

# **Buffeting by the Unholy Trinity and Impacts of Thailand's Military Coups**

Bhanupong

Lecture 7

# Syllabus

## Lecture 7

- Consequences of the Avian Influenza (2004), the Asian tsunami (2005), and the oil price shock in 2005.
- Impacts of the 2006/2014 military coups
- How have the coups changed the Thai economy?
- How bad is Thailand hurt by the coronavirus in 2020?

# Readings

## Lecture 7

- “The Thai economy after the coup”, in John Funston (ed.) *Divided over Thaksin*, Institute of Southeast Asian Studies. 2009
- “The buffeting of Thailand by the unholy trinity of Avian Influenza, tsunami, and the oil price shock” *Asian Economic Papers*, Vol. 5, no.2, 2006.
- Nidhiprabha (2018) Chapter 3

# Key words

- The Avian Influenza
- The 2005 Asian tsunami
- The oil price shock in 2005
- Okun's law
- The 2006 military coup
- Health capital
- The shadow price of health
- The latest coup: May 2014
- Animal spirits (Alkerlof and Shiller)

# Bird flu (2004), Tsunami (2005), the 2005 oil shock

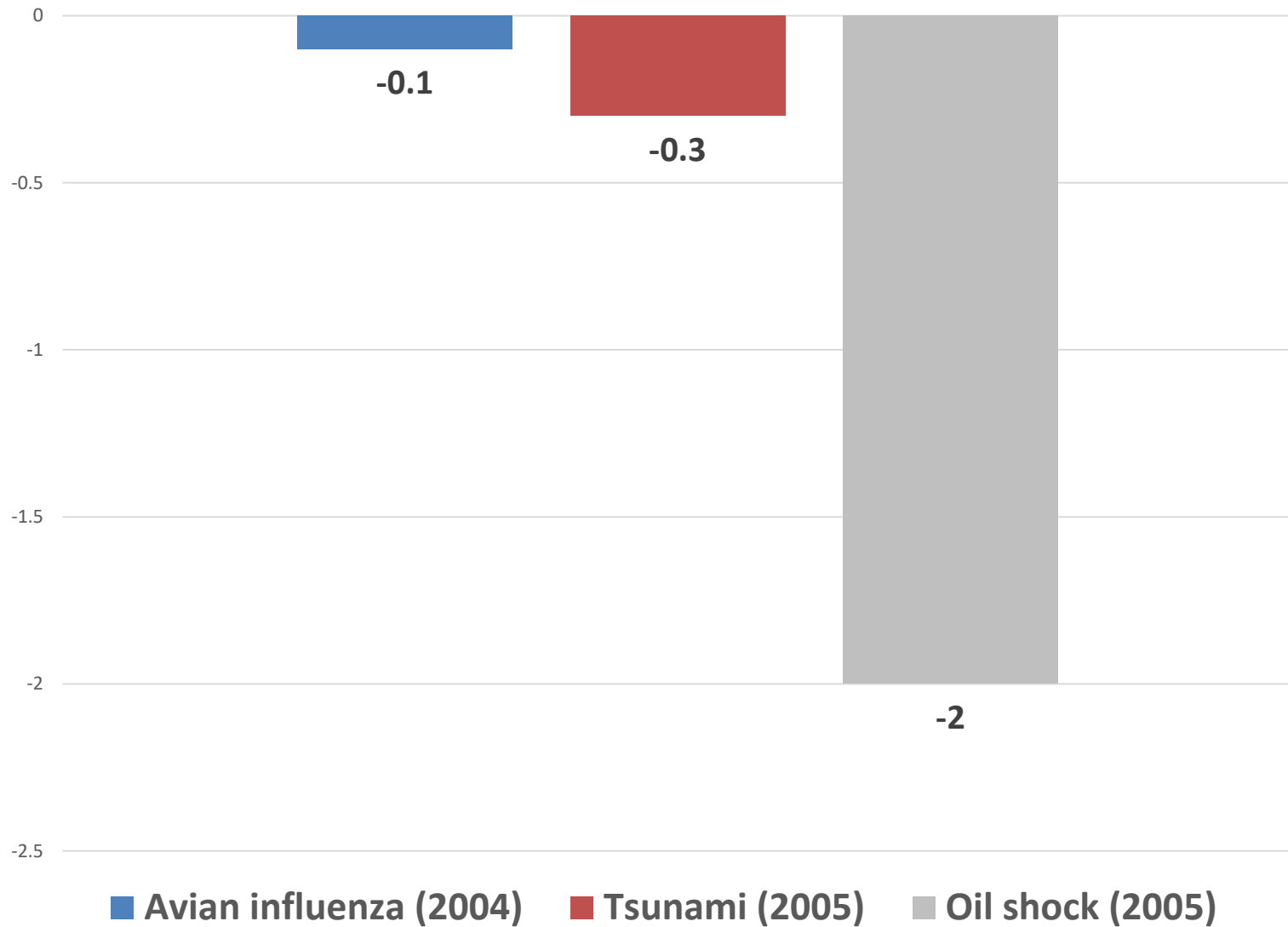
## Buffeting of Thailand

Table 1. Estimates of the economic costs of the three shocks

	Crisis year	GDP growth (percent)	Financial loss (billion baht)	Loss of life
Avian influenza	2004	-0.1	20	14
Tsunami	2005	-0.3	65	5,400
Oil shock	2005	-2.0	90	

*Sources: Estimates are from the Ministry of Finance, the Bank of Thailand, and the Tourism Authority of Thailand.*

## GDP growth loss (%)



# Massive Culling (H5N1)



# The bird flu

In 1999, the Thai poultry industry had just recovered from the loss of ***Generalized System of Preferences*** (GSP) status in Europe

In 2002, import ban on Thai chicken, due to the detection of antibiotic residues (***Nitrofurans***).

In ***December 2003***, Avian influenza (AI) broke out in Thailand and killed 14 people in the following 12 months.

# The damage from the bird flu

The spread of bird flu (AI) caused heavy damage to the industry because of massive culling and a ***temporary decline in domestic consumption.***

The fear subsided by ***October 2004***, and domestic chicken consumption returned to its rising trend.

The Ministry of Finance estimated that AI reduced GDP growth by 0.1 percentage points in 2004

***Why so little impact?***

H7N9



# China reports bird flu outbreak near epicenter of coronavirus

February 2, 2020



The fatal illness — known as H5N1 virus — causes “a highly infectious, severe respiratory disease in birds,” according to WHO.

The flu can be transmitted to humans.

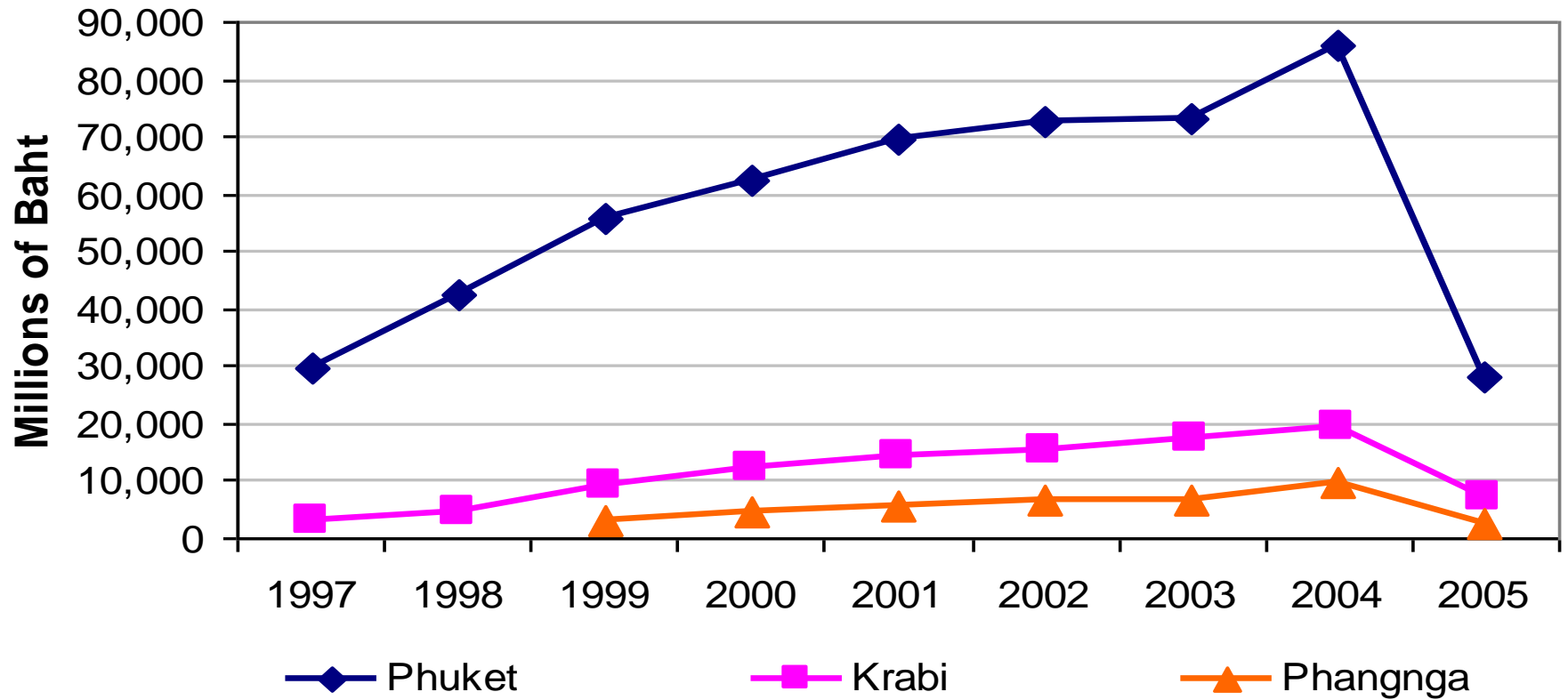
# H5N1: Low Epidemic

- China's Bird Flu Surge Is a Low Epidemic Threat, (W.H.O.)
- H5N1, a strain that sparked widespread fear of bird flu in 2003, still occasionally kills a few people each year, and
- **H5N8**, is widely circulating in poultry in Europe and the Middle East.
- But no H5 or H7 strain has ever been transmitted easily among humans.

