

EE460: The Thai economy after the coup

2006-2009

Bhanupong

Lecture 7

Outline

- Coups d'état and the vicious circle
- The importance of capital formation
- Animal spirits
- Internal shocks
- Impact of external shocks
- Poverty and politics

Coups galore

- There have been 20 military coups since June 24, 1932, when absolute monarchy was replaced by constitutional monarchy.
- Only nine 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

Coups that succeeded in the 1950s

- Nov 29, 1951: The coup led by Field Marshal Plaek Pibulsongkram against his own government
- Sept 16, 1957 by Field Marshall Sarit to replace Field Marshal Plaek
- Oct 20, 1958 by Field Marshall Sarit to replace Field Marshal Thamom Kittikachorn.

Recent coups that succeeded

- Nov 17, 1971 by Field Marshal Thamom against his own government.
- October 20, 1977 by Adm Sangad Chaloyu overthrew the government of Thanin Kraivichien

The last coup?

- Feb 23, 1991: PM Chatchai was also overthrown by the Gen Sunthorn Kongsompong. in 1991—many people thought it was the last coup as Thailand was considered as a role model of democratic countries in the region.
- September 19, 2006: PM Thaksin was overthrown by the military coup led by General Sondhi.

Timeline of coups d'etat

- **1958 Coup**

General Plaek regime (1948-58) was overthrown by

- General Sarit (1959-63)
- General Thanom (1964-1974)

1971 Coup

Oct 14, 1973

- PM Sanya (1974)
- PM Kukrit (1975)

