and Baker "converted Thailand into one of the developing world's most unequal societies." (1996:5) is that despite the massive inflows of foreign capital after 1985, it formed only one-eighth of the total amount actually invested in the economy. Thailand's 30 industrial conglomerates quickly seized the new opportunities that were opening up in a period of trade liberalisation. They took the view that if foreign companies found Thailand a favourable climate in which to manufacture and export to the rest of the world, then why couldn't Thai companies do the same?

The Thai Conglomerates. The National Response

Many of the Thai conglomerates have roots which started with the influx of poor Chinese immigrants who came to Thailand in the 1930s. Cummings notes that "All relationships in traditional Thai society and virtually all relationships in the modern Thai milieu as well – are governed by connections between *phua yai* (literally big person) and *phua nawy* (little person)" (1997:41). These relationships are based upon 'prestige and patronage.' They cut vertically through what we know in the west as horizontal class structures. There are practical reasons why this has emerged historically in Asian agrarian societies. If the crops fail, you are dependent on a *phua yai* or 'Patron' to get you and your family through to the next growing season. We are familiar in the West with this social formation through the popularization of the Italian-American Mafia. In Thailand, patronage ensured survival in the traditional sense and connections based on prestigious family ties can ensure 'success' or afford 'protection' in the modern one. The spirit of individualism, notions of freedom and democracy or transparent business practices are not so much meaningless as abstract concepts superimposed onto a semi-feudal social structure.

The Thai Military have ruled Thailand either directly or indirectly for 44 of the 76 years since the 1932 Revolution which overturned the Absolute Monarchy. The last coup was on September 19, 2006. The conglomerates have nurtured and maintained close ties with the military. For example, after the 1947 coup, the Generals were considering starting their own bank in 1953. Chin Sophononich, head of the Bangkok Bank which was created by one group of conglomerates, persuaded the Generals to 'Join Hands.' The Generals raided the country's coffers of 30 million baht and deposited it into the Bank's Capital account. The Generals were subsequently brought onto the Board of Directors and became wealthy on Directors fees, dividends and 'presents.' The advantage to the conglomerates came in subtle ways. Board

member Thaworn Phornprapho came from humble beginnings as a scrap metal merchant to dominate Thailand's automobile industry. As sole importer of Nissan cars and trucks from Japan, it was to his advantage when the Generals declared that all taxis in Thailand had to be Nissans.

One example indicates the meteoric rise from Thai businessman with strong kinship ties in the government bureaucracy to international magnate in the era of globalization. In 1988, Thaksin Shinawatra was working as a policeman while also running a small company which sold IBM computers to government departments. When he joined the Cabinet in 1995, he declared his personal net worth at 70 billion baht or around \$US2.8 billion. Most of that wealth had been accumulated during the previous 7 years. From his base in hi-technology industries, Thaksin rode the wave of urban expansion by supplying the growing demand for communication systems. He applied for and was granted licensing agreements to supply mobile phones, paging systems, data-transfer systems, a pay-TV service and after the failure of Rupert Murdoch's STAR-TV satellite system - because the programming was primarily in English - Thaksin launched his own Thai satellite TV network. Phangpaicht and Baker note that Thaksin's success was based on "government licenses and concessions" but he was also able, like many others running the conglomerates, to gain unprecedented access to finance which was raised on the Thai stock market, re-investing windfall profits in the new network of Thai financial institutions which did not face the same restrictions as banks and financial markets around the globe.¹ "The liberalization and globalization of financial markets gave ambitious firms in Thailand unprecedented access to sources of capital." (Phangpaicht, P. Baker, C. 1996:51).

The 30 Thai-Chinese conglomerates which dominate the economy have spawned a further 800 smaller companies which were in a position politically and financially to take advantage of developments in the domestic economy. The conglomerates also began to export capital and invest extensively in China, Cambodia, Laos and Vietnam. "In 1993, the outflow was one-sixth of the inflow of foreign direct investment. In 1994, it had risen to two-thirds." (Phangpaicht, P. Baker, C. 1996:49). The relocation of Japanese and 'Tiger' manufacturing plants in Thailand, which

¹ Thaksin Shinawatra was ousted as Prime Minister in the September 19, 2006 military coup. His wife was sentenced to 3 years imprisonment in August 2008 for 'corruption.' She fled the country and both are now domiciled in the UK where Thaksin has purchased the Manchester City Football Club. Already a dollar billionaire, Thaksin's family fortune tripled while he was in power.

totalled two-thirds of all foreign investment, was the initial impetus to the country's rapid economic growth after 1985. But it was the economic activity and response of Thai companies to the impact of globalisation which produced a boom of arguable 'miraculous proportions.'

The Collapse

As stated earlier, the reasons for the collapse of the Asian economies in general is a contentious issue. Briefly, what appears to have happened specifically in Thailand is that under conditions of 'high consumer confidence' and unprecedented 'financial liquidity,' manufacturers, wholesalers, retailers and consumers were encouraged to use short-term credit which was invested in long-term speculative projects in real estate and the stock market. "The two markets fed on each other, and share and property values became over-inflated. Fundamentals weren't taken too seriously." (The Nation, Sunday June 21 1998:A4). Vast sums of money were invested in up-market housing projects, golf courses, apartment and office blocks that had in the event of a downturn, no immediate prospect of realising long-term returns on the initial investment. It was a 'fool's paradise.' Banks continued to offer implicit guarantees to foreign depositors while tightening repayment schedules. Land and stocks were then sold at a loss to maintain liquidity and the "party ended when foreign depositors realised that there were not enough dollar reserves left for the guarantee to be credible." (Miller, M. 1998:3). The flight of foreign capital forced the Thai government to float the Thai baht and spent over half of its foreign reserves defending its currency. When that proved futile, the government was forced to go to the IMF. Fifty-two of the fifty-six financial institutions operating in Thailand before July 1997 have declared bankruptcy and closed down operations.