# December 26, 2004



## Tourism Revenue from Visitors in Three Provinces



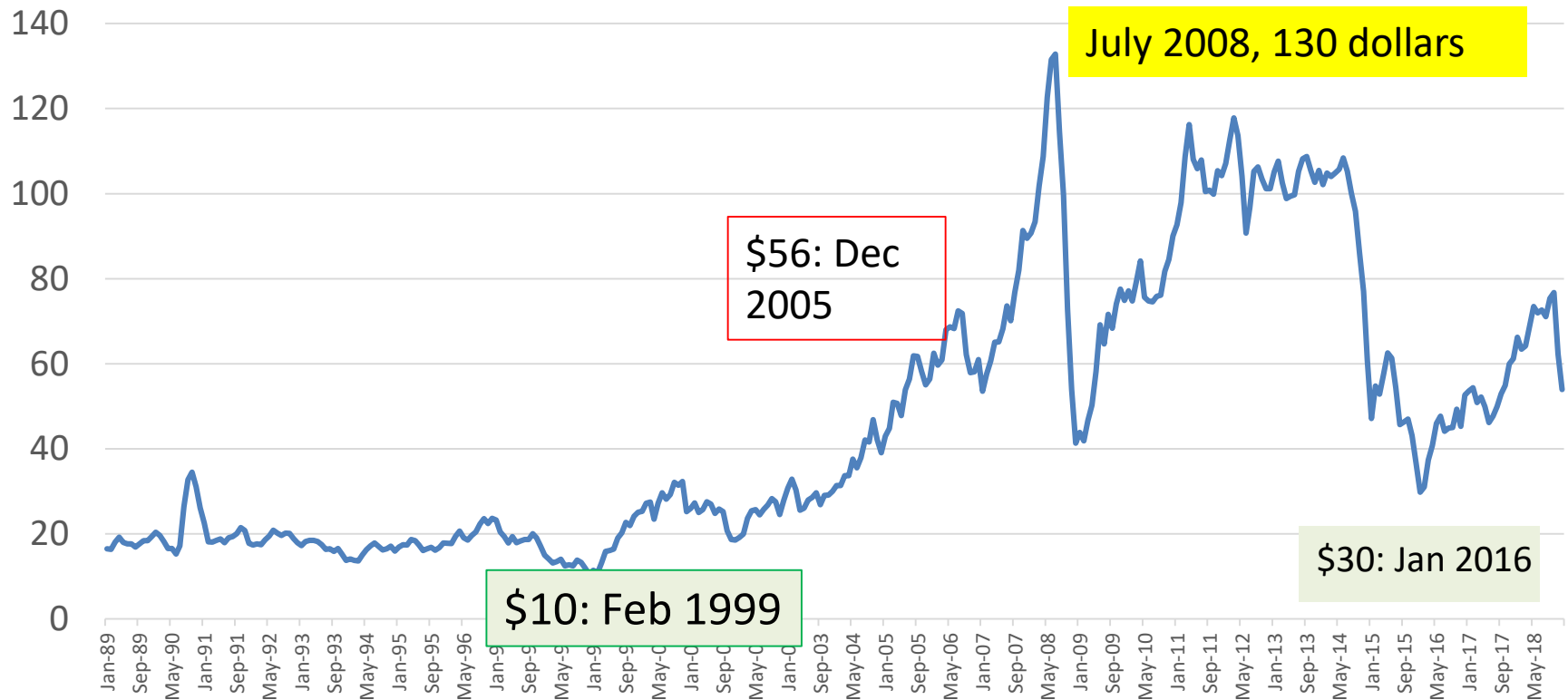
Source: Tourism Authority of Thailand

# Shocks after shocks

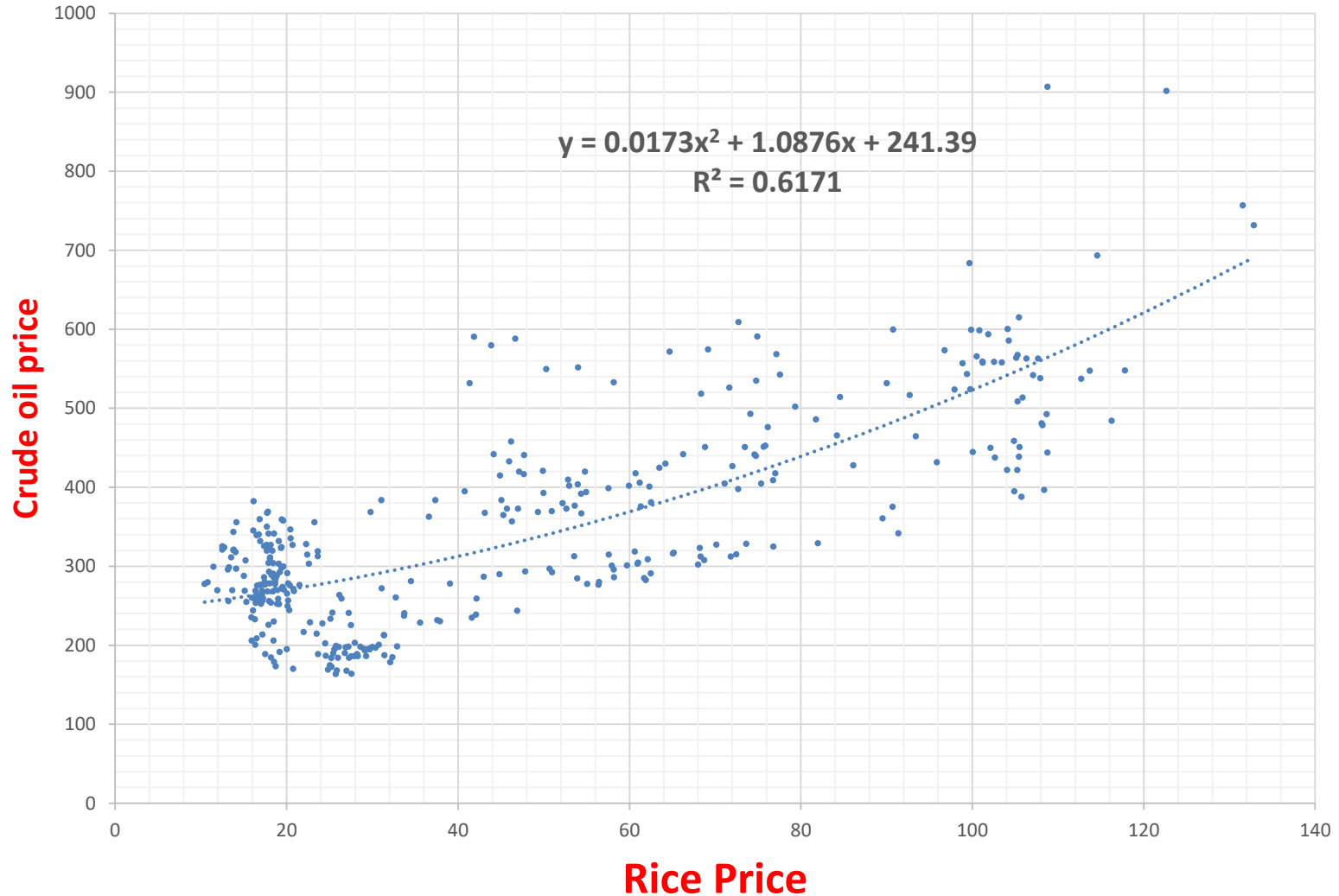
- World recession 1991
- Asian financial crisis 1997
- SARS and Iraq war in 2003
- Avian flu (H5N1) 2004
- Tsunami (Dec 26, 2004)
- The third oil shock (2005)
- Coup d'état (Sep 19, 2006)
- Coronavirus 2020

# The oil shocks

Average Spot Price  
of Brent, Dubai, West Texas Intermediate  
(US dollars per barrel)



