

Military Business Cycle, Military Coups, and Economics of Corruption

Bhanupong
Lecture 26

***A Quotation from The President of the U.S.
“Vast armies sap the strength of the nations”***

“National security does not mean militarism or any approach to it.

Security cannot be measured by the size of munitions stockpiles or the number of men under arms or the monopoly of an invincible weapon. That was the German and Japanese idea of power which, in the test of war, was proved false.

Even in time of peace, the index of material strength is unreliable, for arms become obsolete and worthless; vast armies decay while sapping the strength of the nations supporting them; monopoly of a weapon is soon broken.”

A great quotation

“If we want peace, we must be ready for wars”

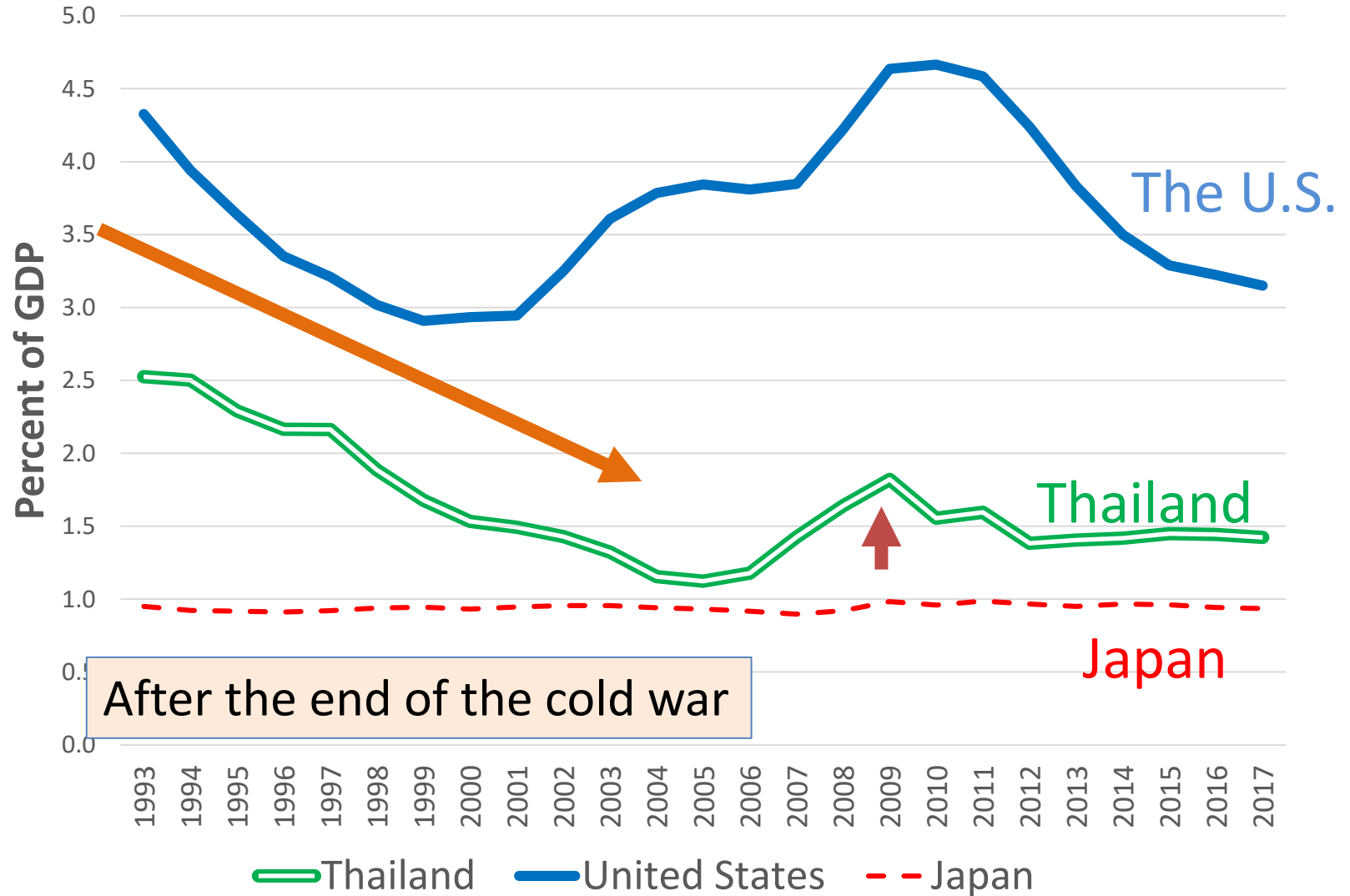
Main themes

1. Determinant of military spending and peace dividends
2. Political vs. military business cycles
3. Institution efficiency and growth
4. Macroeconomics of corruption
5. Thailand's imported military war machines