Another coup, another constitution,
and another election

Oct 6, 1976

PM Thanin

Coup 1977

General Kriangsak

General Prem 1981

Coup 1981

Coup 1985

PM Chatchai

Coup 1991

A vicious circle

And we thought that we saw the last coup in 1991

PM Anan

PM Chuan

PM Banhan

PM Chawalit

PM Chuan

PM Thaksin

Coup 2006

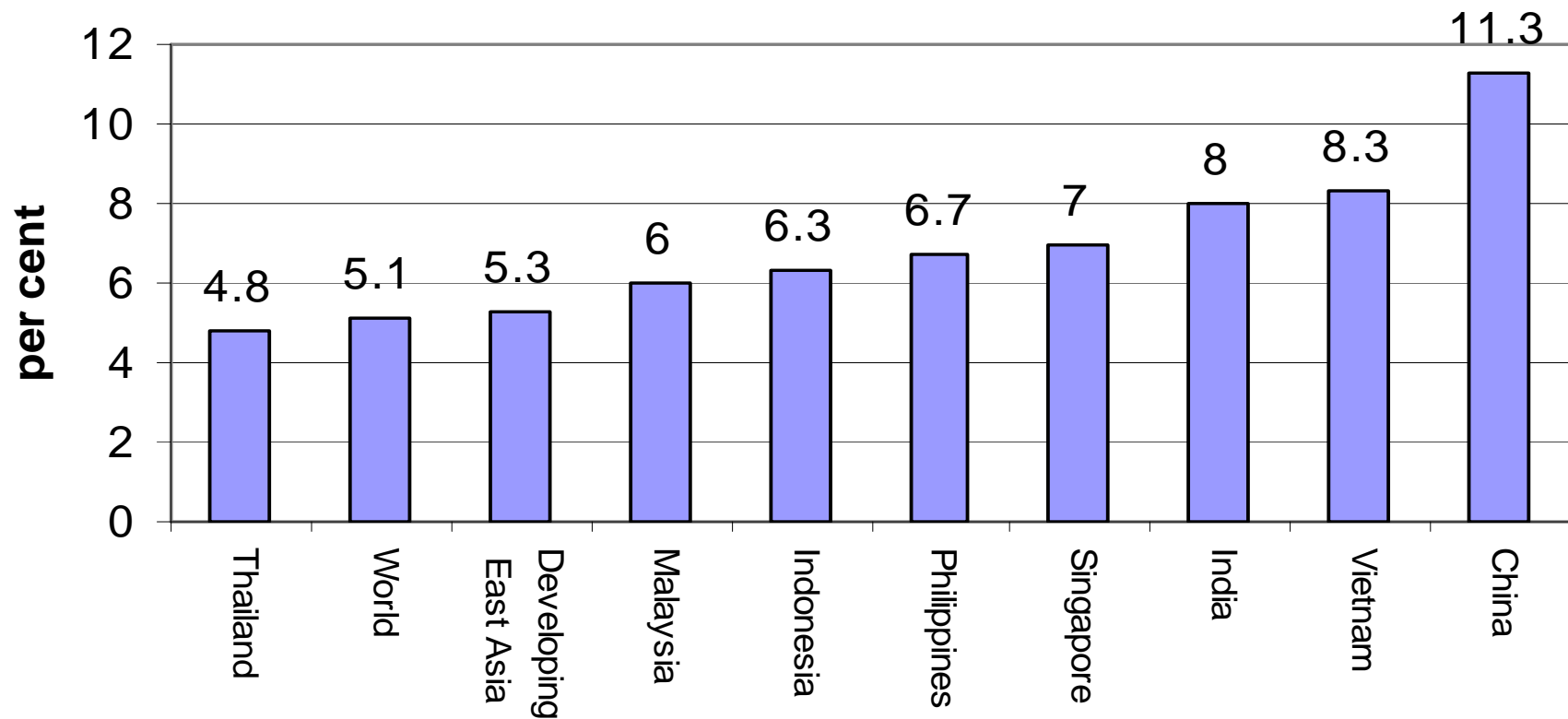
PM General Surayud

Thailand's perennial problems

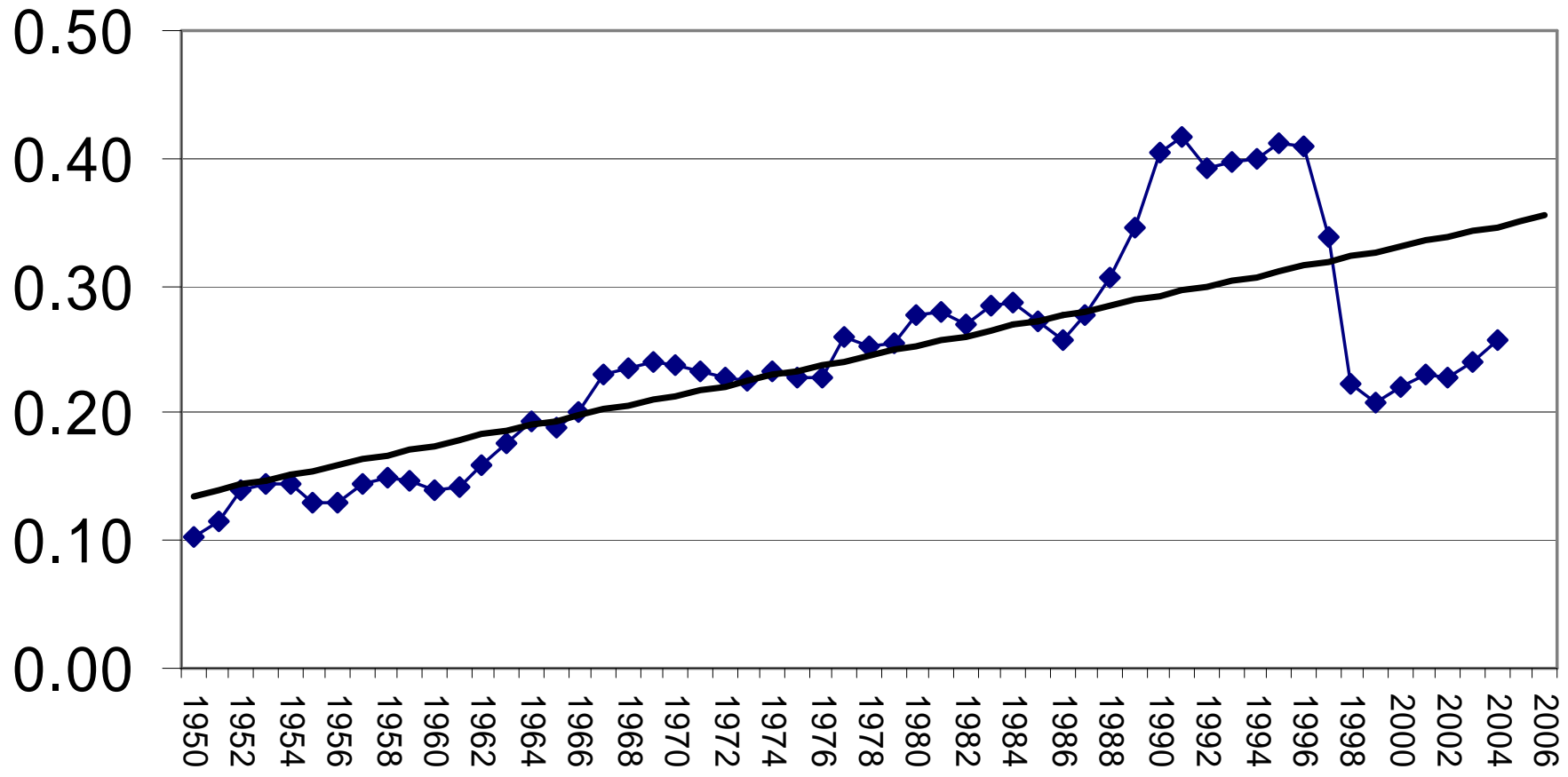
- Exchange rate risks
- Fluctuations of the world economy
- Coups threat and political disturbances
- Southern violence
- Weak governing institutions

The price of the September 2006 coup

Comparison of Growth in 2007



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.

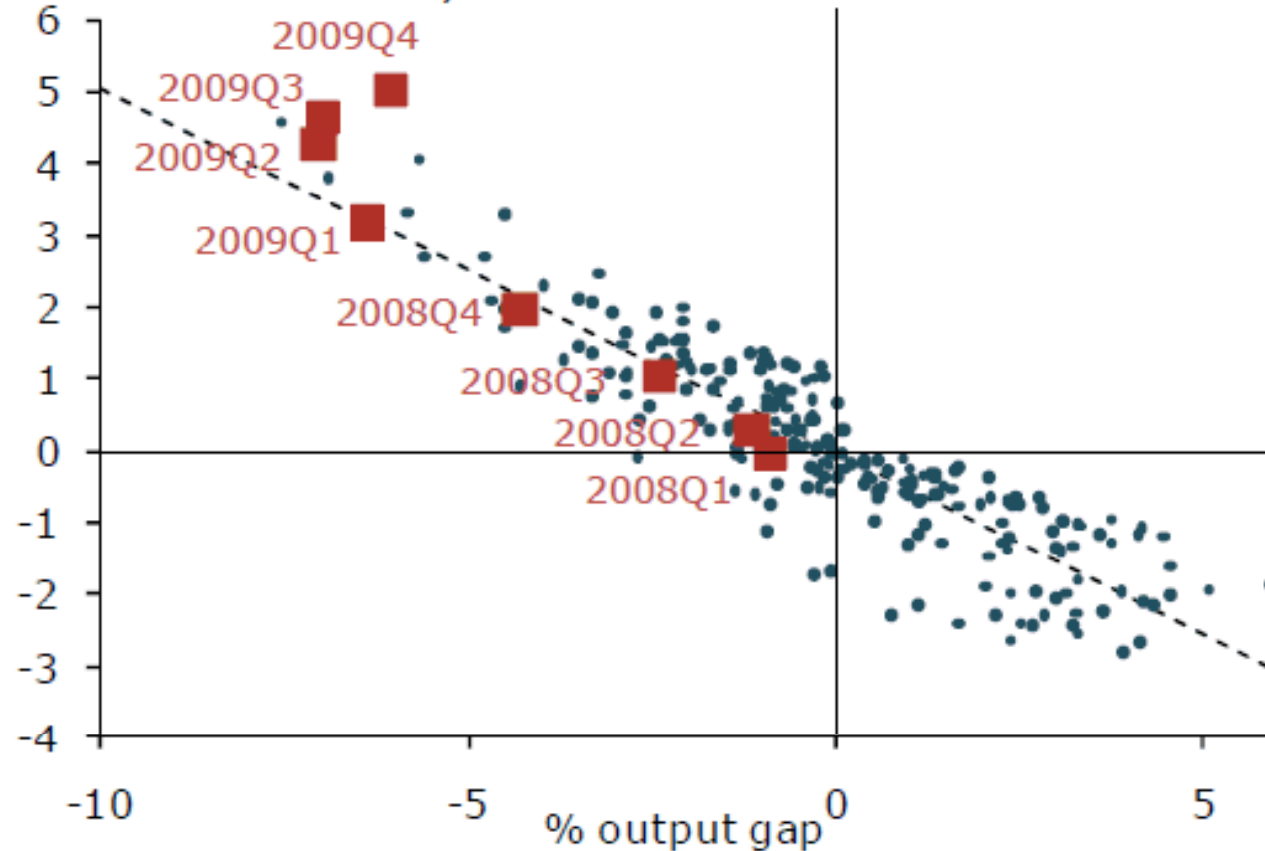
- Okun's Law

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

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

Figure 1
Okun's law before and during the 2007 recession

Unemployment (percentage pt.
deviation from trend)



Sources: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), and Congressional Budget Office.