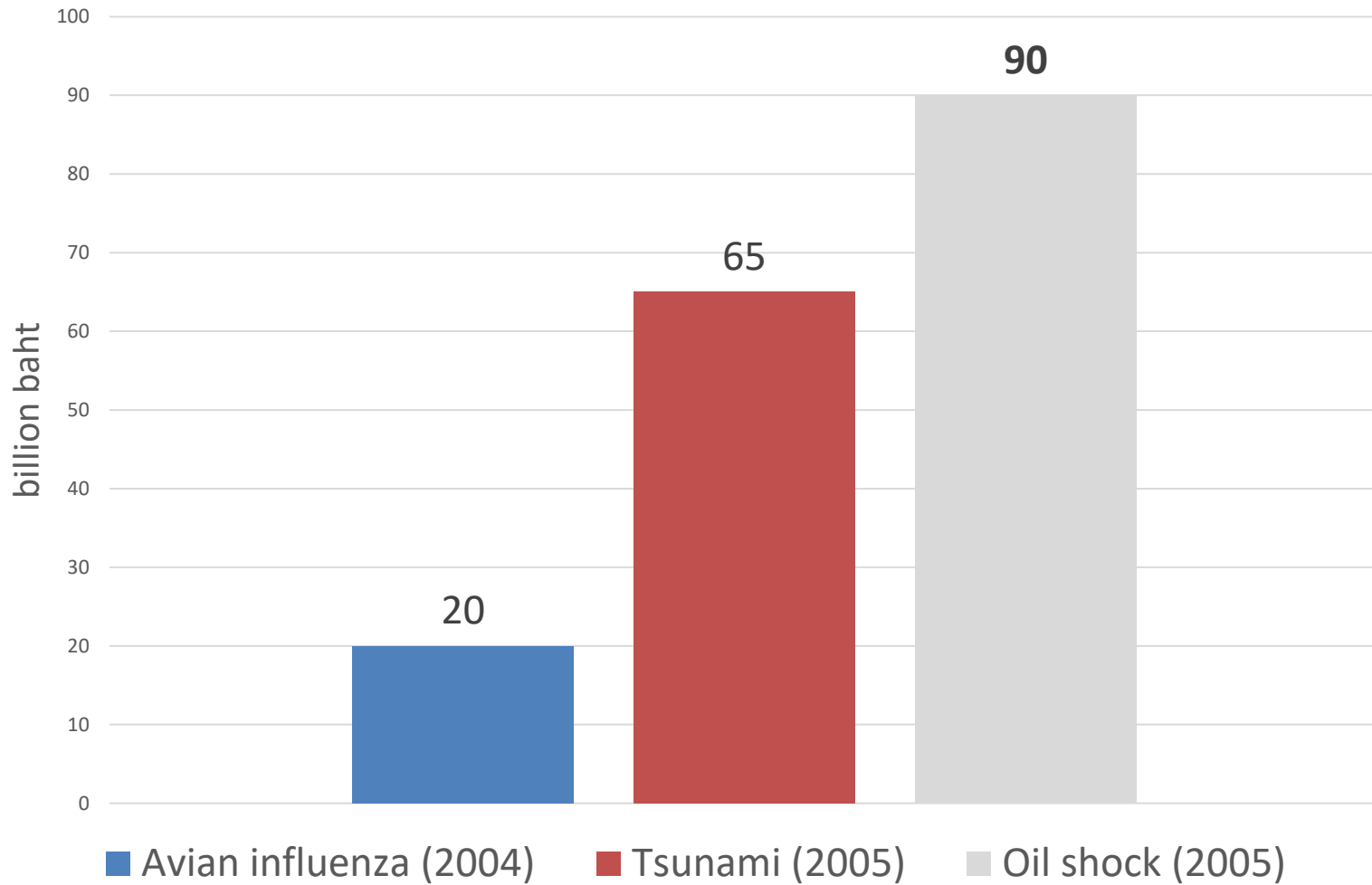
# The thirty-years-old relationship



# The oil price shock

- The oil price shock of 2005 did not lead to loss of life, but its impact on economic growth in Thailand was the greatest among the three unholy trinity shocks.
- It caused a decline of 2 percentage points in the GDP growth of 2005.
- The oil fund deficit caused by an existing oil price subsidy carried **a fiscal cost** of more than 90 billion baht.
- *(Was it worth the subsidies: Okun Gap vs. Harberger's Triangles)*
- The oil price shock had an adverse direct impact on the tourism industry by raising the cost of traveling.
- The slowdown in world output growth aggravated the slump in the tourism industry

# Financial Loss



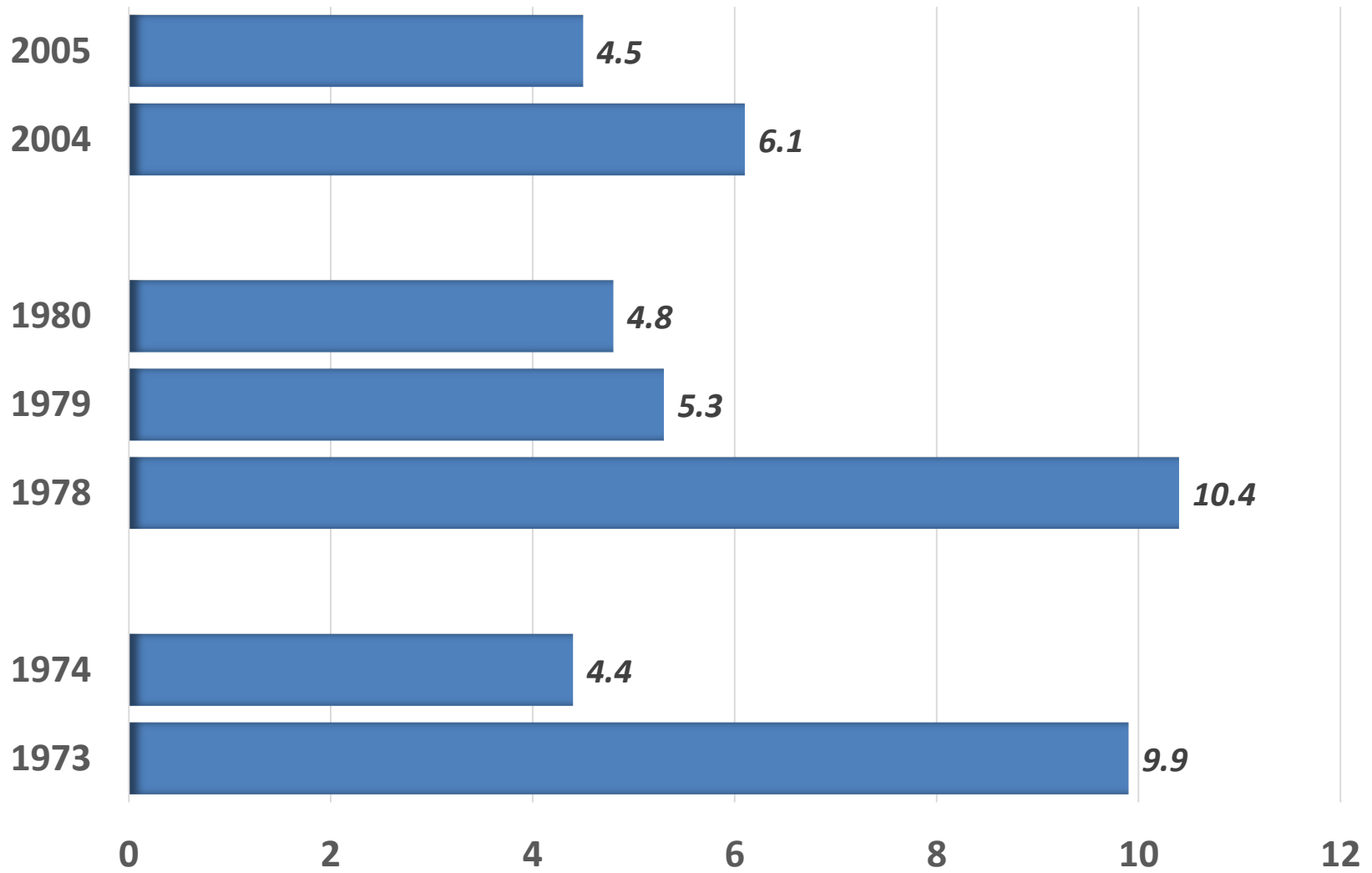
# Comparing the three oil price shocks

Table 2. Macroeconomic impact of the three oil price shocks (percent)

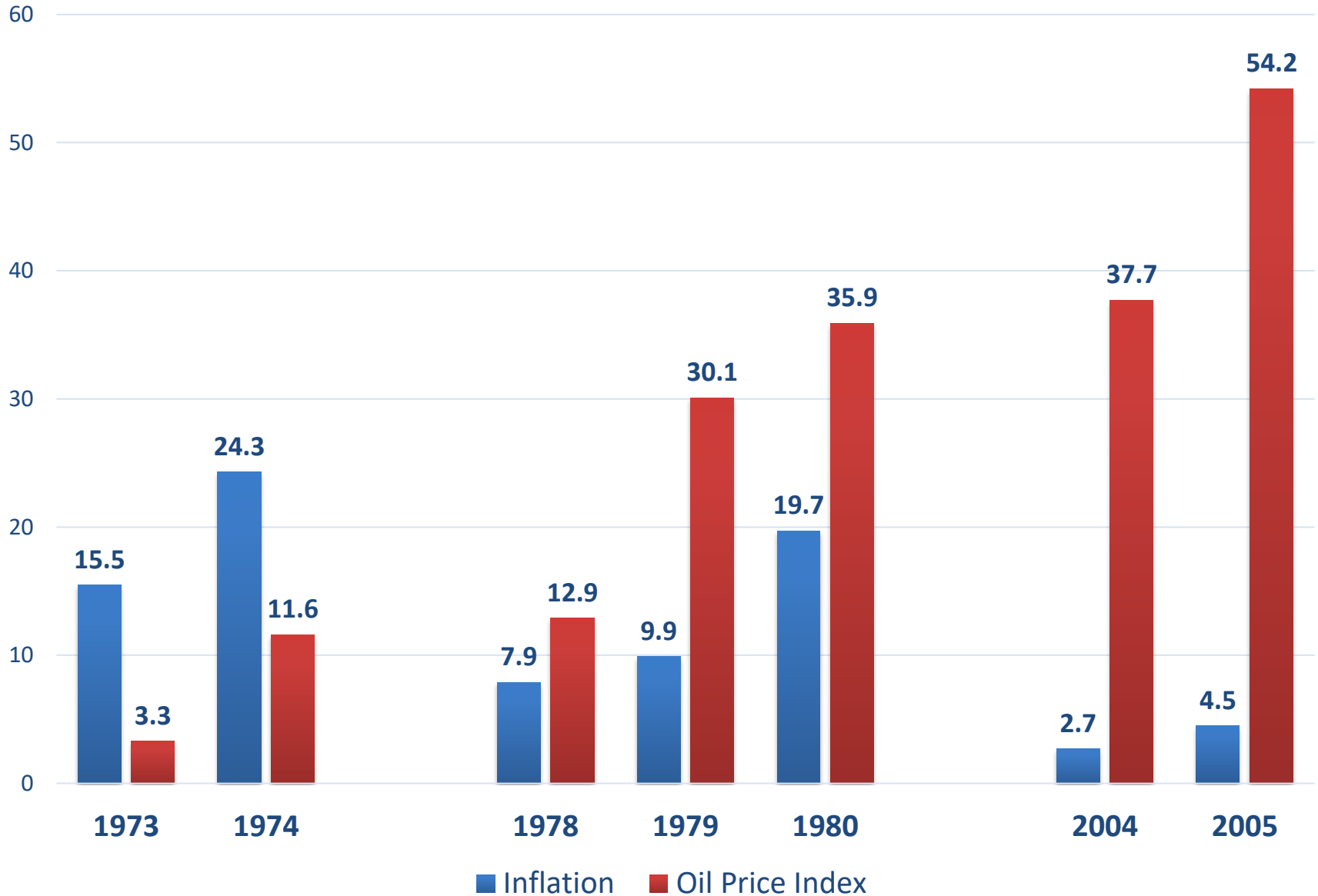
	First oil shock		Second oil shock			Third oil shock	
	1973	1974	1978	1979	1980	2004	2005
GDP growth	9.9	4.4	10.4	5.3	4.8	6.1	4.5
Inflation	15.5	24.3	7.9	9.9	19.7	2.7	4.5
Current account/GDP	-0.5	-0.6	-2.8	-4.9	-6.4	4.5	-4.8
Trade balance/GDP	-1.7	-2.4	-3.1	-4.4	-6.1	2.3	-2.1
World oil price index	3.3	11.6	12.9	30.1	35.9	37.7	54.2