1. Determinants of military spending

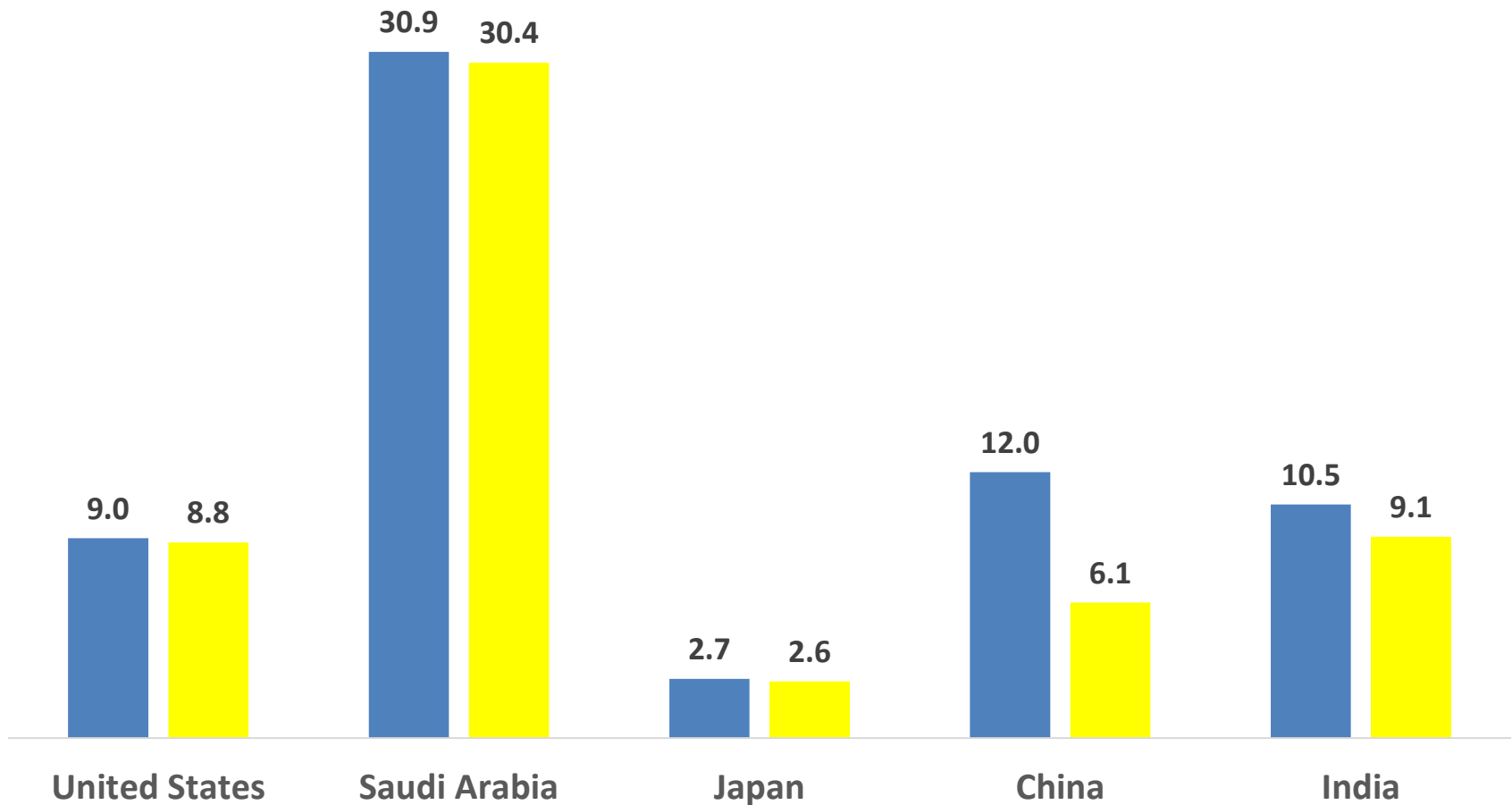
- *External and civil wars*, military spending by *potential enemies*, *population*, and *democracy*.
- While democracy is negatively related to military burden, other factors contribute to higher defense spending.

International comparison of military expenditures



Share of Defense Budget (% total public expenditures)

■ 2001 ■ 2017



Peace Dividend

- Military spending can be considered as a wasteful spending in time of peace.
- The term “peace dividend” refers to a potential long-term benefit as budgets for defense spending are assumed to be at least partially **redirected to social programs** and/or a decrease in taxation rates.
- **Guns versus butter theory** explains peace dividend at the end of the Cold War, when many Western nations significantly cut military spending.

2. Political Business Cycle (PBC)

- Governments tend to stimulate their economies with **expansionary** fiscal and monetary policies *before* elections, resulting in employment gains or wealth transfers, thus increasing government popularity.
- **Restrictive** policies *after* the election lead to a full circle in economic activity (Nordhaus, 1975)

Land of smiles and futile coups

(PM name)

1971 (*General Thanom*)

1976 (Seni)

1977 (Thanin)

1981, 1985 (General Prem, coup attempts)

1991 (Chartichai, overthrown by *General Suthorn Kongsompong*, Feb 1991)

2006 (Thaksin overthrown by *General Sonthi*, Sep 19, 2006)

2014 (Yingluk overthrown by *General PCOC*, May 22, 2014)

Military Business Cycle (MBC)