Animal spirits

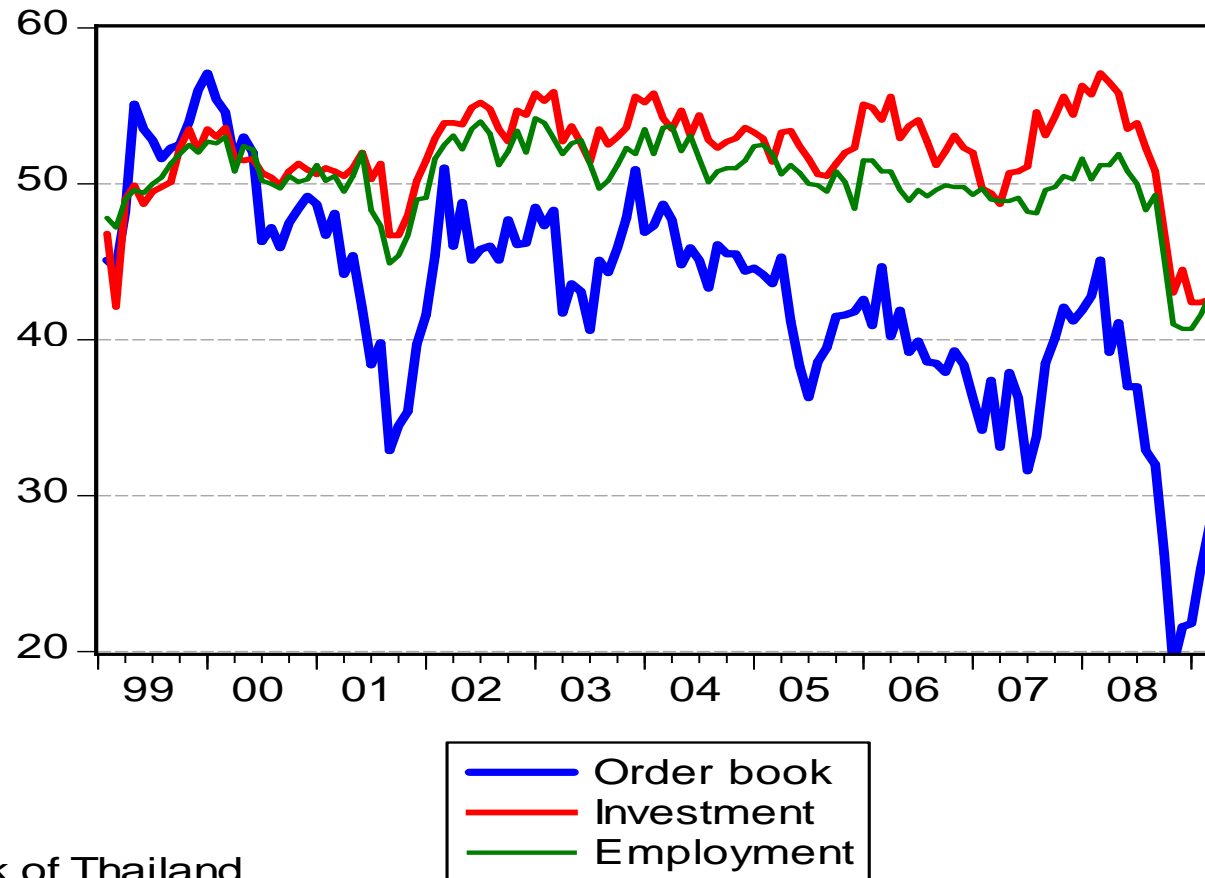
- Akerlof and Shiller (2009) extend Keynes' animal spirits from investor confidence to fear, blind faith, corruption, and a concern to fairness, and the stories we tell ourselves about our economic fortunes.
- *No more double standards*
- *We must uphold fairness and social justice*

Investors and the “Animal spirits”

- Central Retail Corporation (CRC), the country's largest retail operator, temporarily delayed its 10-billion-baht investment plan in 2009 because the economic and political situation was unstable.
- In 2008, the company's sales rose just 4% from the year before, down from 8% in an earlier projection. In December alone, sales fell by 5%.
- Source: Bangkok Post, 21 January 2009

Business sentiment Index

How can we rekindle favorable investment climate?



