

# Military Business Cycle, Coups, and Economics of Corruption

Bhanupong  
Lecture 26

# Our great quotation

- **“If we want peace for our nation, we must be readily prepared for wars.”**



“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.”

# 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

# Australia is buying 12 new submarines from France for \$39 billion

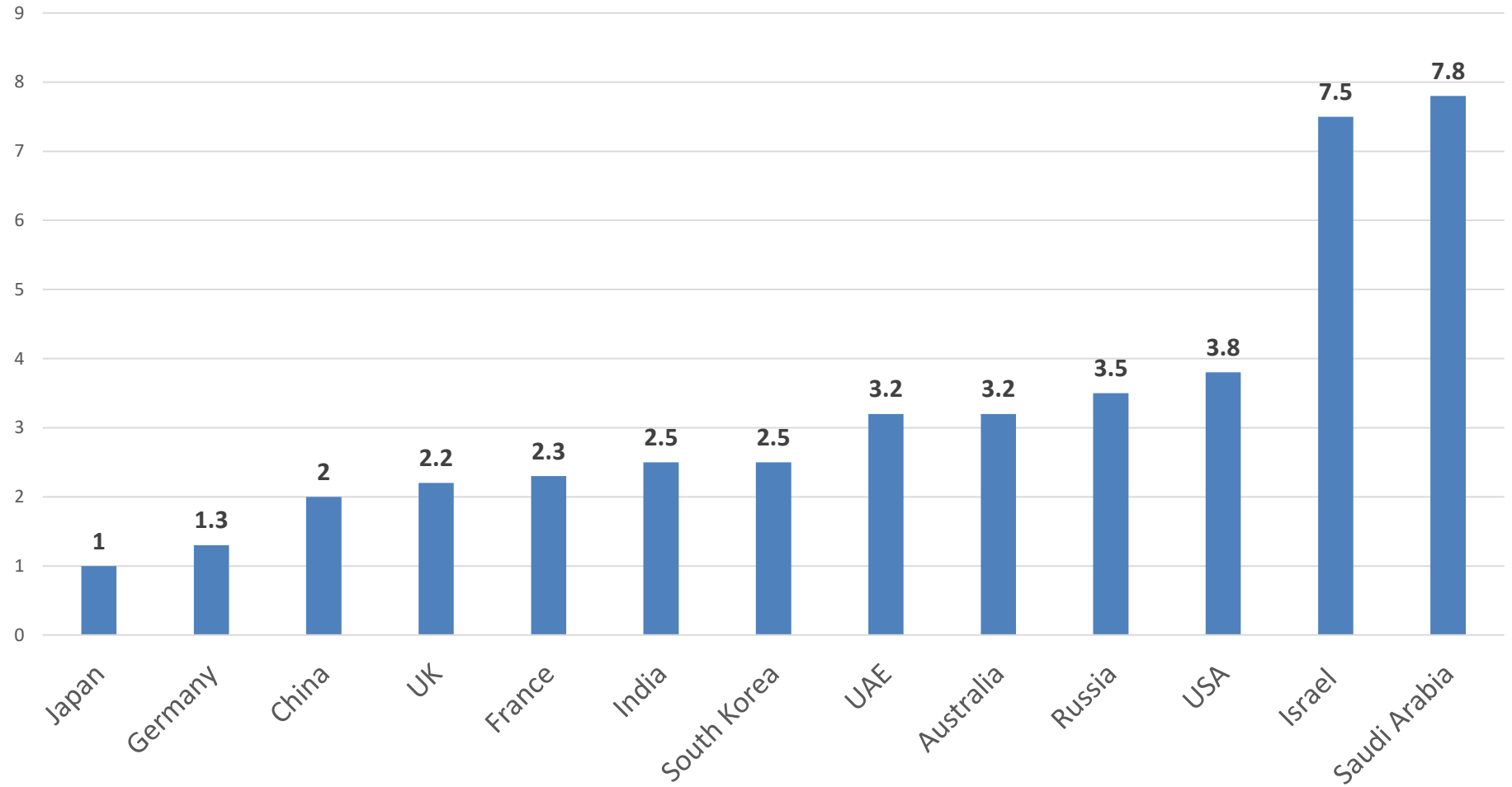
- Australia has ordered 12 new submarines at a cost of \$39 billion, becoming the latest nation to upgrade its fleet in a region where the seas are getting crowded.
- The arms race has been underpinned in part by the region's growing economic power.
- While defense spending in Europe is basically flat, ***Asian countries are increasing their military budgets by 5% each year.***

# Son Won-il Type-214



South Korea's current submarine force consists of nine Chang Bogo Type-209 submarines and five Son Won-il Type-214 boats with plans to build four more. South Korea's plans also include the possibility of building additional submarines based on indigenous designs and technologies. South Korea's submarines are diesel-electric, which means they have limits to how long they can operate submerged. Type-209 submarines can stay submerged for two to three days while the Type-214 is equipped with air-independent propulsion and able to remain underwater for two weeks or more.