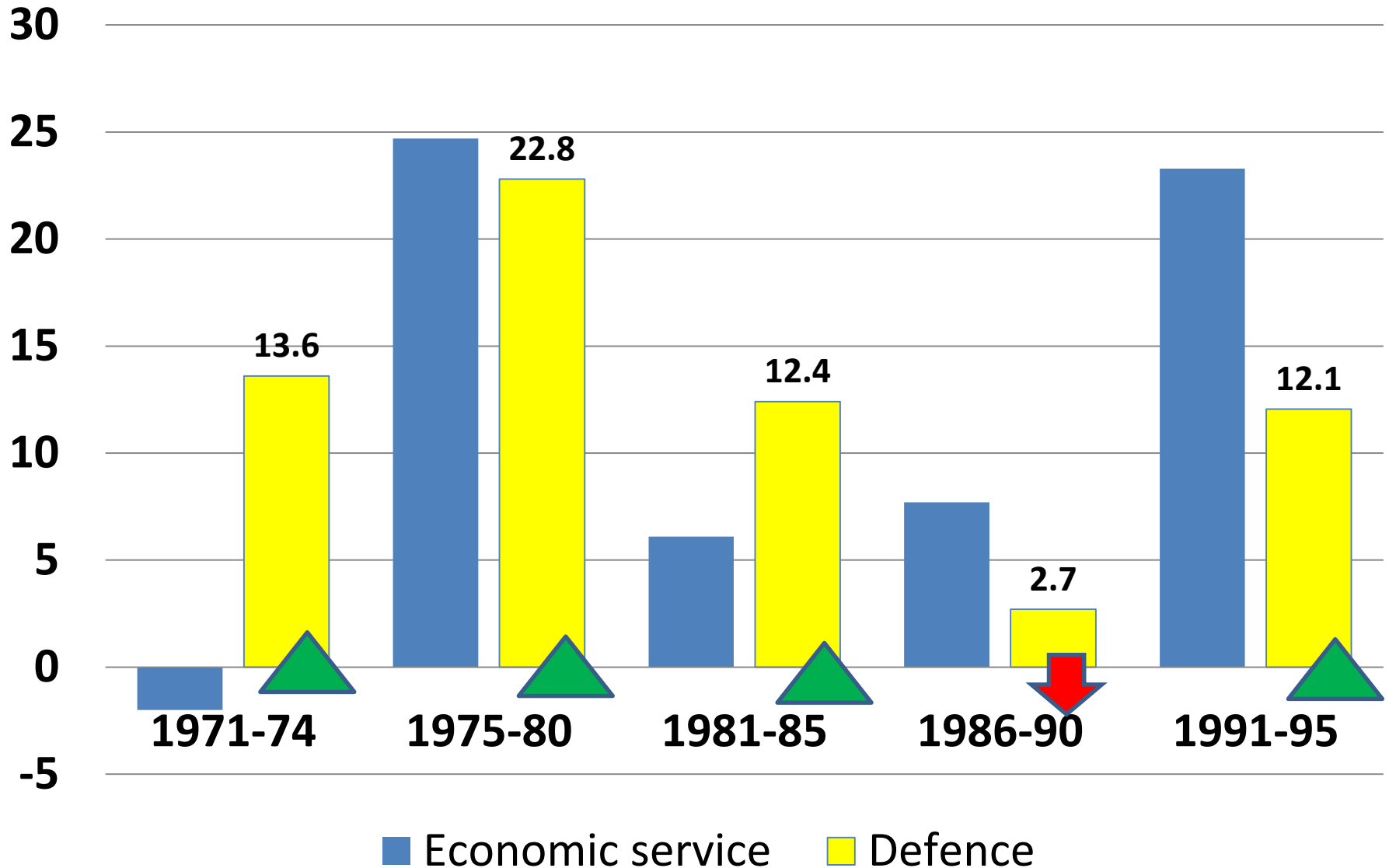
Military spending rises rapidly after a military coup and slowly dies off as a democratic government is elected under a new constitution.

A corollary: A slump in military spending can predict a military coup in Thailand

Since Siamese Revolution brought democracy to Thailand 86 years ago, there have been 18 successful coups in Thailand.

Military Business Cycle Hypothesis

(period average growth rate)



Army chief's refusal to rule out another coup draws ire

18 Oct 2018 at 10:51  140 comments

WRITER: ONLINE REPORTERS

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Army chief Gen Apirat Kongsompong during the news conference at Royal Thai Army headquarters on Wednesday. (Reuters photo)

New army chief Gen Apirat Kongsompong is the focus of attacks by key Pheu Thai Party members after his controversial statement that he could not rule out another coup after the promised general election.



He said if the political situation warranted it, with renewed rioting and unrest, he could not rule out another military coup.

For country, for religion, for monarchy,
and for the people



“ I couldn't rule out another coup after the national election” General Apirat Kongsompong

Source: Bangkok Post

“He just stating a common truth,” said General Prawit, defending Gen Apirat

Thailand is one of the few countries being ruled by a military-led government. Since the Siamese Revolution brought democracy to the country some 86 years ago, the military has staged 18 successful coups.

Despite strong opposition to the frequent disruption of democracy, the new Army chief insisted on taking a pro-coup stance in his first press conference on Wednesday. He did so with elections set to take place in a few months – four years after a coup-installed government prepares to step down.

However, Deputy Prime Minister General Prawit Wongsuwan, a member of the ruling National Council for Peace and Order, defended Apirat yesterday, saying he was only stating a common truth.

Later he admitted that a coup should not take place in future and that Apirat’s statement should not affect the upcoming election.

Military and Democracy

- Too low military spending may be dangerous to democracy because the military need to be pacified.
- Justifications for the 2006 coup were similar to those in the 2014 coup.
- Indiscipline and defiance to the rule of law have a long-lasting impact, causing addiction to military coups.

Power is based on the pork barrel
Power can be purchased by patronage

- Fiscal discipline has been neglected in the pursuit of short-run political gain (power) at the expense of the long-term economic growth and stability: ***Dynamic (time) inconsistency***
- **Ultra-populism policy can be a legal means of *vote buying*.**
- *Populism policy is supposed to return “happiness” to us and pacify the poor.*
- We seldom hear the word “happiness” lately.

Vietnam military generals get a pay raise

5 Jul 2018



There are seven military generals and two in policy force

New salary is 10 times current basic wage in the country's public sector

- The monthly salary of generals, the highest-ranking officials in Vietnam's military, has gone up VND1 million to nearly VND14.5 million (\$630) from July.
- Vietnam's military currently has **seven generals while its police force has two.**
- The lowest-ranking military official, a lieutenant, gets VND5.8 million per month.
- The current basic wage in Vietnam's public sector is VND1.39 million, after a 7 percent hike from the beginning of July. Public workers' monthly payments are calculated by multiplying this basic rate with a coefficient determined by qualifications and experience.
- Besides the official salary, the Minister of National Defense received a monthly bonus of VND2 million, while chief commanders between VND1.7-1.9 million.
- Vietnam's gross domestic product (GDP) per capita last year was \$2,385. In Southeast Asia, this figure was just higher than that of Cambodia and Myanmar.