Source: Bank of Thailand

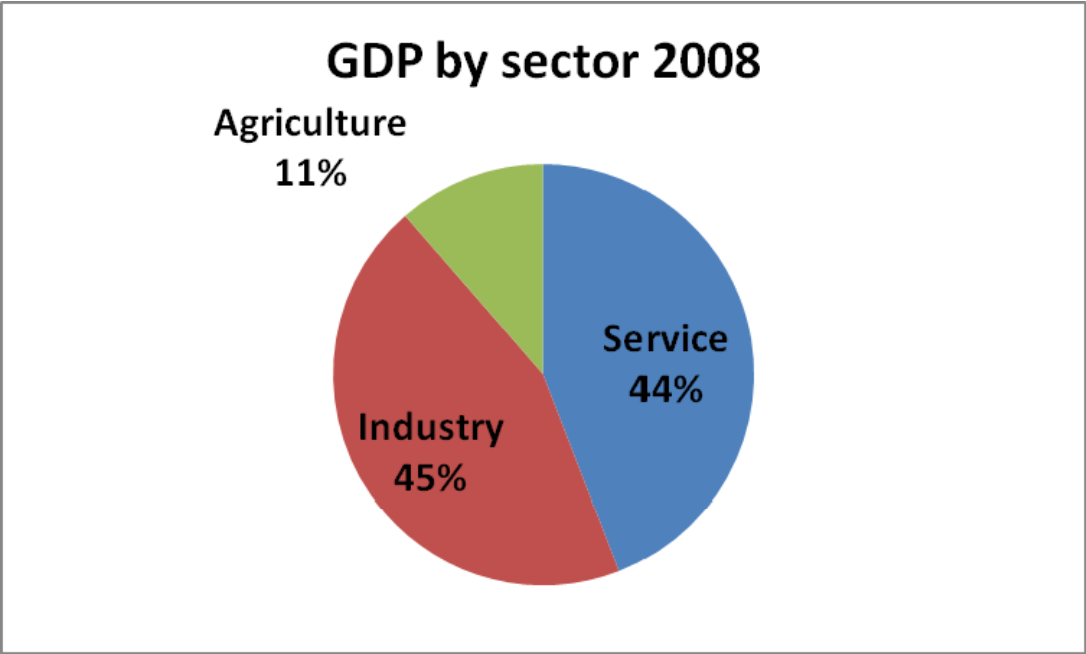
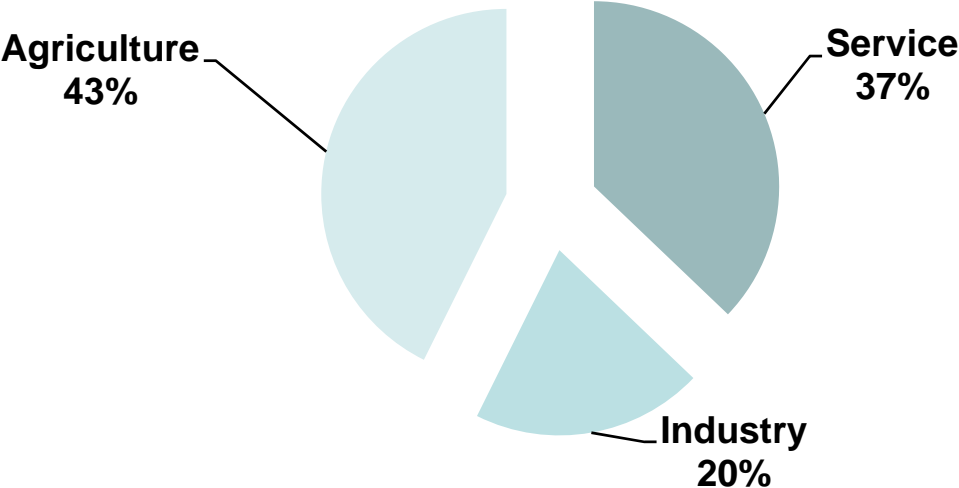
Why do we need to expand output continuously and steadily?

- The powerful compound interest.
- Small differences in growth rates make enormous differences in levels of potential output over a few decades.
- Employment is related to economic growth

To raise the standard of living
the economy must expand continuously

	$g = 1\%$	$g = 3\%$	$g = 7\%$
Year 0	100	100	100
Year 10	111	135	201
Year 30	135	246	817

Labor force by occupation (2005)



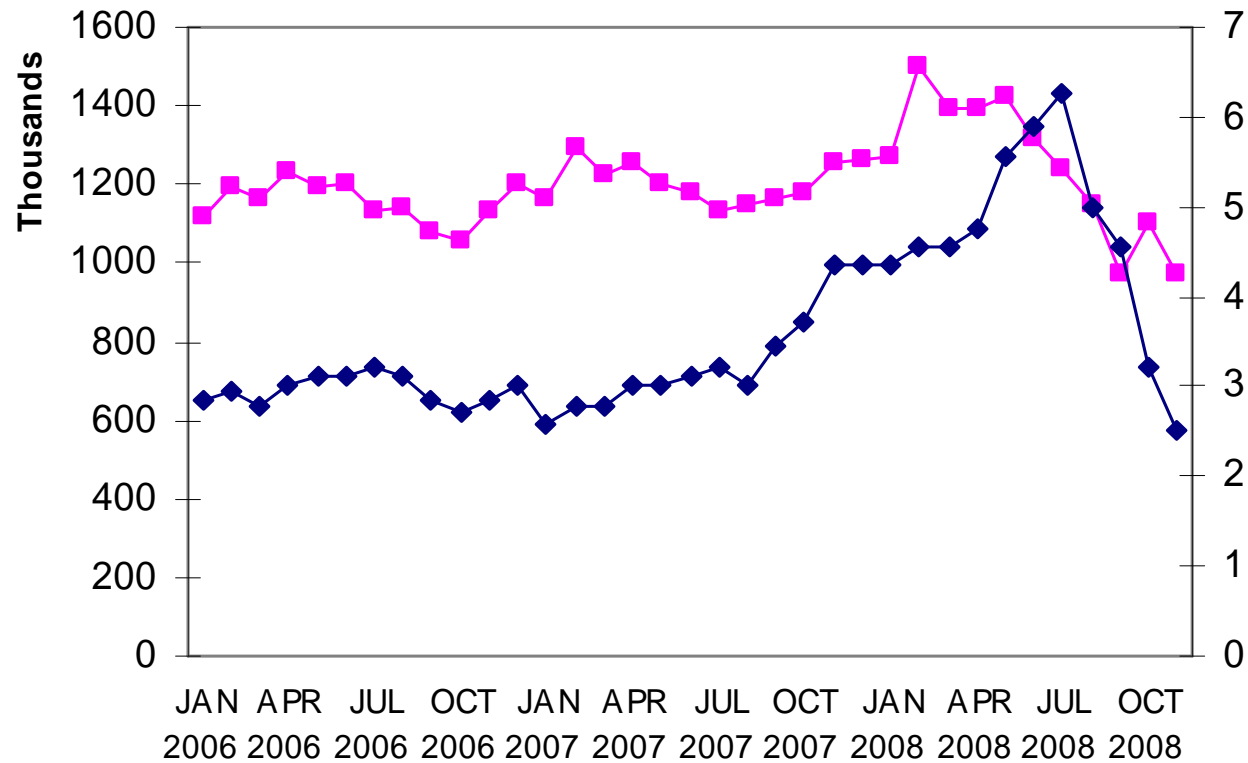
Monthly average wage by industry

Q4 2008

	baht	dollar
Agriculture	3,679	105
Manufacturing	7,847	224
Hotel and restaurants	7,141	204
Financial institutions	22,195	634