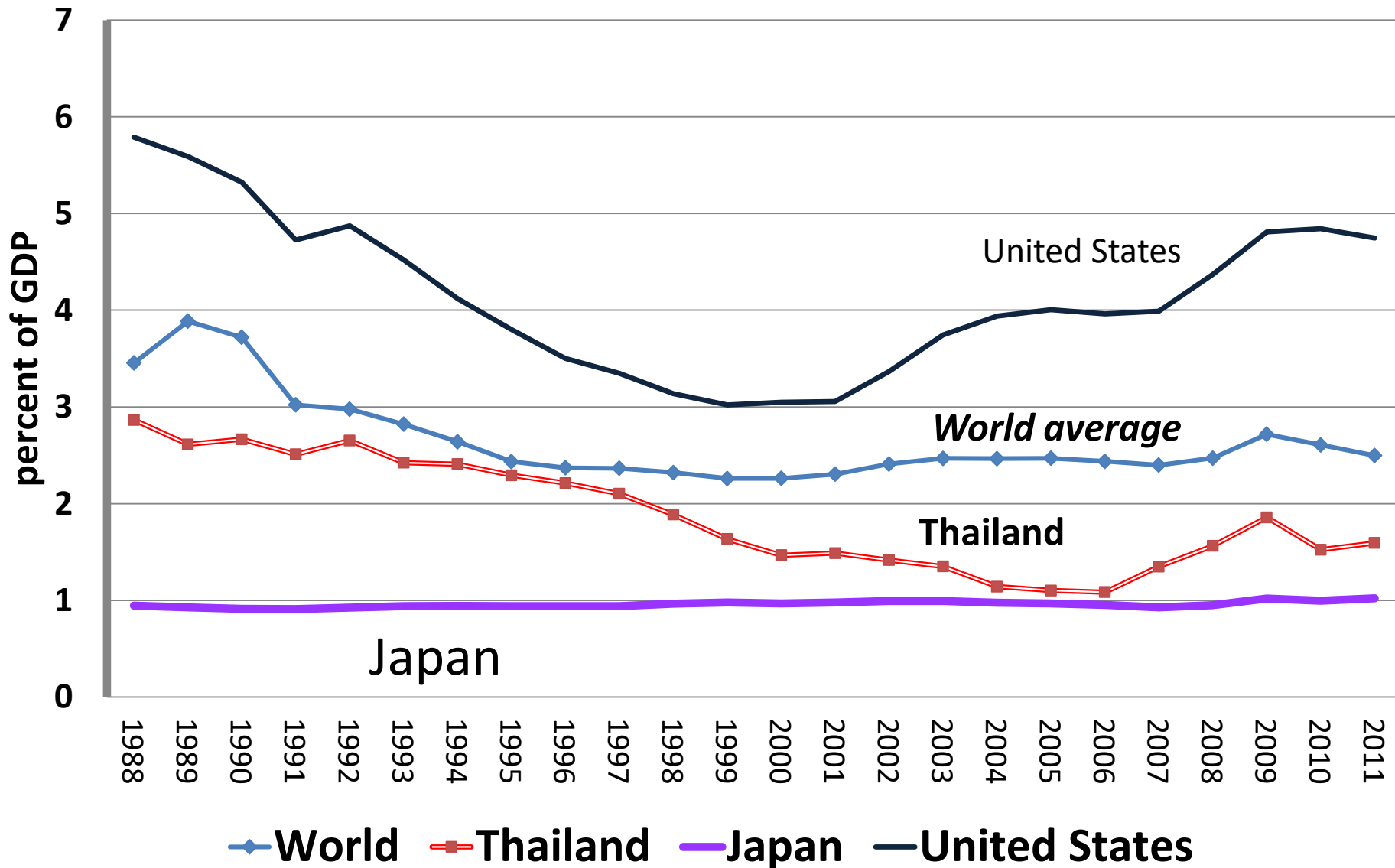
# Military Spending 2015 (%GDP)