Sources: Bank of Thailand, International Monetary Fund.

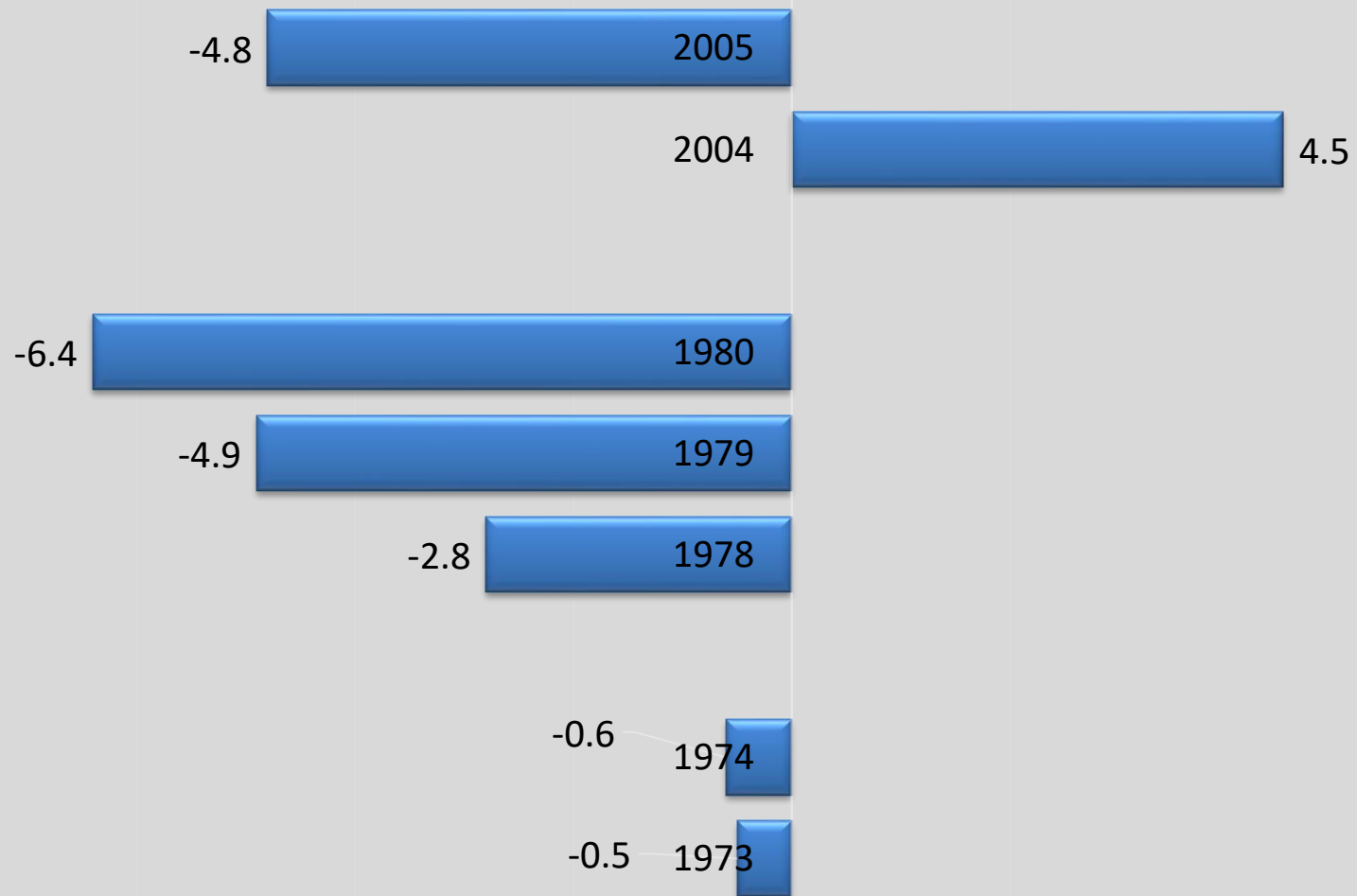
# GDP growth during the three oil shocks