Internal shocks: service sector

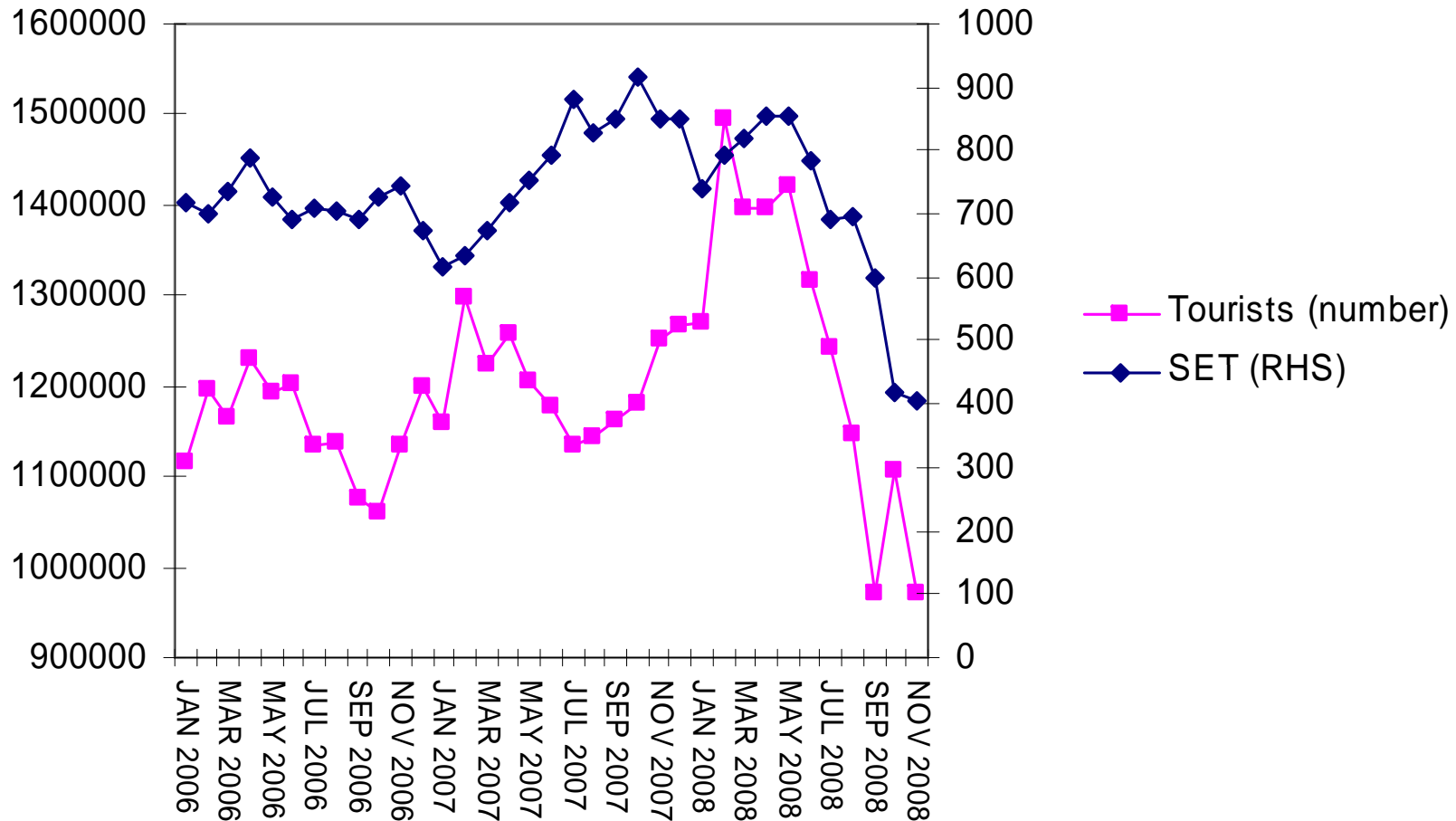
Tourism industry and oil prices



Source: Tourism Authority and MOC

—■— number of foreign tourists —◆— oil price index

Stock Exchange of Thailand

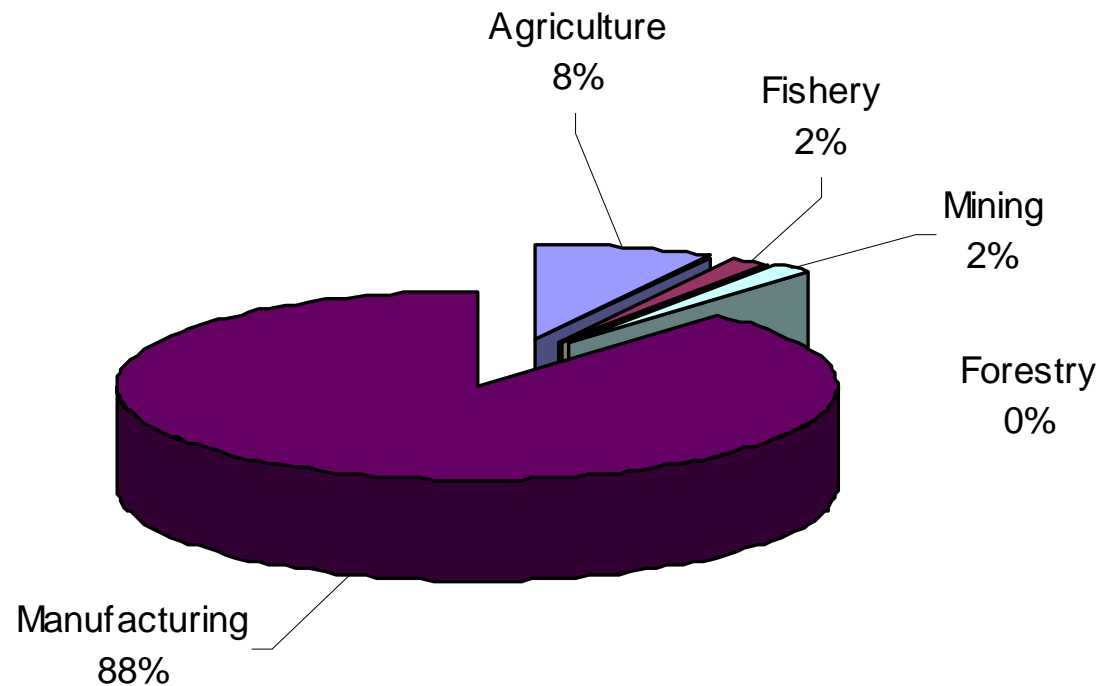


The airport shutdown

- The tourism industry was hit after anti-government protesters shut down Bangkok's main airport for eight days from Nov 25, 2008 stranding 400,000 travelers during the peak tourism season and contribution to a 22% decline in December tourist arrivals.
- The closure cost the country about **290 billion** baht in lost income, according to the Bank of Thailand (7 January 2009)