Source: Vietnam Commerce and Industry News, July 2018

Strategic ambiguity: Fiscal illusion

- Politicians generally choose to be ambiguous
- Buchanan and Wagner (1977) “Uninformed and naïve voters **underestimate the costs** of current and future public programs”.
- Recall the Brexit voters, who were uninformed.
- “Even with rational voters, ***strategic ambiguity*** may ***create advantage*** for policy makers in pursuing their hidden goals” (Rogoff, 1990).
- The BRI of the Chinese government’s motivation

Multi-year Budgeting:

Seemingly transparent procedure

- Strategic use of multi-year budgeting whereby really *tough policies* are systematically postponed to year 2,3, or 4 of the plan and seldom implemented since multi-year plans can be revised every year.
(Alesena & Perotti (AER, 1996)
- The populist policy of Palang Pracha Rath Party (PPRP) costs only 200 billion baht in the first year
- We don't know how much it will cost in the following years

Fiscal indiscipline

- Multi-year budget is detrimental to fiscal flexibility and efficiency: It makes the fiscal policy become ***inflexible***.
- Recall the PCOC government's 20 years national plan, which was included in the institution drafted by the National Legislative Assembly (NLA).
- Non-transparent budgetary (national security budget or central budget) procedures ***conceal corruption***.
- Accountability and the rule of fiscal prudence have been ignored.

Creative fiscal policy: Off-balance budget

- Creative and strategic uses of what is kept in and off the public budget.
- **Central Budget Expenditures** conceal hidden agenda in the name of flexibility and national security.
- **Over-optimistic prediction** of policy impact makes the proposed projects look attractive.

3. Output growth and institutional efficiency

- Revolutions and **coups**, political assassinations **tend to lower long-term growth** (Barro, Quarterly Journal of Economics: 1991).
- This hypothesis is vindicated by the Thai context after the coups in 2006 and 2014.
- Institutional inefficiency *retards* economic growth.
- Can institutional reform promised by the military government make Thailand's institutions more efficient?

7 Indicators of institutional inefficiency

Mauro (QJE, 1995)

(1) Political *changes*

Possibility that institutional framework will be changed by elections, military coups, juristic coups, and flaws in new constitutions.

(2) Political *instability*

Conduct of political activity and the degree to which the orderly political process tends to disintegrate or become violent.

Recall the Bangkok shutdown in 2013.

Compare Thailand's with India and Indonesia national elections in 2019: They were 800 million Indian voters and the two countries' elections results were announced much ahead of Thailand by two months.

Indicators of institutional inefficiency

(3) *Probability* of opposition group takeover
(a snap election or dissolve the parliament)

(4) Instability of *labor market*

Degree to which labor represents possible disruption for manufacturing or business activity.

(5) Conflicts with neighboring countries

(6) Terrorism (suicide bombings in Columbo killed 359 people in April 2019)

Inefficient institutions: Legal system and red tape

(7) Legal system and the judiciary efficiency

The perception of low level of ***integrity of the legal environment*** bring business uncertainty and risks.

(8) Bureaucracy and *red tape*

Excessive bureaucracy or adherence to official rules and formalities. ***Sometimes it can drive you crazy.***

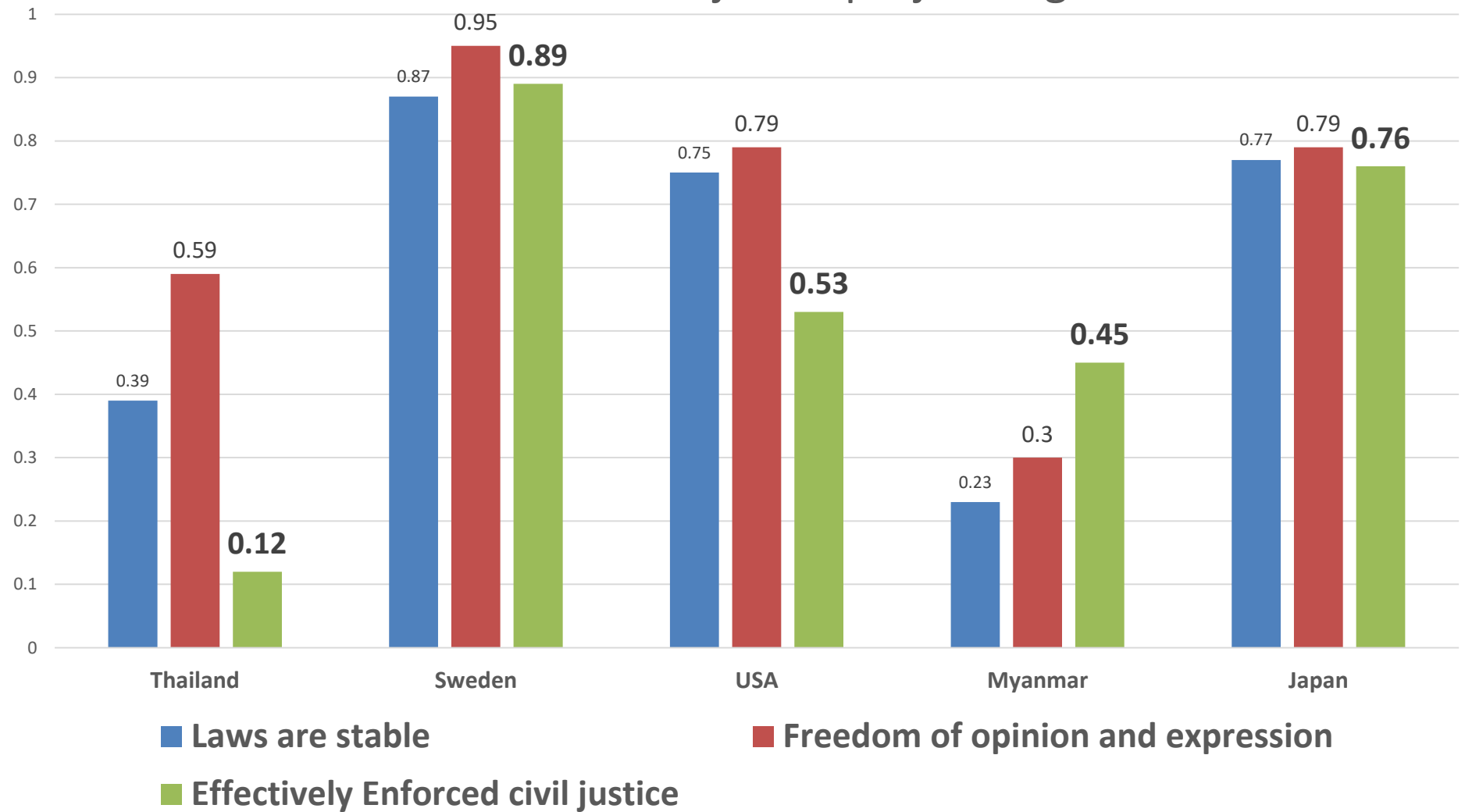
Recall the verdict by the Election Committee on the leader of Future Forward Party.