## Oil Price shocks and Inflation rate

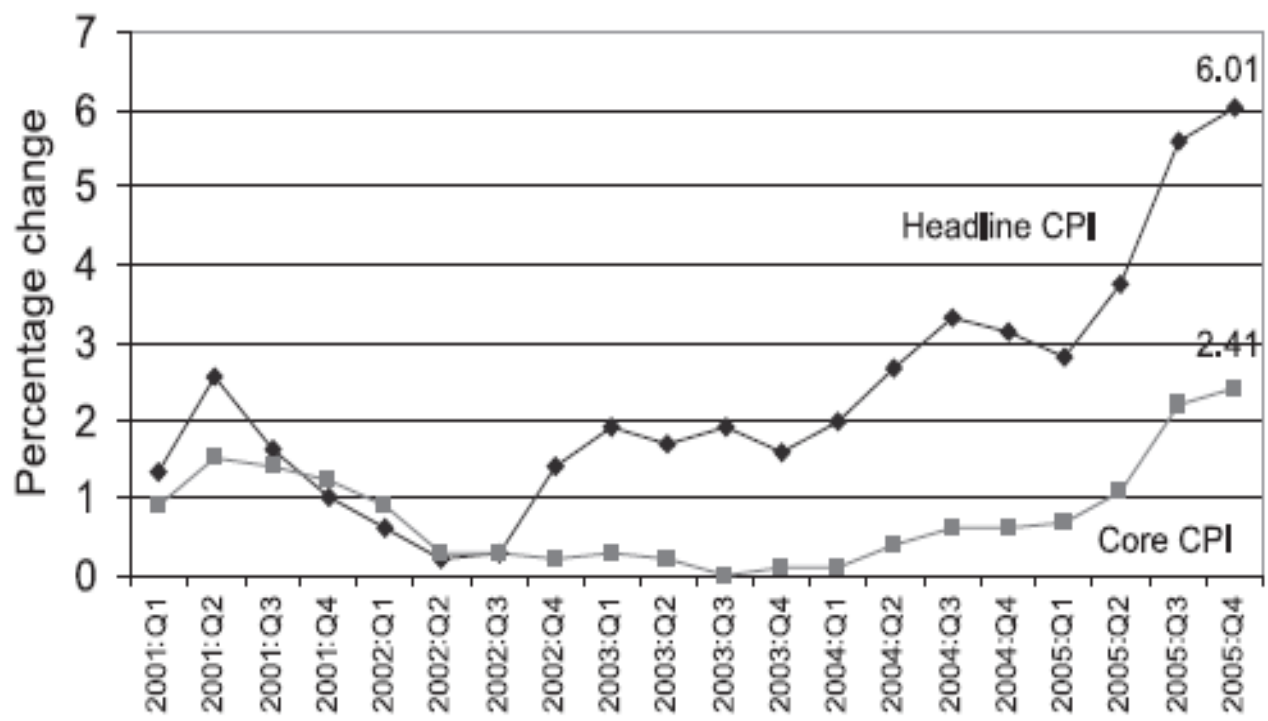


## Current Account After the Oil Shocks (%GDP)



# Core vs. headline inflation

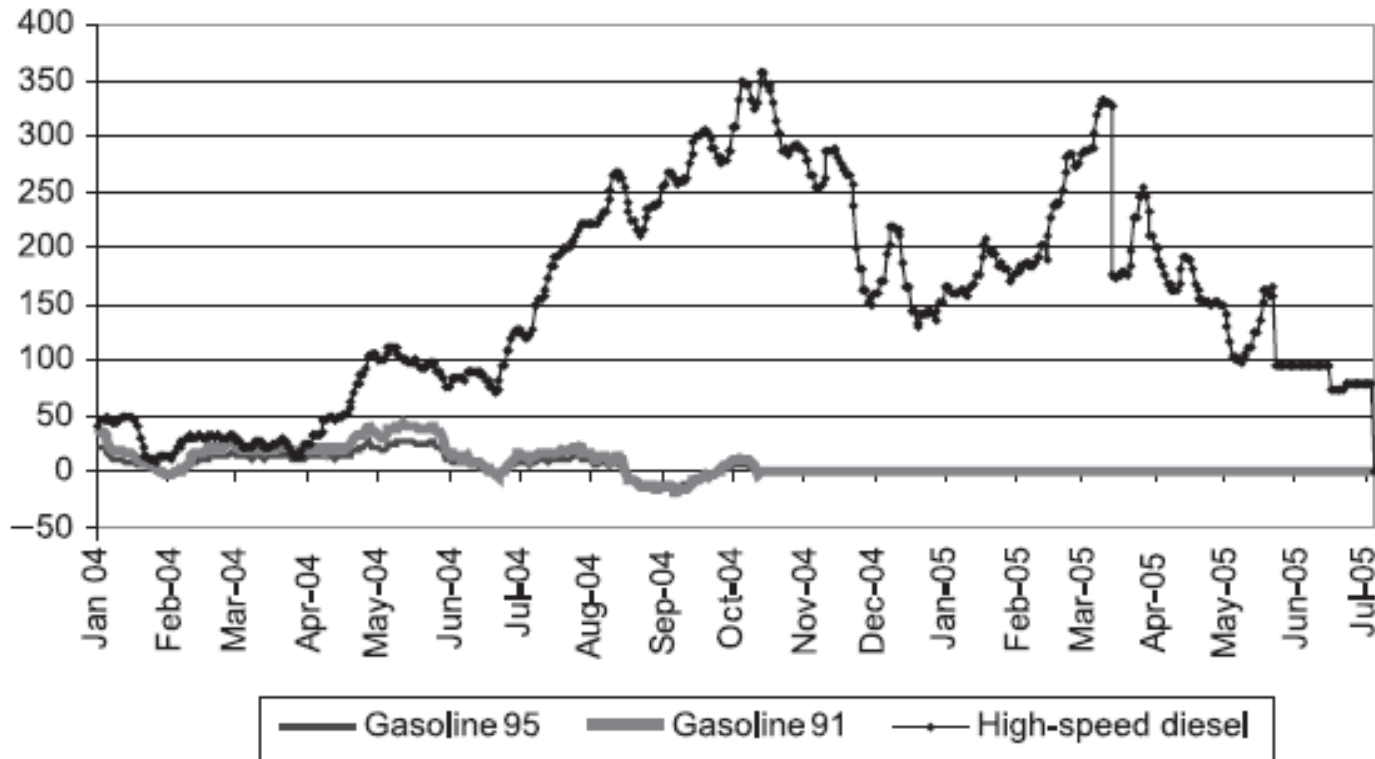
Figure 4. Inflationary impact of the third oil price shock



Source: Bank of Thailand.

# Diesel vs. gasoline subsidies

Figure 5. Oil subsidies per day (million baht)

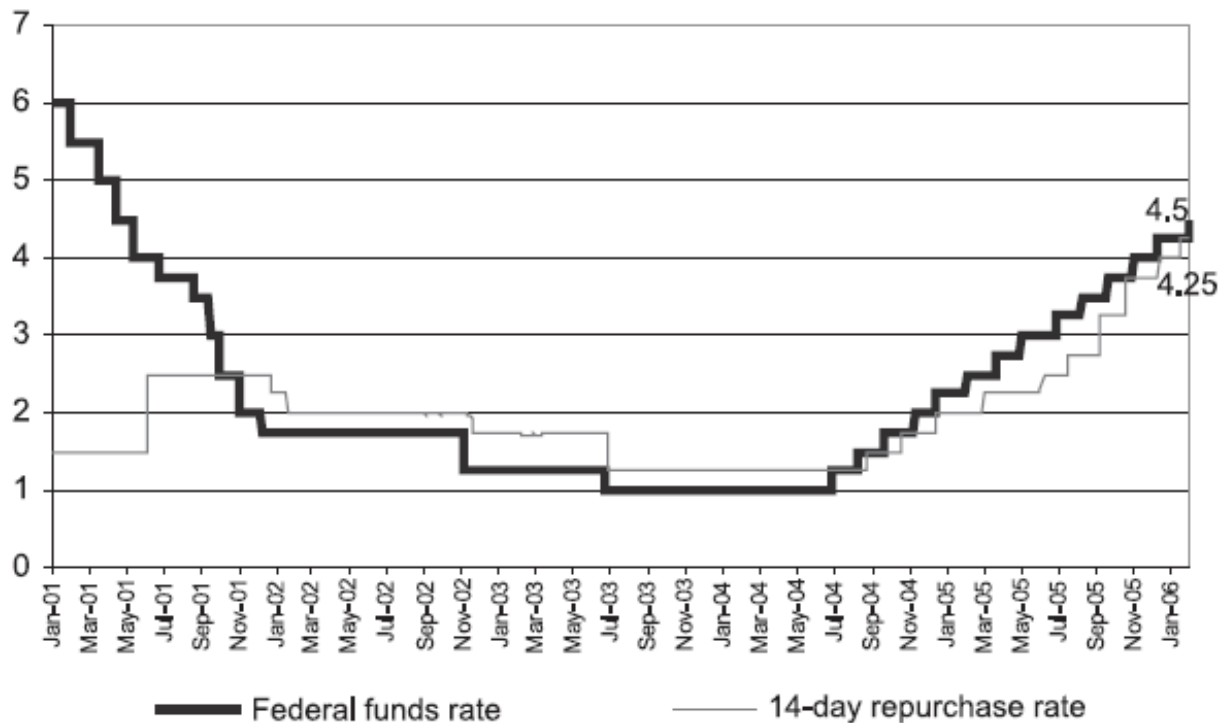


Source: Energy Policy and Planning Office.

*Why does the government subsidize energy until these days?*

# Gradual approach to interest rate adjustments: Follow the Fed

Figure 6. Federal funds and repurchase rates



Sources: Bank of Thailand, Federal Reserve.

# Appropriate policy responses to shocks

Transparency is important for government's credibility

The establishment of realistic exchange rates and positive real interest rates by reducing the degree of price intervention will induce economic agents to adjust properly to cushion the impact of external shocks. Nominal exchange rates must be allowed to depreciate to maintain competitiveness.

**Price controls** must be employed *temporarily* to avoid market disruptions and to calm inflationary expectations.

# More Shocks (still counting)

- Bangkok bombing (Jan 2007)
- Airport shutdown (2008)
- Global (Great) recession (2009)
- Type-A(H1N1) (2009)
- Red shirts (UDD) uprising (April 2009, March 2010, April and May 2010)
- Japan quake (March 2011)
- 2013/2014 Bangkok shutdown
- 2014: Military Coup
- 2015: Erawan shrine bombing
- 2020: Coronavirus (Global slowdown and travel bans)

# PAD uprising and airport shutdowns (2008)



Thailand's main international airport cancelled all flights on Wednesday (November 26, 2008) as thousands of protesters swarmed the complex in efforts to bring down the government, stranding tourists and dealing a blow to the country's already-fragile tourism industry.

# Bangkok airport under siege, thousands stranded

## Nov 26, 2008



The airport takeover was one of the boldest gambles yet by the People's Alliance for Democracy in its **four-month campaign** to topple Prime Minister Somchai Wongsawat, whom it accuses of being the puppet of a disgraced fugitive predecessor, billionaire Thaksin Shinawatra.

# Another disruption in 2014



# The Thai economy after the coup: 2006-2008

- Coups d'état and its vicious cycle
- The importance of capital formation
- Animal spirits

# Coups galore

- There have been 21 military coups since June 24, 1932, when absolute monarchy was replaced by constitutional monarchy.
- Only ELEVEN coups succeeded.
- June 20, 1933: Phraya Phahol toppled the government led by Phraya Manopakorn.
- Nov 8, 1947: Gen Pin Choonhawan overthrew the government of Thawan Thamsrongdhnawasavad

# Timeline of coups d'état

- [1912](#): Coup planned by military officers is discovered and thwarted.
- [24 June 1932](#): The [Khana Ratsadon](#) party overthrows the absolute monarchy of King [Prajadhipok](#).<sup>[44]</sup>
- [20 June 1933](#): [Phraya Phahon Phonphayuhasena](#) overthrows [Phraya Manopakorn Nititada](#).<sup>[44]</sup>
- [11–23 October 1933](#): Royalist rebellion to overturn the results of the June 1933 coup d'état.
- 3 August 1935: The Nai Sip rebellion.<sup>[45]</sup>
- [29 January 1939](#): More a purge or internal coup, it was the work of Prime Minister [Phibul](#) to remove political enemies and rivals.<sup>[45]</sup>
- [7 November 1947](#): [Phin Choonhavan](#) overthrows [Thawal Thamrong Navaswadhi](#).<sup>[44]</sup>
- [Thai 1949 Coup](#): Attempted coup by Pridi, which saw the Grand Palace occupied by his supporters, failed.<sup>[45]</sup>
- [29 June 1951](#): Pridi supporters in the navy attempted a coup when they tried to seize Phibun.<sup>[45]</sup>
- [29 November 1951](#): Military overthrows 1949 constitution and reverts to 1932 constitution.<sup>[44]</sup>
- 21 September 1957: [Sarit Thanarat](#) overthrows [Plaek Pibulsongkram](#)<sup>[44]</sup>
- 20 October 1958: [Self-coup](#) of [Sarit Thanarat](#)<sup>[44]</sup>
- 18 November 1971: [Self-coup](#) of [Thanom Kittikachorn](#)<sup>[44]</sup>
- February 1976: An attempted military coup was defeated in February.<sup>[45]</sup>
- [6 October 1976](#): [Sangad Chaloryu](#) overthrows [Seni Pramoj](#)<sup>[44]</sup>
- [20 October 1977](#): [Kriangsak Chamanan](#) overthrows [Thanin Kraivichien](#)<sup>[44]</sup>
- 1981: A coup led by the deputy commander-in-chief of the army failed when forces loyal to the government suppressed the revolt. The "Young Turk" group of officers who staged the coup were dismissed from the army.<sup>[45]</sup>
- 1985: A coup attempt by Col. [Manoonkrit Roopkachorn](#), a member of the Young Turks, failed and a number of senior officers were later arrested.<sup>[45]</sup>
- 24 February 1991: [Sunthorn Kongsompong](#) overthrows [Chatichai Choonhavan](#)<sup>[44]</sup>
- [19 September 2006](#): [Sonthi Boonyaratglin](#) overthrows [Thaksin Shinawatra](#)<sup>[44]</sup>
- [22 May 2014](#): [Prayut Chan-o-cha](#) overthrows [Niwattthamrong Boonsongpaisan](#)<sup>[44]</sup>