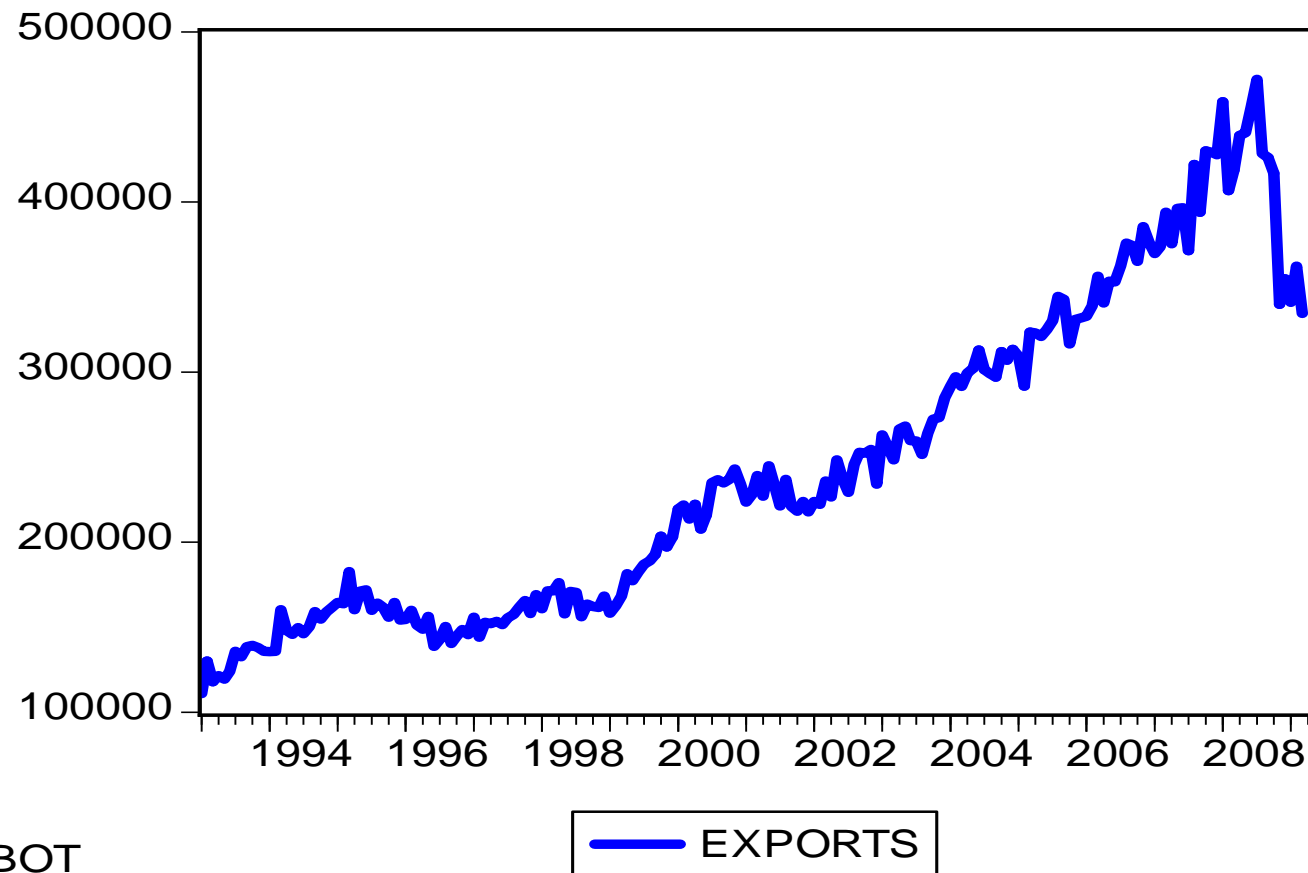
The export-led growth

Export structure: 2006



■ Agriculture ■ Fishery ■ Forestry ■ Mining ■ Manufacturing

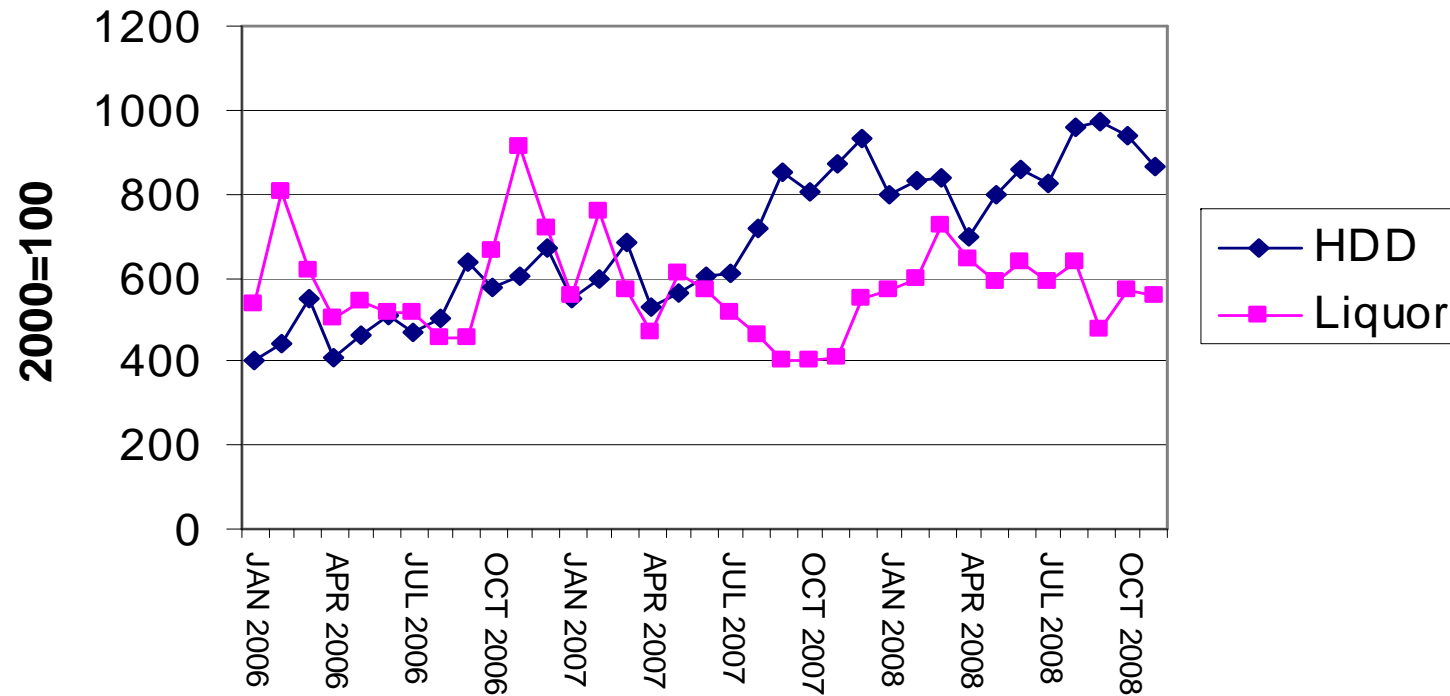
The collapse of the last engine of growth



