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THAILAND UPDATE

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THAILAND UPDATE

Whereas most Pacific Asian countries are dictatorships with strong individual leaders, Thailand is an aristocracy with loose central leadership. This fact is central to the Thai style of political, economic, and financial management.

Thailand is a country where nobody is in charge. It is run by a coalition of bureaucrats, military groups, and aristocratic factions, with the support of the king. Each group is intensely jealous of its own power, and no group is willing to countenance the emergence of a strong leader who could dominate the country. As the country changes, in response to economic development, rising political consciousness, or new international developments, the power of various groups changes, and the leadership shifts. Frequently this leads to coups. Usually the coups do not destabilize Thailand's institutions or change its basic political structure. Instead, they provide needed flexibility in a rapidly changing situation. The flexibility provided by the aristocratic social structure is augmented by the culture of Thai Buddhism, which stresses adjustment, good will, and even passivity. The Thai ability to make incremental adjustments through coups and other personnel changes means that Thailand usually does not face the buildup of enormous, frustrated social pressures such as the ones that caused upheaval in Indonesia in 1965-1966. This gives Thai society an overall stability.

While the delicate power balance facilitates incremental change, it also inhibits sudden, major changes. Thus, when large decisions are required, they are often delayed interminably. The Thais are unusually capable of dealing with problems through a series of small measures, over a long period of time. They are particularly flustered when faced by the need for a large-scale, sudden adjustment.

Likewise, the instability of position faced by virtually every senior leader implies tremendous incentive to avoid dealing with ticklish problems. Such an incentive exists, of course, in every bureaucracy and every government, but it is greatly heightened in Thailand.

The Thai aristocratic system has had important benefits for financial management. Until the mid-1970s, Thailand balanced its domestic budget. For the previous century, it was a net lender to the rich countries. This was possible because the rulers were an aristocracy relatively untroubled by popular demands for development. The emergence of rising development expectations since the mid-1970s has ended such complacent budgets and current account surpluses.

Likewise, because of the divided, aristocratic power structure of Thailand, the country's firms are much more numerous and diversified than those of, for instance, South Korea or the Philippines. This diversity is a strength in difficult times. Moreover, because the financial system has been under the control of the leisurely aristocracy, the financing of most Thai firms is much more conservative than elsewhere. This may, in the past, have meant less than maximum growth, but in hard times it makes for superior financial resilience. Together with the diversification of an economy which

has strong agricultural, mineral, and manufacturing sectors, these strengths have greatly helped Thailand in comparison with its neighbors.

The Current Financial Challenge

The revolution of rising expectations which has caused government budget deficits to emerge in the last decade has been supplemented by two other major challenges. First, the post-1973 energy crisis greatly affected Thailand, which historically has had little domestic energy production. The economic problems posed by the energy price race have been worsened by Thai political attitudes. Thai nationalism has made the country one of the worst in the world in which to be a foreign oil producer. Prior to signing exploration agreements, the government starts by assuming that it will always get at least as good a deal as a major producer like Indonesia--an assumption which does not take into account its lack of bargaining power. Then, when oil or gas is discovered, it systematically attempts to ensure that oil companies obtain a return of scarcely more than the bank interest rate on investment in successful wells, with no compensation for earlier unsuccessful drilling efforts. In pursuit of such a goal, it does not hesitate to break pricing contracts which were signed prior to the discoveries. Negotiation of contracts usually takes many, many years because virtually every minister who has ever signed a major contract with a foreign energy company has shortly thereafter lost his job. Not surprisingly, Thai energy development has been slow.

In addition, the bonanza created by the Vietnam War ended at about the same time as the oil price rise, yet the cost of defending the border against potential and actual Vietnamese incursions has remained high.

Finally, motivated by the same impulses which have led to overemphasis on heavy industry and import substitution elsewhere, Thailand has maintained a relatively protected industrial market with a strong bias in favor of import substitution and against the country's key exports. It has plunged into a gigantic Eastern Seaboard Development Program, focused on petrochemical industries and related heavy industries. This program has wasted a great deal of money and accomplished rather little.

All of this has created a situation in which public sector deficits and current account deficits have risen substantially. Continuation of these trends for a few more years would potentially present Thailand with a difficult external financial situation.

The Thai style of decision-making would call for these trends to be allowed to continue until the situation became clearly perilous. Individuals or ministries which called for action prior to emergence of a clear and present danger would risk their jobs and their budgets respectively. At the same time, the political and bureaucratic leaders of the country are intelligent, patriotic, and, in many cases, highly trained. Recognition of the country's problems is widespread, and the system has a uniform record of always responding before whatever political or economic situation actually gets out of control. The Thai leadership is aware of its problems, but does not yet face a sufficiently immediate danger to create political unity and

by the King, responded by immediately calling elections so that they would be held under the old constitutional provisions relatively favorable to the military. As a result, each group saved face, and each achieved some benefits, but the basic tension remains unresolved. There was widespread expectation of another crisis in the spring of 1984, but this has not happened.

As with the financial situation, history creates a reasonable expectation that the Thais will continue to experience periodic crises but also avoid severe polarization and bloody conflicts which would have a serious impact on the economy. However, this situation needs to be closely monitored, both for its own sake and because a conflict like this could conceivably interfere with a timely last-minute response to the financial situation. This kind of interaction between major socio-economic questions creates the possibility, although by no means the dominant likelihood, of a situation in which the normal Thai process of incremental adjustment would work less well.

Antagonism Toward the Traditional Banking Aristocracy

Much of the Thai economy has traditionally been controlled by a traditional banking aristocracy. In recent years, antagonism toward these traditional banking aristocrats has arisen from many sources. The Young Turks movement within the military, which launched an unsuccessful coup several years ago, made an attack on the banking aristocracy a centerpiece of their (vague and badly constructed) platform. The entrepreneurial middle class also harbors considerable antagonism toward this traditional banking aristocracy. Given the widespread feelings, it is appropriate to examine the credit risk of each individual bank for sensitivity to major political change. The feelings expressed by these groups are not so radical or ideological that they would create a serious increase in sovereign risk.

The Thai Communist Party and the Vietnamese

The Thai Communist Party still has several thousand armed guerrillas, but it has suffered from the skillful political maneuvers of the Thai government, and it has suffered from a virtually total loss of Chinese support which the Vietnamese have so far been unable completely to replace. Therefore, notwithstanding recent publicity over the arrest of fifteen members of the Communist Party who were allegedly planning a coup, the risk created by the domestic communists is minimal. Likewise, the Vietnamese have their troops and their economy sufficiently tied up in Laos and Cambodia so as not to want the large additional military burdens which would be entailed by a major conflict with Thailand. They are further deterred from major attacks on Thailand by firm Chinese support of Thailand and by substantial U.S. and ASEAN support of Thailand. Therefore, financial risks resulting from these two sources can reasonably be neglected.

Conclusions

Thailand remains an economy and a polity of great flexibility and resilience. Aside from Singapore, it is the best managed of the ASEAN

economies, which in turn are generally better managed than their counterparts elsewhere in the Third World. Hence, it remains a favorable market from the viewpoint of sovereign risk. But political conditions in Thailand, and economic conditions outside Thailand, now combine to create a situation where one must be more cautious than in the past about taking a highly favorable environment for granted. Thailand should be monitored very carefully over the next eighteen months.