# A vicious cycle

*And we thought we had seen the last coup in 1991*

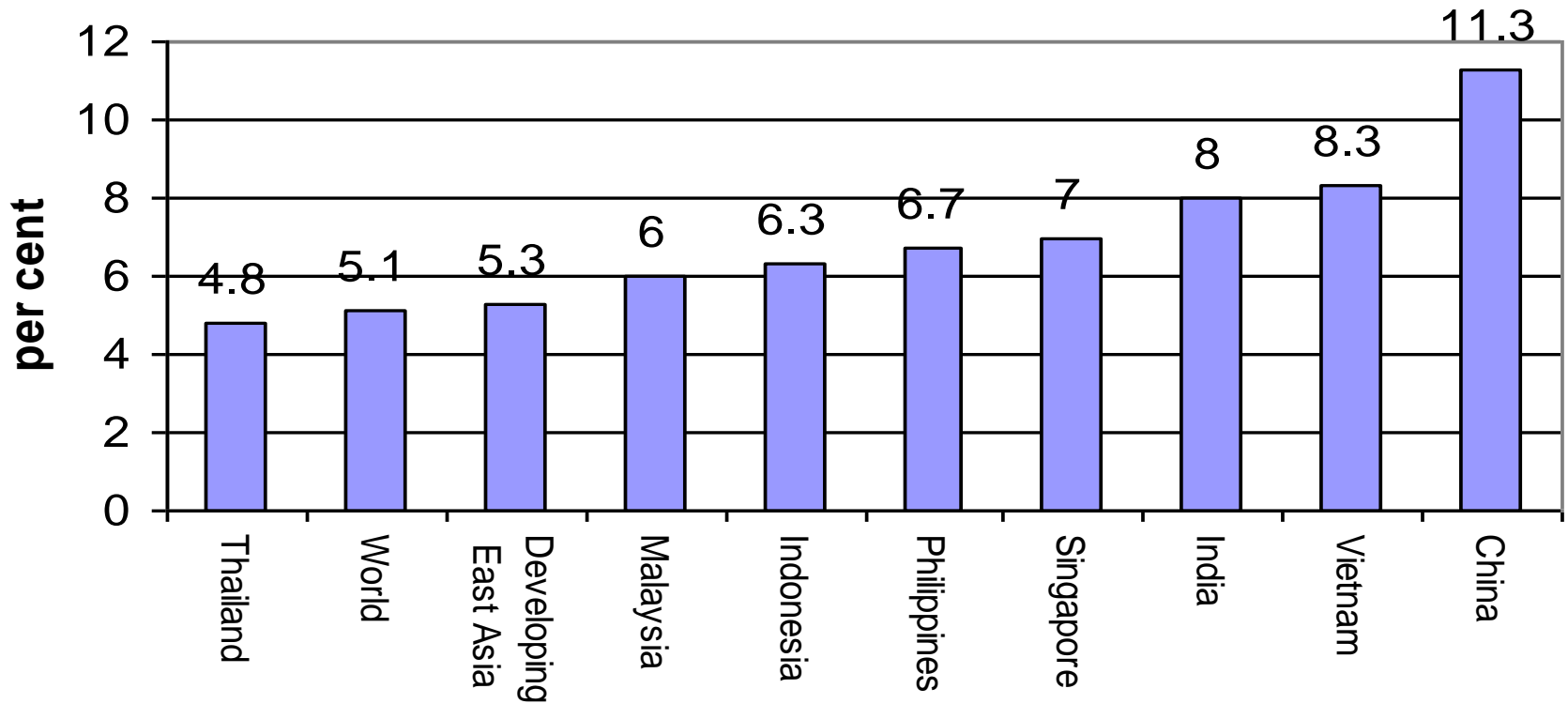
Between 1991 and 2005, the absence of coup provided stable environment and economic prosperity under five PMs:

Anan, Chuan, Banharn, Chawalit, Chuan, and Thaksin

Almost all coup attempts, successful or failed, occur in countries that are relatively poor and have political regimes that mix features of autocracy and democracy.

# The high cost of the 2006 coup

## Comparison of Growth in 2007



## Fiscal budget under the military-backed government (General Surayud: The coup leader in 2006)

	<b>FY 2007</b>	<b>FY 2008</b>	<b>% Change</b>
<b>Defense</b>	<b>7.3</b>	<b>8.6</b>	<b>17.8</b>
<b>Education</b>	<b>18.0</b>	<b>18.1</b>	<b>0.56</b>
<b>Public health</b>	<b>4.0</b>	<b>3.9</b>	<b>-2.5</b>
<b>Central fund</b>	<b>12.6</b>	<b>14.8</b>	<b>17.4</b>
<b>Agriculture</b>	<b>4.1</b>	<b>3.9</b>	<b>-4.8</b>
<b>Total amount (billon baht)</b>	<b>1566.0</b>	<b>1660.0</b>	<b>6.0</b>

# Defense spending vs. *health capital* investment

- Determinants of military spending: external and civil wars, military spending by potential enemies, population, and democracy.
- Democracy is negatively related to military burden.
- Cross-country evidence shows a **negative** impact of military spending on economic performance.

Michael Grossman

*“On the concept of **health capital** and the demand for health”*

Journal of Political Economy (1972)

- Health can be viewed as a durable capital stock that produces an output of healthy time.
- Individual inherit an initial stock of health that ***depreciates with age*** and can be increased by investment.

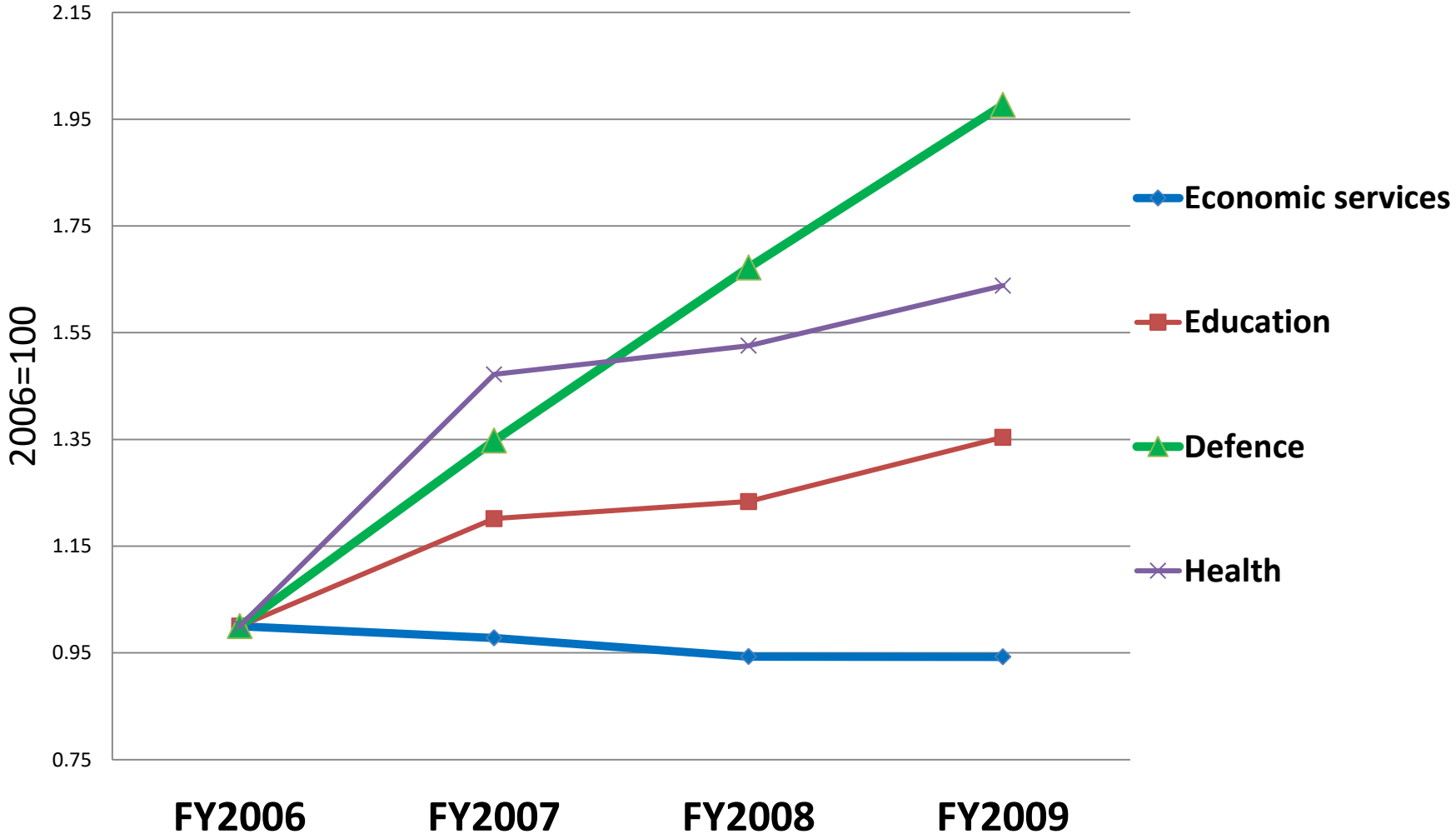
Michael Grossman (1972)

## The Shadow Price of health

- The “**shadow price**” of health reflects the price of medical care.
- The shadow price rises with age when health deteriorates over time, due to aging (higher depreciation of health capital stock).
- The shadow price falls with *education* as more educated people are more efficient producers of health.
- There are eight people die every hour in Thailand, due to creeping CA.