Source: BOT

Star performers

Manufacturing Production



Source: Bank of Thailand

At Seagate

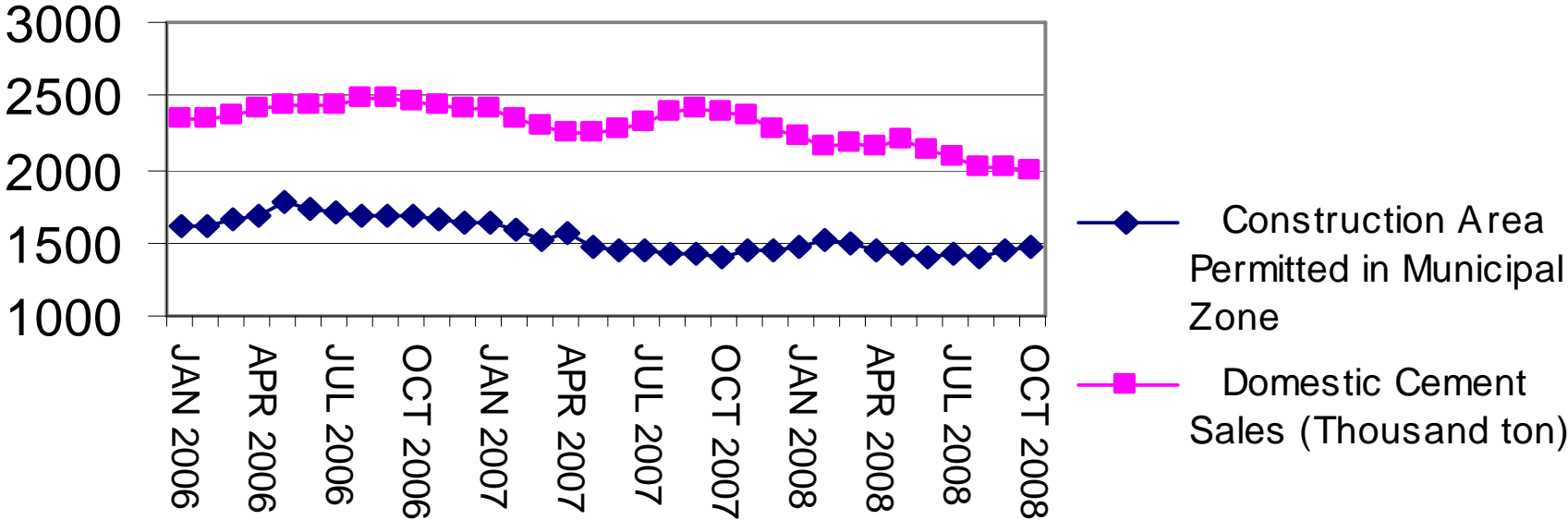
- At least **6%** of Seagate Technology Inc's 13,000 employees in Thailand were laid off as part of a global workforce reduction by the world's top hard-disk drive (HDD) maker.
- The company offered a **voluntary** retrenchment program to the 13,000 people who work at its factories in Nakhon Ratchasima and Theparak district in Samut Prakan.

Points to ponder

- Time to abandon the export-led growth model?
- What would be an alternative development strategy?
- What makes the Asian economies lead the global recovery?

Slowdown in the property sector

Construction investment (mb at 2000 prices)



Source: BOT

Fiscal budget under the military-backed government (Gen. Surayud)

	FY 2007	FY 2008	% Change in value
Defense	7.3	8.6	24.3
Education	18.0	18.1	6.7
Public health	4.0	3.9	4.7
Central fund	12.6	14.8	24.3
Agriculture	4.1	3.9	0.6
Total amount (bill baht)	1566.0	1660.0	6.0