Recall the verdict on the General Rolex

Recall the verdict on the status of PCOC: he is not a government official.

Rule of Law Index: 2014

Source: www.worldjusticeproject.org



4. Macroeconomics of corruption

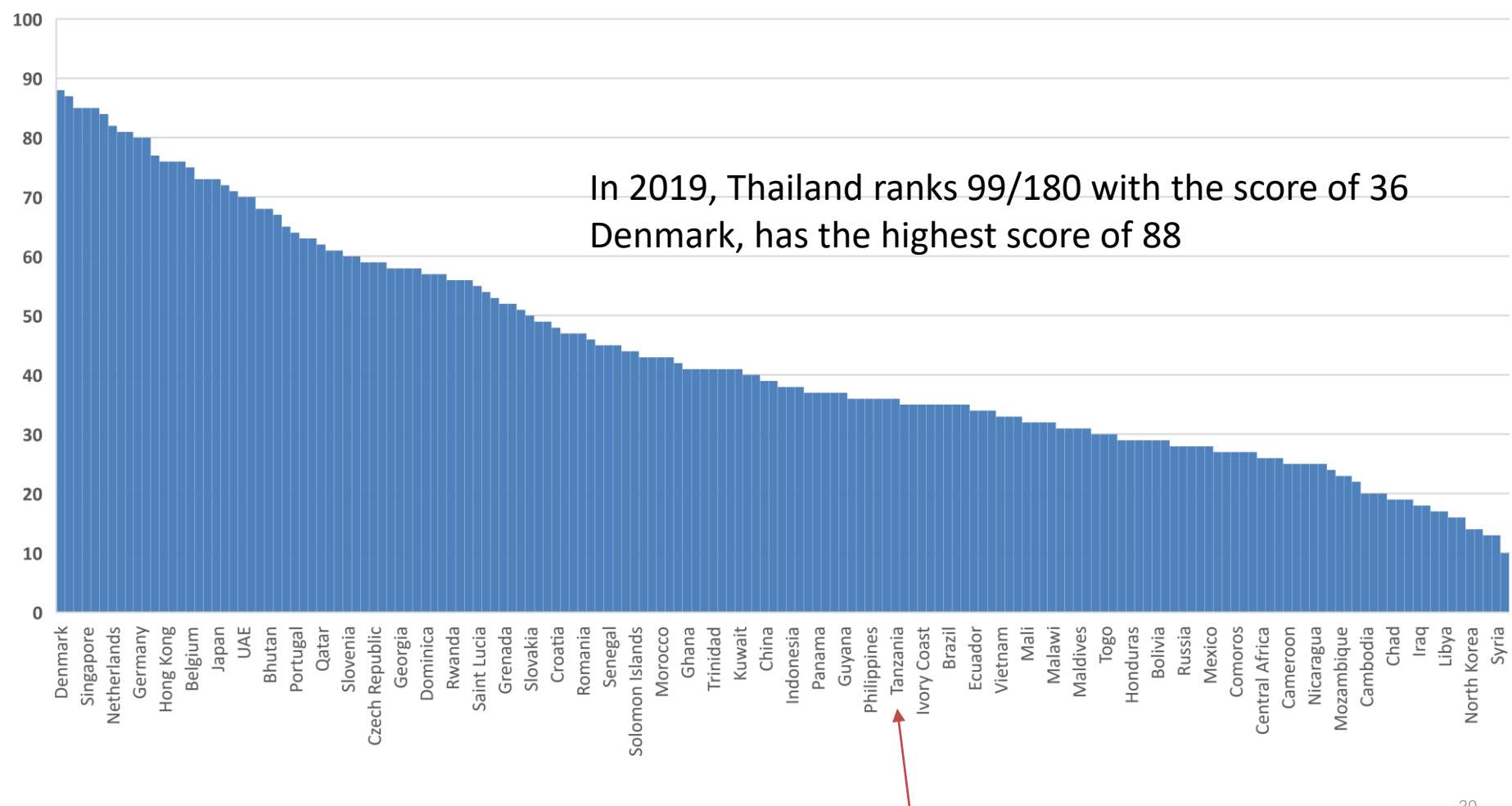
An indicator of ineffective institutions

Corruption Perceptions Index (CPI)

The degree to which business transactions involve corruption or questionable payments

The higher the CPI, the lower the level of corruption

The CPI defines corruption as “the misuse of public power for private benefit.”