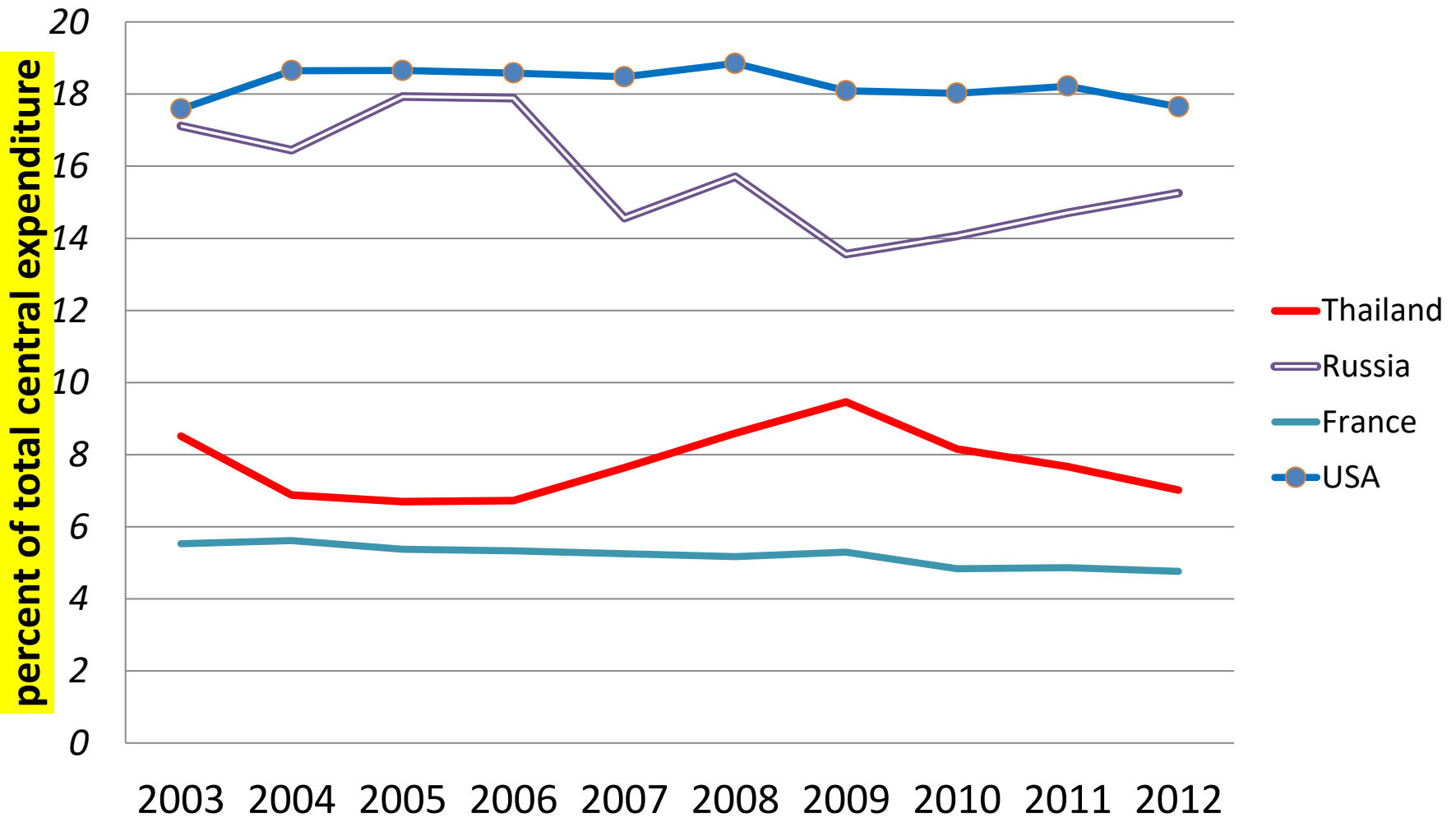
# 1. Determinants of military spending

- 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.

# Military Expenditures



# Budget Share of Military Expenditure



# 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 used at the end of the Cold War, when many Western nations significantly cut military spending.

