



THAILAND ECONOMIC COMMENT

WILL THAILAND REVALUE?

There have been persistent press reports that Thailand is coming under American pressure to revalue the baht. According to these reports, the U.S. used the occasion of recent IMF negotiations under Article 14 to have the IMF relay the message that Washington regards the baht as undervalued. Such pressures would seem consistent with U.S. pressure on Taiwan, South Korea, Singapore, and Hong Kong to revalue their currencies in order to reduce their trade surpluses with the U.S. In this regard, it is noteworthy that Thailand has begun in the past two years to run trade surpluses with the U.S.

Since many Thai firms are dependent on exports, a substantial revaluation could hurt important firms. At the same time, shares that are powered by domestic growth would not be hurt and could become more valuable measured in foreign currency.

The Thai baht is now trading in the middle of the range that econometric models suggest would lead over time to current account balance. This refutes suggestions that the baht is undervalued, but gives policymakers some scope for adjustment of the currency. Whether they will use this scope depends on external and internal political pressures.

Contrary to the press reports, external pressures are non-existent. The U.S. government has not raised the subject of revaluation with the Thai government in any forum. The subject was not discussed during the recent IMF discussions.

What about domestic pressures? Traditionally, the Thai currency has been a relatively strong one, and there has been a powerful lobby for a strong currency. That lobby showed its power as recently as November 1984, when the country's military chief, General Arthit, challenged the Prime Minister over the latter's devaluation and for a brief period cast doubt on the civilian government's ability to sustain its policy.

However, Thailand's success during the past three years in using a relatively weaker currency to generate exports, to use those exports as an engine of growth, and to bring the country's external debt under control has generated broad support for keeping the currency on the weak side of what the market will sustain. In fact, as the U.S. dollar weakened, Thailand's leadership changed the basket of currencies to which the baht is

tied in order to raise the weighting of the U.S. dollar above 90 percent and thereby weaken the baht relative to other major currencies.

The only source of domestic discussion about revaluation has derived from concern by certain officials that the practice of opportunistically changing the basket of currencies could lead to abuse at some future time and that it could leave the country more vulnerable than otherwise to foreign pressures such as current American arm-twisting of Taiwan, South Korea, Singapore, and Hong Kong. A more principled policy would be more defensible. Moving to such a policy would require some upgrading of the weight of the yen in the baht basket. However, such arguments have not proved politically persuasive.

Thus there is no market pressure for revaluation, no foreign pressure for revaluation, and no domestic political pressure for it.

On the other side, there is no market pressure or domestic pressure for devaluation, and any attempt at devaluation would trigger outrage in Washington.

Therefore this year should see the baht as one of the world's most stable currencies in relation to the U.S. dollar.

BAHT/US\$ EXCHANGE RATE: A RECORD OF STABILITY

October 1963	20.8
July 1973	20.0
November 1978	20.4
May 1981	21.0
July 1981	23.0
November 1984	27.0 (pegged to basket)
February 1988	25.255

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