Top 10 most corrupt countries in 2019

(Total score = 100, Thailand got 36)

Somalia (9)
South Sudan (12)
Syria (14)
Afghanistan (15)
Yemen (16)
Sudan (16)
Libya (17)
North Korea (17)
Venezuela (18)
Iraq (18)

The National Anti-Corruption Commission hopes Thailand to score 50 out of 100 points in 2021. According to the Deputy PM, Wissanu Krea-ngam, the CPI is crucial to investors' confidence.

Corruption decrease private investments because it reduces the marginal product of capital; thereby lowering investment and economic growth.

Thailand purchased GT 200 **bomb detectors** employed in the Deep South



A Thai soldier using the fraudulent bomb detector GT200 at an army checkpoint. The UK-based manufacturer was sentenced to jail last Friday. (Pic: AP)

For detecting *golf balls or bombs*?

- A bomb-dowsing rod: The GT200 devices have proved worthless at finding explosives.
- The budget allocated to these useless equipment was 500 million baht.
- Even more seriously, they have actually resulted in casualties, and inhuman rights violations against civilians, particularly in the South.

GT200: Testing
“You need to have steady hands
and enough sleep
to make it work properly”



“We shall continue using the GT 200 bomb detector”

Director of the forensic Institution.

Feb 16, 2010



It turns out that the GT 200 was a fraudulent bomb detector. The UK manufactures were sent to jail for deceiving the public.

5. Thailand's imported war machines

A multi-billion-baht boondoggle
(unnecessary and wasteful)

- *Who are Thailand's belligerent countries?*
- The list of boondoggle is long but includes the country's greatest white elephant ever, the multi-billion-baht aircraft carrier purchased from Spain during the height of the country's economic growth in the late 20th century.
- Design and constructed by Spanish shipbuilder Bazan, *Chakri Naruebet* was ordered in 1992, launched in 1996, and commissioned into the Royal Thai Navy in 1997.

Thailand's first aircraft carrier

- ***Chakri Naruebet*** is the flagship of the Royal Thai Navy--The first and only aircraft carrier.
- The aircraft carrier HTMS Chakri Naruebet was sent out to rescue people stranded on islands like Koh Tao.

HTMS Chakri Naruebet

It requires a
vertical takeoff
aircraft



China's first aircraft carrier: Laioning



USS Gerald Ford



Americans like their aircraft-carriers large, like their cars and restaurant servings. They also insist on them being good. This makes them very expensive. When it was commissioned in 2017, the 100,000 ton *USS Gerald R. Ford*, the first in a new class of carriers, became **the priciest warship in history at \$13 bn.**

The 11 supercarriers that America's navy is required by law to power like no other, able to fly fighters, bombers and reconnaissance aircraft wherever it likes without the need for nearby allies to provide airbases. (The Economist, 17 November 2009)

Aircraft carriers are big, expensive, vulnerable—and popular

- Carriers have long been threatened by **submarines**. During the Falklands war Argentina's navy kept its only carrier skulking in port for fear of British submarines.
- Now they are increasingly threatened above the waterline by ever more sophisticated **land- and air-launched anti-ship missiles**.
- To remain safe, carriers must stay ever-farther out to sea, their usefulness dropping with every nautical mile.
- America's mighty carriers, surrounded by their protective battle groups and watched over by satellites, are more likely to ***survive a serious assault than the smaller carriers of other nations***. This is in part because those smaller nations cannot afford fleets large enough to protect their carriers.

For the appearance of being a major naval power

- The other countries with *carriers capable of launching jet aircraft*—Britain, China, France, India, Italy, Russia and Spain—make do with smaller and less potent vessels.
- But their numbers are increasing. Britain, India and China are all getting new carriers ready. Britain is settling for two; India aspires for three; China plans to have six or so by 2035.
- Japan is joining the club. In December 2018 it announced that it would convert its two Izumo-class destroyers to carry jets.

The Thai Air force and the Gripen

- Adding to the equally ground-bound Alpha jets purchased against massive public opposition, the Gripen fighters were purchased from Sweden.
- Vertical takeoff jets bought together with the aircraft carrier (complementarity goods)
- The problem is that the Gripen has never effectively flown in combat.

The Gripen

\$45-55 million – Saab JAS 39 Gripen



F-35A Lightning II (\$ 94.6 million)