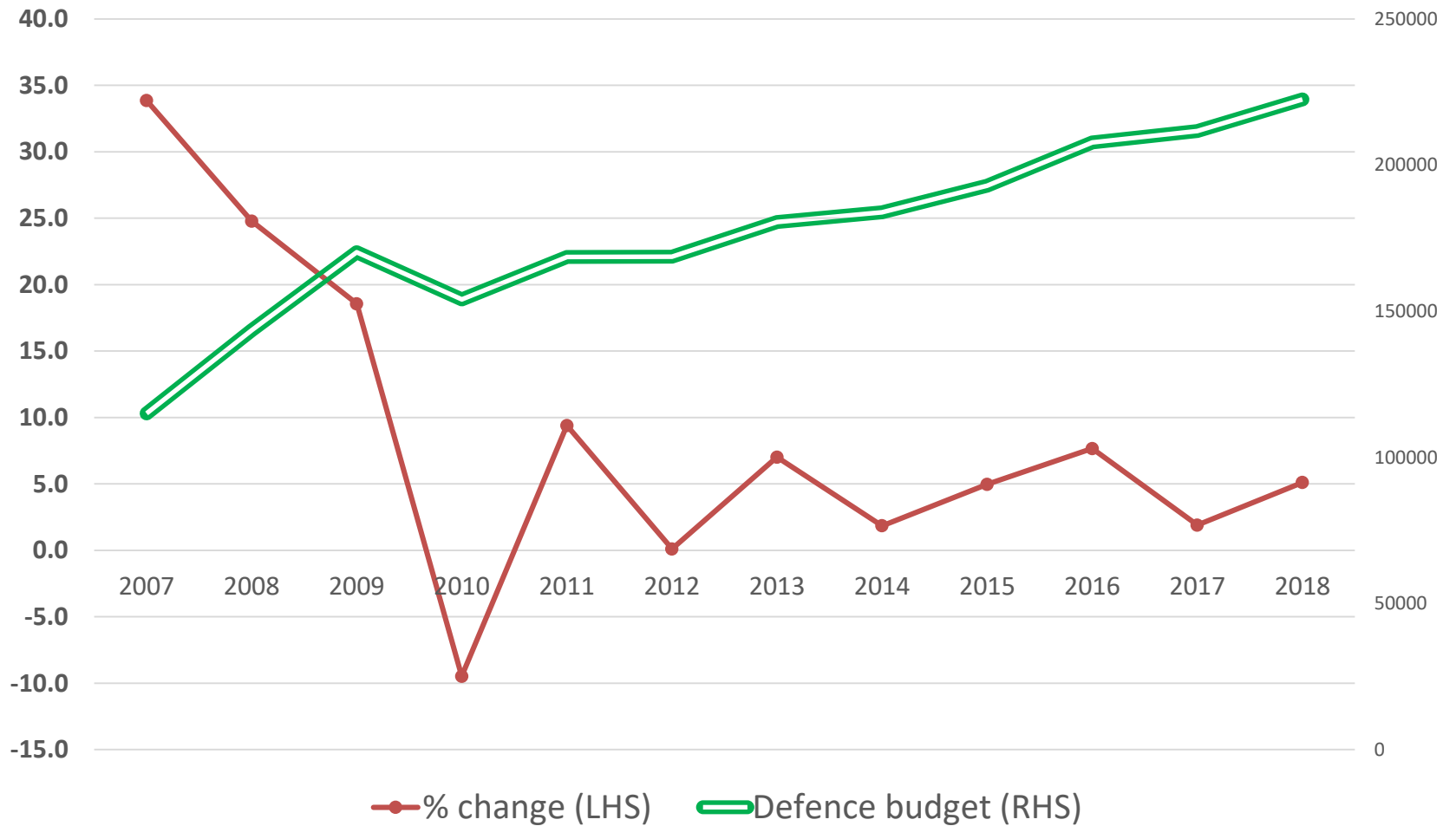
## 2. Political Business Cycle

- 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 the coups (PM name)

- 1971 (General Thanom)
- 1976 (Seni)
- 1977 (Thanin)
- 1981, 1985 (General Prem, coup attempts)
- 1991 (Chartchai overthrown by General Suthorn, Feb 1991)
- 2006 (Thaksin overthrown by General Sonthi, Sep 19, 2006 )
- 2014 (Yingluck overthrown by General PCOC, May 22, 2014)