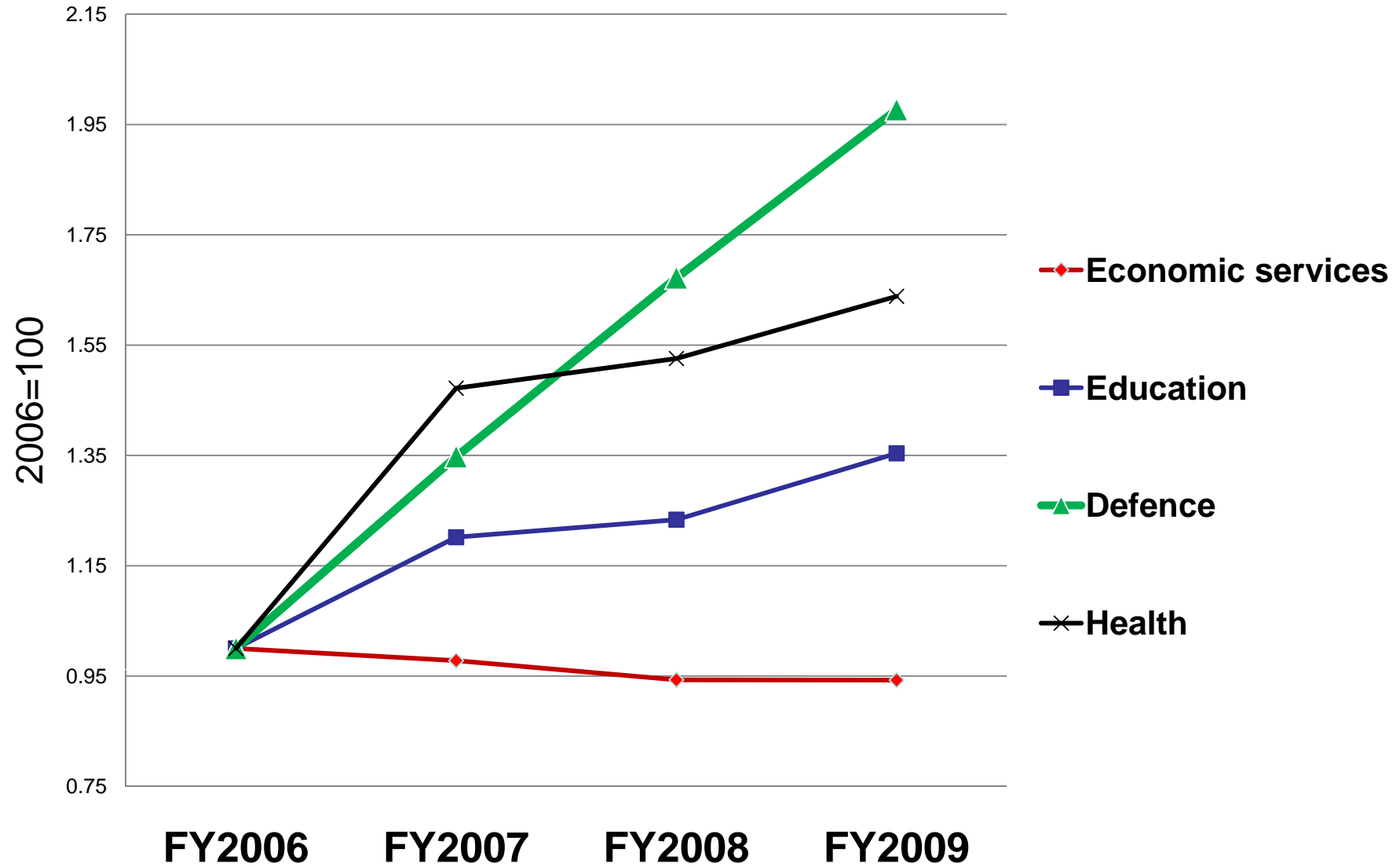
Defense spending and health capital

- 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.

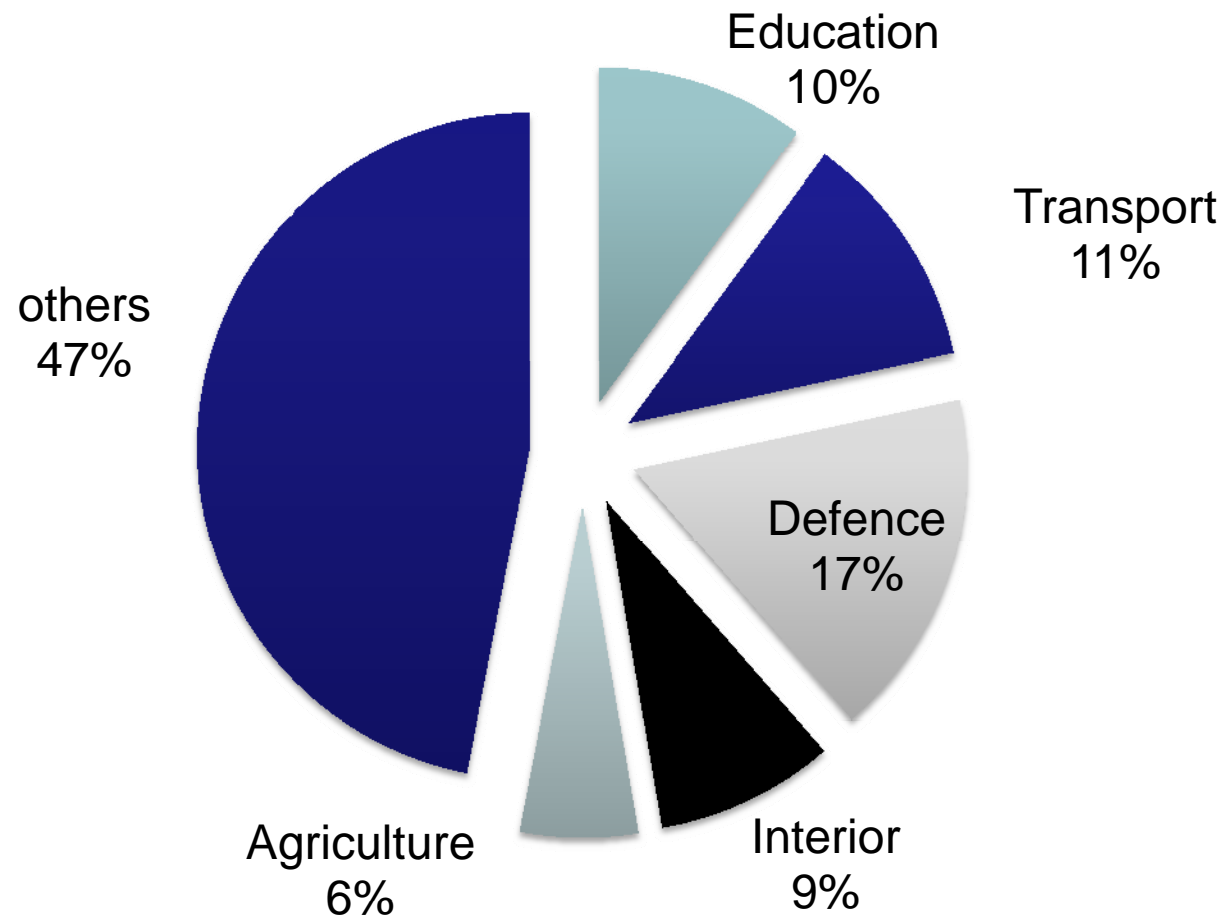
- Grossman, M (1972) *“On the concept of health capital and the demand for health”*
- Journal of Political Economy, 223-255.

Budget appropriation after the coup

Source: BOB



Total multi-year commitment budget FY 2008-2012



Conclusion

- The long term economic cost of the coup was underestimated.
- Political instability damages economic performance and derail the return to the pre-shock growth path.
- Domestic demand must be stimulated to offset the shortfall in exports.