The most expensive jet fighter in the world

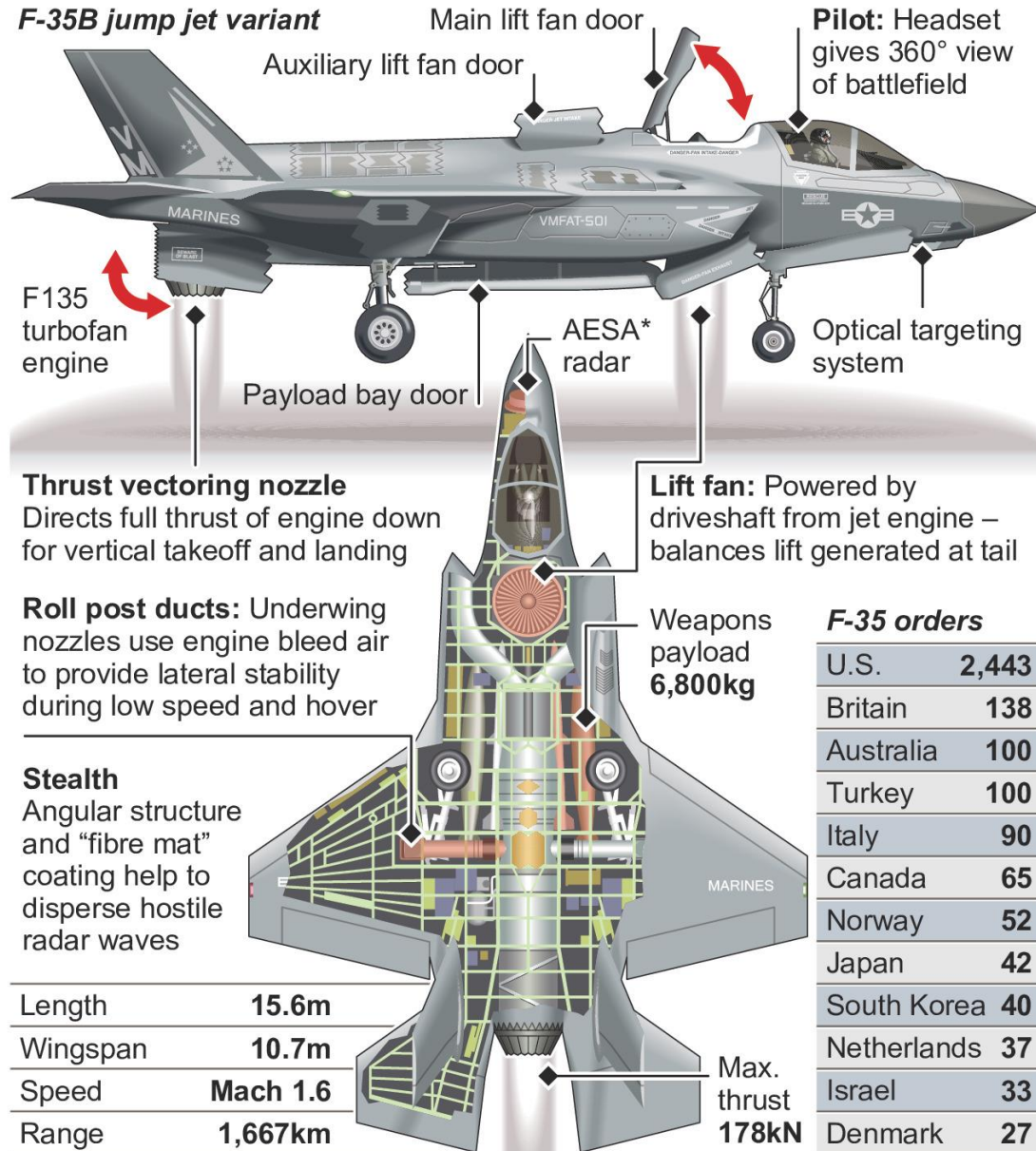
F-22 Raptor (\$152m)



F-35 debut at Farnborough airshow

The world's most advanced fighter jet, the F-35 Lightning II, is making its first appearance at the Farnborough airshow in the UK this summer

F-35B jump jet variant



Lift fan: Powered by driveshaft from jet engine – balances lift generated at tail

F-35 orders

U.S.	2,443
Britain	138
Australia	100
Turkey	100
Italy	90
Canada	65
Norway	52
Japan	42
South Korea	40
Netherlands	37
Israel	33
Denmark	27

Length	15.6m
Wingspan	10.7m
Speed	Mach 1.6
Range	1,667km

Sources: Lockheed Martin, wire agencies

*Active electronically scanned array

© GRAPHIC NEWS

Chinese tanks: T69

Threat by neighbors

- The decision to buy the Chinese-made tanks was prompted by the fact that Thailand then faced a serious security threat on its eastern border from a hostile Vietnam, which had occupied Cambodia and fought a war with Cambodian resistance forces secretly backed by Thailand and the United States.
- The Thai army also ***could not afford*** the more expensive armored vehicle from the US or the other western countries.
- The **25 tanks** were bought at a "***friendship price***" of about one billion baht from China in 1987 when Gen Chavalit Yongchaiyudh was army commander-in-chief.

T69-II

During the 1980s, China was reported to have sold hundreds of Type 59 and Type 69 main battle tanks to Iraq



Size of this preview: 800 × 546 pixels. Other resolutions: 320 × 219 pixels | 640 × 437 pixels | 1,024 × 699 pixels | 1,280 × 874 pixels.

Why can't you move the T69?

- The Chinese-made tanks were found to be too heavy and became stuck in the muddy terrain on the eastern border of Thailand, especially during the rainy season.
- The tanks were never positioned near the border, particularly at the Aranyaprathet-Poipet border, where it was feared that Vietnamese armour would make its move if there was an invasion.

Decommissioned tanks and the army's care for environment

The army's wasteful defense spending

Bangkok Post, published: 27/07/2010

- The army's ***dumped*** a fleet of **25** decommissioned Chinese-made T69-2 medium tanks into the sea off Narathiwat and Pattani provinces.
- The good news is that the army demonstrated that it is not just a heartless fighting machine, but has a soft side for the environment.
- The unusable tanks (there are no parts for repairs) will form an ***artificial coral reef***, a **shelter for fish** and other marine life in the sea off the two southernmost provinces.

The Ukrainian T-84O Oplot Main Battle Tank Operators

In 2011, the Royal Thai Army placed an order
October 2017 , 49 Ukraine tanks were delivered

A turret retaining 125 mm gun, with thermal sighting system,
It observe, detect, recognize and identify targets and to deliver aimed fire from the main
and coaxial machine gun under all conditions of vehicle operation.
The loading system can automatically load the main gun with ammunition
of the available types and consisting of a conveyor, automatic loader and control system.



Buying more Chinese tanks: 49 VT-4 tanks

The army had signed an agreement to purchase 28 VT-4 tanks from China and in the second phase would procure more such tanks until it has a full fleet of 49 tanks in fiscal year 2017.

After problems with the delivery of 49 Oplot tanks ordered from Ukraine, the army committee which decides on military hardware procurements has opted to cut the number of tanks to be bought from Ukraine and buy more from China instead, he said.