# Government Budget appropriation after the 2006 military coup

Source: BOB



# Thailand's perennial problems

- Exchange rate risks
- Fluctuations of the world economy
- Weak governing institutions: Absence of the rule of law
- Military and judicial coups threat and political disturbances
- Southern violence

# GRIM TOLL

## Summary of violent incidents in the deep South

From January 2004 to December 2019



Incidents  
**20,512**



Deaths  
**7,085**



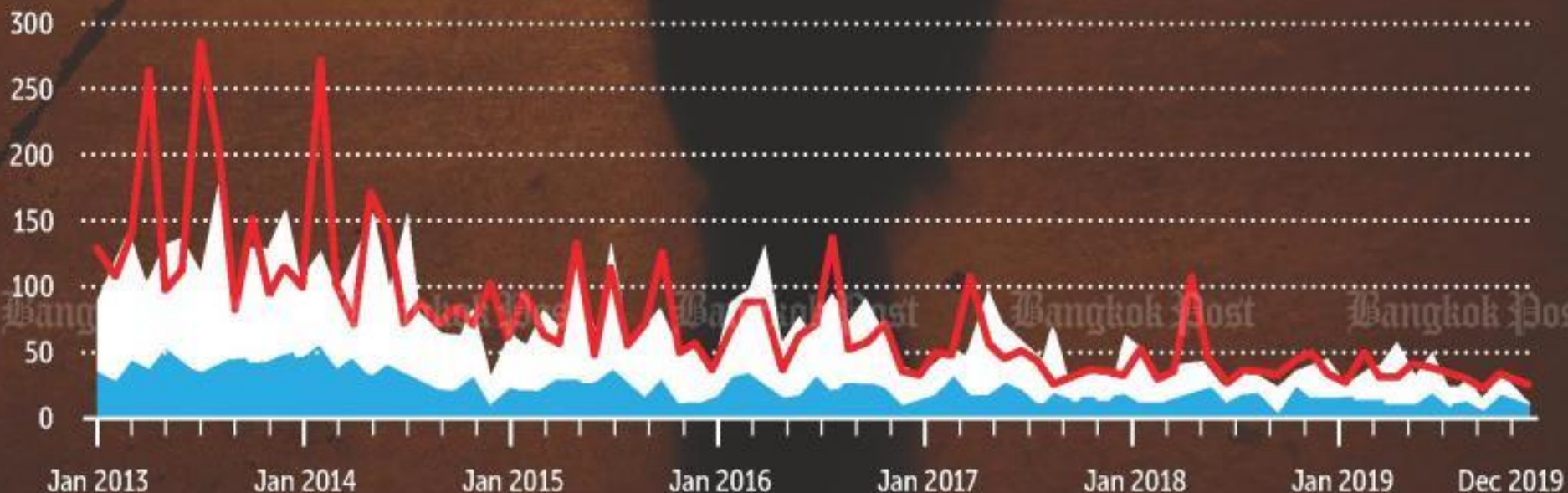
Injuries  
**13,233**



Spending  
**313.79**  
billion baht

## Timeline of incidents, casualties and injured people from January 2013 until December 2019

Casualties Injured Incidents

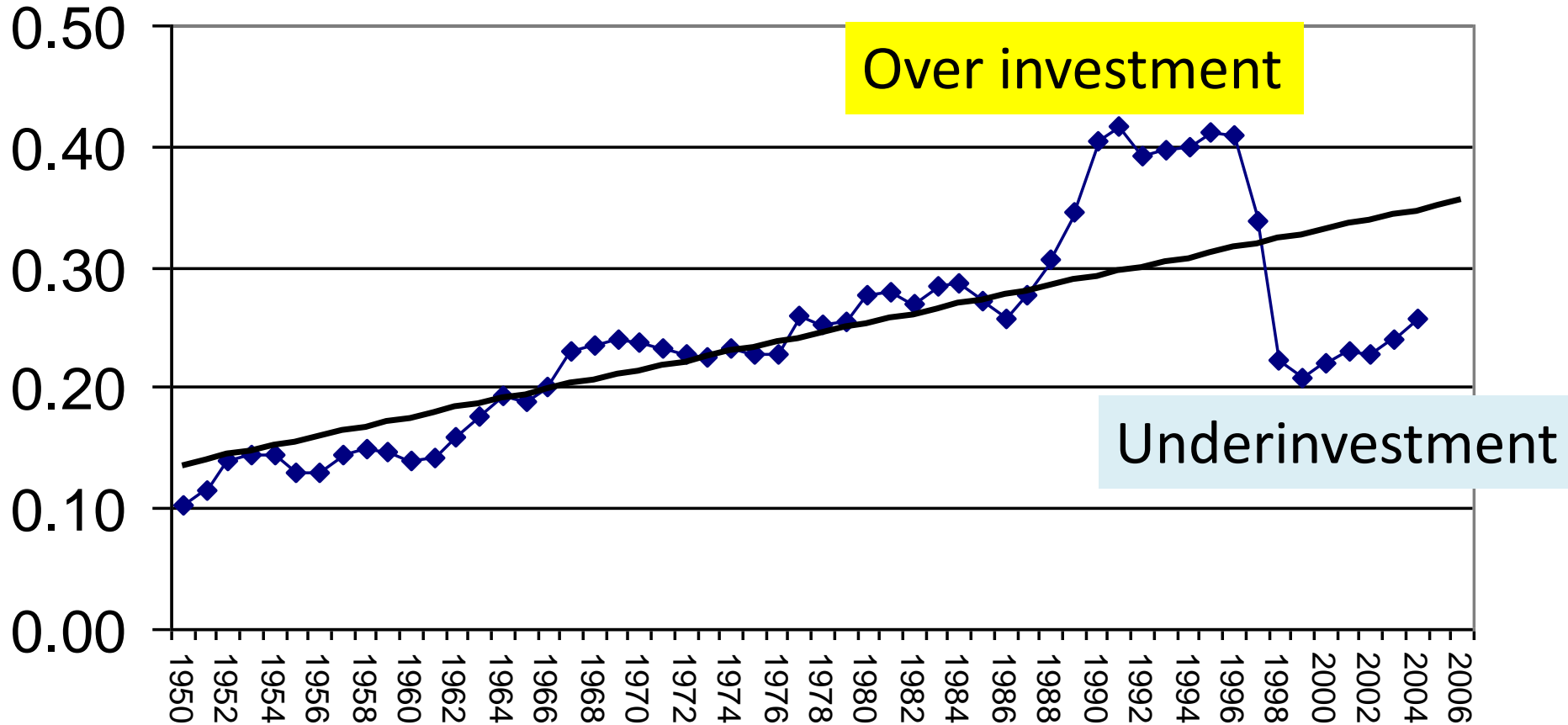


# No end in sight for carnage in deep South, despite peace talks

BKK Post Jan 12, 2020

- Since a weapons robbery in which 416 guns were stolen from the 4th Rattanaapol Camp Development Division in Cho Airong district of Narathiwat, which marked a flare-up of the southern violence on Jan 4, 2004, a total of 7,085 people have been killed and 13,233 injured in a total of 20,512 violent incidents.
- Among these victims are teachers, monks and children, both Buddhists and Muslims.

# Share of investment in GDP



# *Capital formation*

- Investment causes short-term fluctuations in GDP by affecting aggregate demand.
- Investment also enhances long-term growth by increasing potential, or full-employment national income.
- Investment improves living standards.
- Opportunity cost of growth is precious heritage of natural resources and pollution.

# Why growth is good for the poor

- Growth increases the ability to redistribute income among people and reduce unemployment.

- Okun's Law

$$g_t = \alpha - \beta \Delta u_t$$

- For every 1% of increase in unemployment rate, GDP will be lower by roughly 2% (In USA).