The problem facing the Ukrainian supplier was due mainly to Ukraine's internal situation, he said.

However, the Ukrainian tank maker should be able to deliver all 49 tanks to the Thai army by October, 2017, according to Gen Chalermchai.

No more purchasing Ukraine tanks;
they didn't deliver spare parts

VT-4 Tanks from China



Why Chinese made weapons?

An army source said the army also has drawn up a plan to procure several more fleets of 49 VT-4 tanks to replace US-made ones that need to be decommissioned.

Military hardware produced in the US and other Western countries is high quality but also expensive.

"In any procurement, the budget is also a key factor to put into account."

Still, the US had previously not offered to sell weapons to Thailand due to the US's own legal restrictions on selling weapons to Thailand since the coup, he said.

What's more, several other countries in this region had also turned to Chinese-made military hardware, he said.

The US will not sell weapons to countries ruled by Dictators. But China will, also at cheaper prices.

Learn to spot illogical argument:

January 3, 2017

Deputy Prime Minister and Defence Minister Gen Prawit Wongsuwon wants to see a defence and weapons industry in Thailand develop steadily, starting with less complicated weapons and moving on to the more advanced ones, said Gen Chalermchai.

"After visiting China, Gen Prawit agreed China is suitable because the prices of its weapons aren't high. And as Thailand's friend, China can understand Thailand in several contexts. If China agrees to make a joint investment with us on this project, China will become like our adviser," said Gen Chalermchai.

China's weapons are cheaper. We can start building
Less sophisticated weapons and develop further by having
China as a joint venture and an adviser in developing
our defense industry.

FARHAN BOKHARI, Contributing writer

NOVEMBER 09, 2019 12:05 JST



Pakistan has sold 16 JF-17 fighters, built with China's help, to Myanmar and three to Nigeria. © Getty Images

Pakistan had 210 million dollars arm sales this year, with an annual target of one-billion dollars exports.

A Sky Dragon: 350-million air surveillance

The "Sky Dragon" had problems with flying.



With 70 million baht cameras, can you see insurgents hiding underneath the rubber trees?



Back then, when he was the army chief

- When Prime Minister General Prayut Chan-o-cha was Army chief, the Army hired a firm to provide ***maintenance for the airship for Bt50 million*** a year, after which it was subsequently used sporadically.
- There was additional criticism that if the airship flew lower than the safe altitude, it would become an easy target.
- *It was eventually put in storage until its term of operations expired.*

Army chief defends decommissioned Bt350-million surveillance airship

The Nation: *September 14, 2017*

- Army commander-in-chief General Chalermchai said *the airship had reached the end of its term of operations* because it was **made of canvas**.
- But the accompanying surveillance camera system could still be used. However, the Army did not plan to buy a new airship to replace the old one
- The airship project had a total budget of Bt350 million. The airship cost Bt260 million while the camera system, ground support equipment and other expenses cost Bt90 million.
- ***Maintenance for the airship cost Bt50 million*** a year.

Submarine fever: A burning desire

Two attempts have been made to buy vessels in the past.

In 1995 Thailand pursued a Swedish Gotland submarine and in 2011 it sought a German 206A-class vessel. **Both deals failed.**



Will the U-boat get stuck in the Gulf of Thailand?

- Rear Admiral Suriya Pornsuriya, the first commander of the submarine unit, said:
- "These submarines will travel at a depth of 30 meters,"
- "Don't believe rumors they can't run in the Gulf of Thailand because the sea is too shallow.
- The U-boat can work well down there."
- The Atlantic Ocean has a mean depth of 333 meters.

Mr. Suthep preferred submarines to protect territory

- Deputy Prime Minister Suthep Thaugsuban defended the purchase, saying that the 7.7-billion-baht procurement for the submarines is "necessary for *maritime territory protection*,"
- Who would invade Thailand through the gulf of Thailand?"
- **"Some countries in the region have submarines and could pose a threat to the national interest."**
- Singapore 6, Malaysia 2. Indonesia 2+3

Thailand set to get the first Chinese submarine

The Nation July 2, 2016

- **The Royal Thai Navy will buy its first submarine from China in the coming fiscal year, Defense Minister General Prawit Wongsuwan.**
- Prawit, who is also deputy prime minister overseeing security affairs, said the Navy planned to buy three submarines at Bt12 billion each.
- "The budget is **not too high because** payments can be made over a period of about 10 years"
- This is the so-called multi year budgeting.

Chinese made S26-T
(We need three ships: 36 billion baht)



At a friendship price: 12 billion baht

To protect marine resources: Similar illogical argument

Prawit said China's submarine technology was good and modern, playing down criticism . He said the Navy had studied all details. "It first presented its plan in 2008 or 2009."

Asked why the Navy would want submarines since it had abolished the submarine division, Prawit said the country needed them to **protect** its massive marine resources in the Andaman Sea.

Not many fish left in the gulf of Thailand. You don't need a submarine to push illegal fishing boats from neighboring countries.

"Neighboring countries all have submarines. *Myanmar has 10*," Prawit said.



“History repeats itself, first as a tragedy,
second as farce.”
Karl Marx



Dwight D. Eisenhower
34th U.S. President

“Every gun that is made, every warship launched, every rocket fired signifies a theft from those who hunger and are not fed, those who are cold and are not clothed. This world is spending the sweat of its laborers, the genius of its scientists, the hopes of its children. The cost of one modern heavy bomber is a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 populations. It is two fine, fully equipped hospitals. It is some 50 miles of concrete pavement. We pay for a single fighter plane with a half-million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8,000 people. This is not a way of life at all. Under the cloud of threatening war, it is humanity hanging from a cross of iron.”