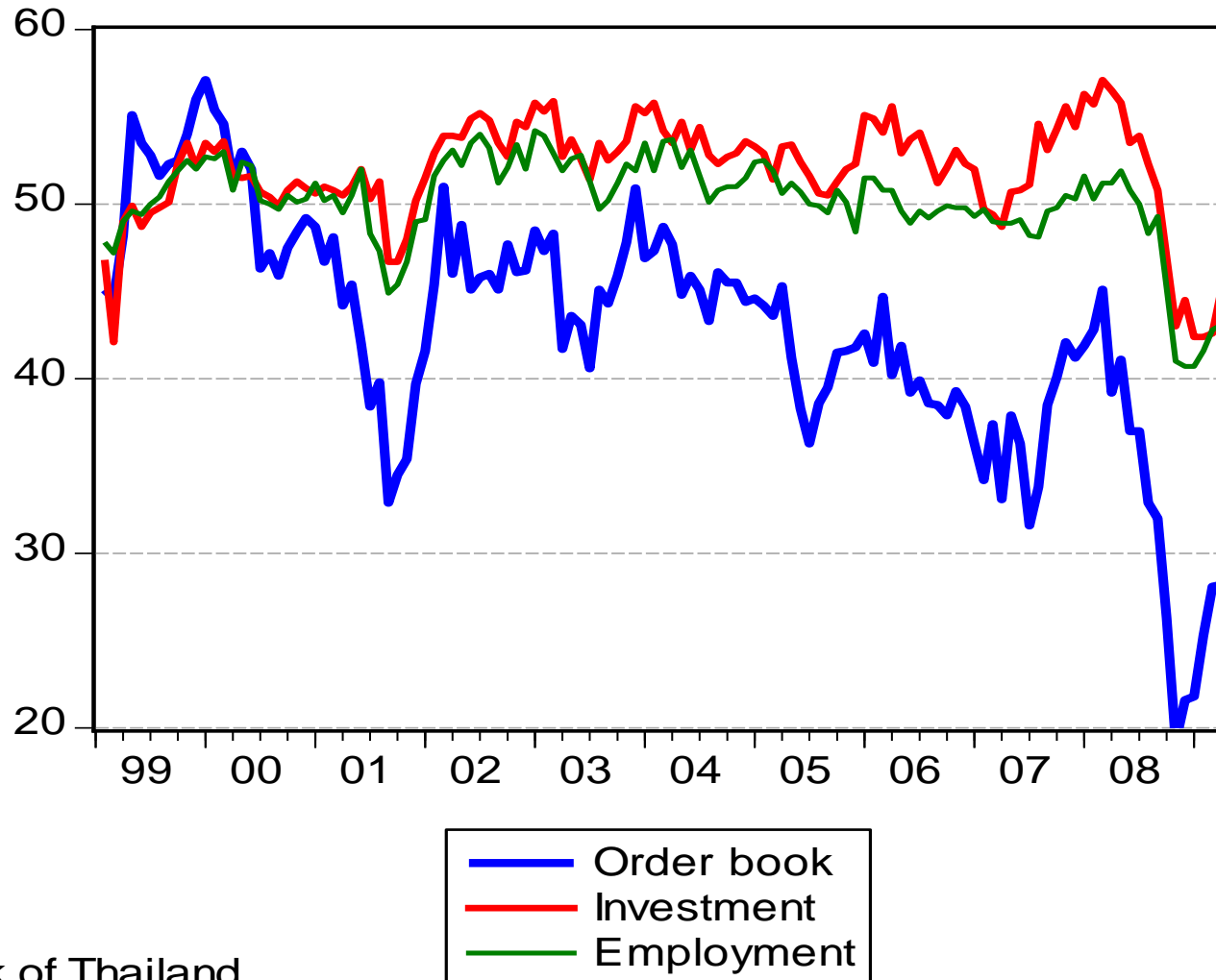
## Animal spirits

(An extension from Keynes investor confidence)

- **Akerlof and Shiller** (2009) extend Keynes' animal spirits from investor confidence to:
- **Fear, blind faith, corruption, and a concern to fairness, and the stories we tell ourselves about our economic fortunes.**
- These are the factors which adversely affect investment
- ***We must uphold fairness and social justice: no more double standards***

# Business sentiment Index

*How can we rekindle favorable investment climate?*



# The foundation of long-term growth

## *high quality institutions*

- Institutions are **quality of formal and informal sociopolitical arrangement**—from legal system to political institutions.
- Good institutions provide property rights, appropriate regulatory structures, the quality and *independence of the judiciary and bureaucratic capacity*.
- Institutions that provide dependable property rights, manage conflict, maintain law and order, and align economic incentives with social costs and benefits are the foundation of long-term growth.

# The Thai economy after the coup

- The overthrow of the legitimate government by the military coup cost considerable damages in terms of economic losses.
- *How do we estimate the cost of the coups?*
- The rule of law, good governance and good institutions, both legal and democratic infrastructure are required to nurture economic environment suitable for long-term development to raise living standards.

# Past coups were different from the two recent coups

- The Thai military coups in the past did not destroy the confidence of the business sectors; thereby leaving intact the country's economic strength.
- The coup in 2006 , however, had destroyed the democratic underpinning of the stability of political and economic structure; thereby sapping the economic strength of the economy.

# The Thai Economy after the 2006 coup

- The long-term growth and social welfare is threatened as the government budget is allocated to *non-productive spending*. Infrastructure public investment and human capital-related spending was curtailed for the sake of defense.
- The Thai economy has stepped backward, losing opportunity to grow when the world economy expanded in 2007.
- Alas, the September 2006 was the last one.

## Thailand's Coup Just One Sign of Southeast Asia's Regression From Democracy



Demonstrators march as riot police officers and soldiers block a street during a protest against military rule in central Bangkok on May 24, 2014. Former prime minister Yingluck Shinawatra was in a "safe place" on Saturday, an aide said, after being held by Thailand's army following its seizure of power this week, as opposition to the coup grew among her supporters and pro-democracy activists (Athit Perawongmetha/Courtesy: Reuters).

# The Thai coup in 2014

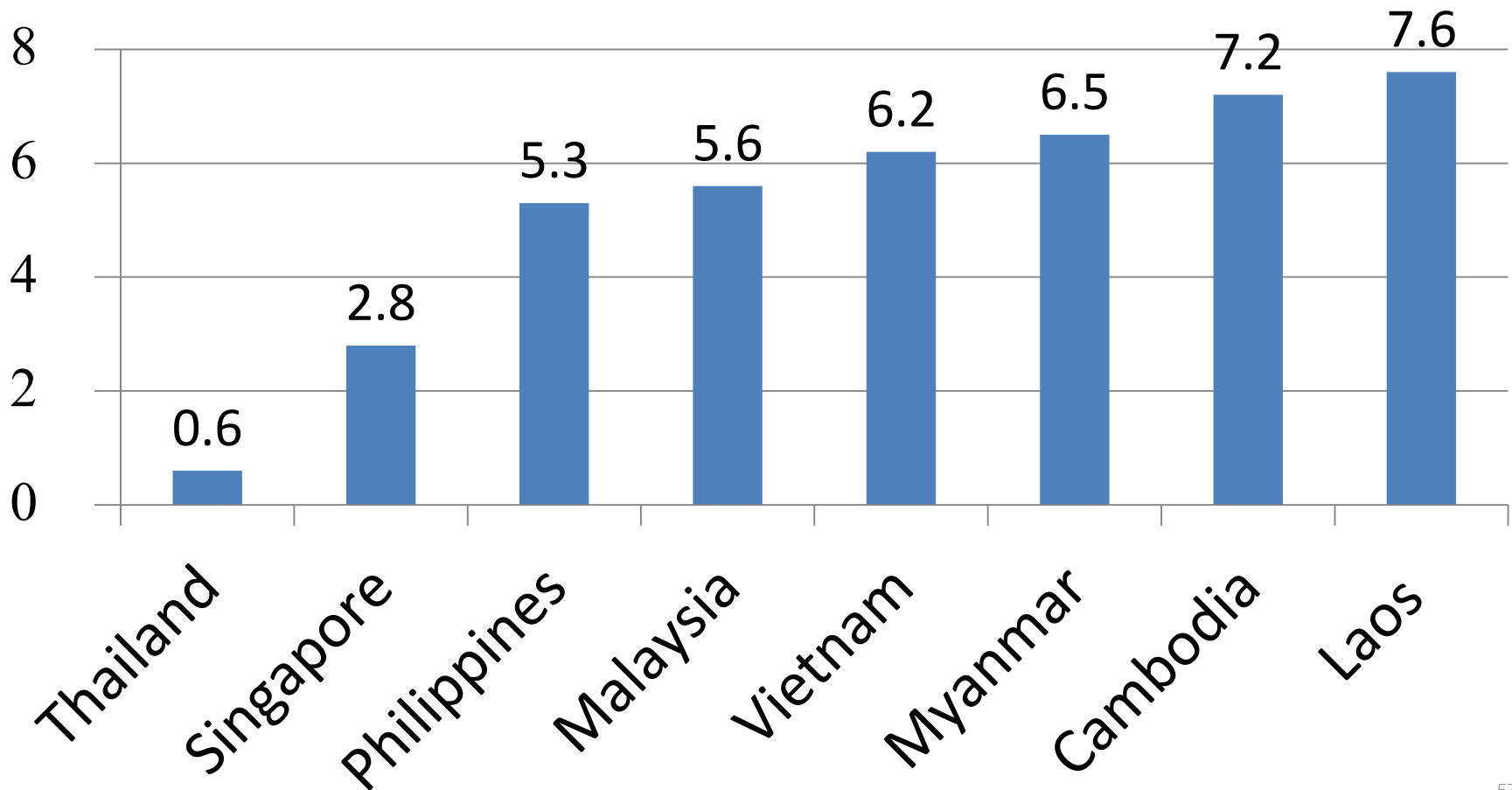
- Thailand's economy was already struggling before the country's military seized power in a bloodless coup on 24 May 2014, saying it needed to restore order after six months of protests aimed at ousting the elected government.
- *“Please give me a bit longer time”* That is the name of the forgotten song after the coup
- The military takeover in 2014 could ensure stability in the short term.

## More challenges for economy after the coup

- But analysts fear the army's intervention will result in Thailand's **political divide** becoming even sharper, holding back the economy and living standards in the longer run.

# The high price of the May 2014 coup

**GDP Growth Rate (Y-o-Y) in 2014**



# FINISH

12 มกรา  
มาช้าแต่มาดี



# Run opposing the PM

Jan 12, 2020



# Thousands rally against Prayut at Suan Rot Fai January 12, 2020

- Gen Prayut's opponents question the fairness of last year's poll under a military-backed constitution. The demonstration, the second notable anti-government rally in a month, evokes memories of Thailand's history of sometimes destabilizing political protests.
- Such turbulence contributed to slower economic growth in Thailand compared with neighbors such as Indonesia and Vietnam, but the political tension for now remains lower than during those past episodes of unrest.

# Concluding remarks

- The long term economic cost of the coup was underestimated.
- Political instability damages economic performance and derails the return to the pre-shock growth path.
- Domestic demand could have been stimulated to offset the shortfall in exports in 2009 caused by the GFC.

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