# Thailand's Defense Budget (million baht)

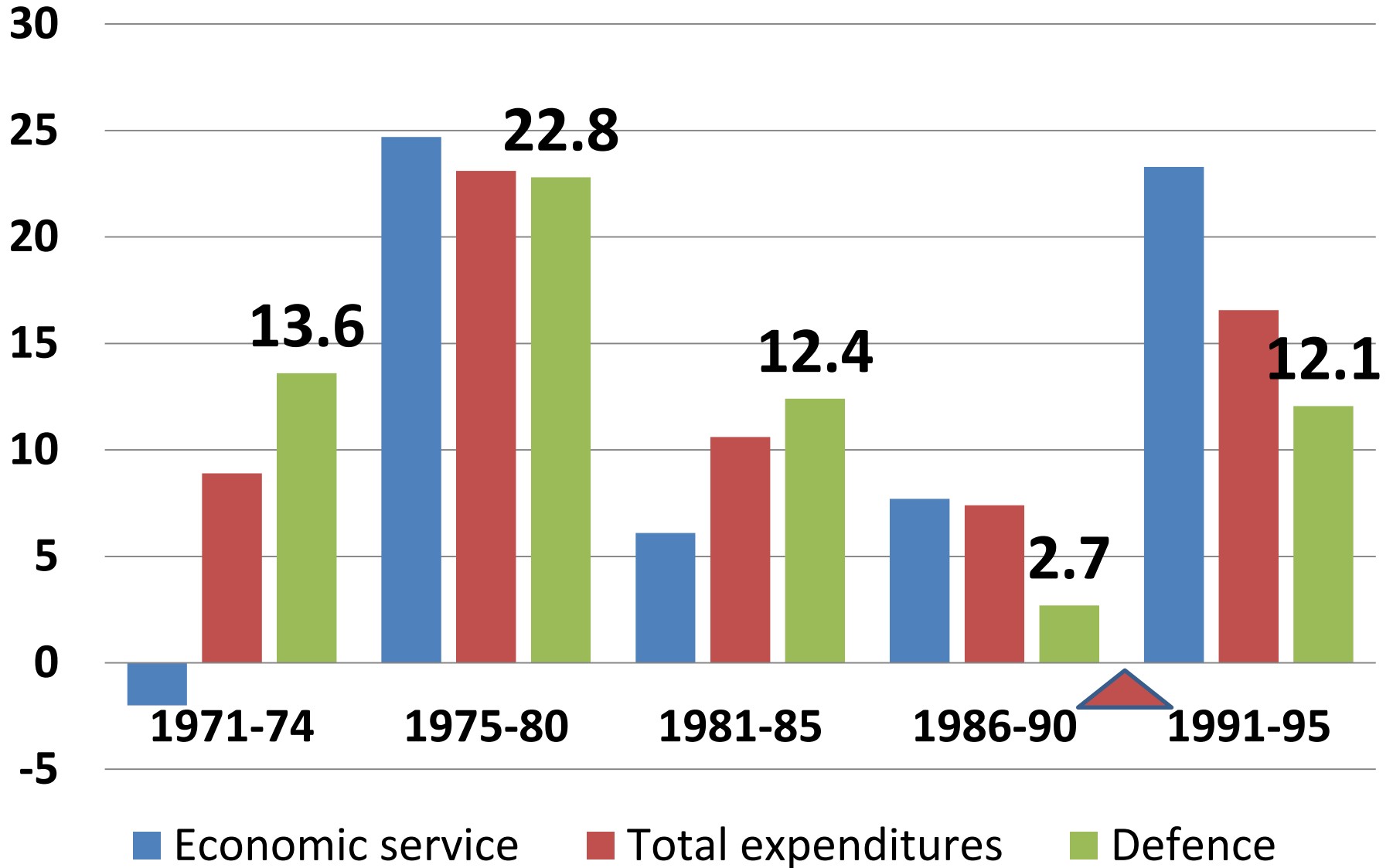


# Hypothesis of military business cycle

- ***Military spending slump is a leading indicator of a military coup in Thailand***
- Military spending rises rapidly after a military coup and slowly dies off as a democratic government is elected under a new constitution.

# Military Business Cycle

(period average growth rate)



# A marketing gimmick

- Too low military spending may be dangerous to democracy because the military need to be pacified.
- Are the justifications for the 2006 coup the same as those in the 2014 coup?
- Indiscipline and defiance to the rule of law have a long lasting impact, causing addiction to military coup.
- Political dynamics would make it difficult to cut current (consumption) spending in the future.
- Fiscal discipline has been neglected in the pursuit of short-run political gain at the expense of the long-term economic growth and stability (dynamic inconsistency problem).
- Ultra-populism policy can be a legal means of vote buying or returning “happiness” to pacify the masses.
- We seldom hear the word “happiness” lately.

# Seemingly transparent procedures

- 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)

# 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.
- Even with rational voters, ***strategic ambiguity*** may create advantage for policy makers in pursuing their goals (Rogoff, 1990).

# Creative fiscal policy

- Creative and strategic use of what is kept in and off the budget.
- Optimistic prediction on key macroeconomic variables (confirmed by the next slide).
- ***Optimistic forecasts of the effects on the budget of various new policies.***

# Fiscal indiscipline

- Rule of fiscal prudence must not be ignored.
- Multi-year budget is detrimental to fiscal flexibility and efficiency.
- Non-transparent budgetary procedures conceal corruption.

# 3. Growth and institutional efficiency

- Revolutions and coups, political assassinations **tend to lower long-term growth** (Barro, QJE 1991)
- This is true for the most recent coups in Thailand.
- Institutional inefficiency retards economic growth.

# Indicators of institutional inefficiency

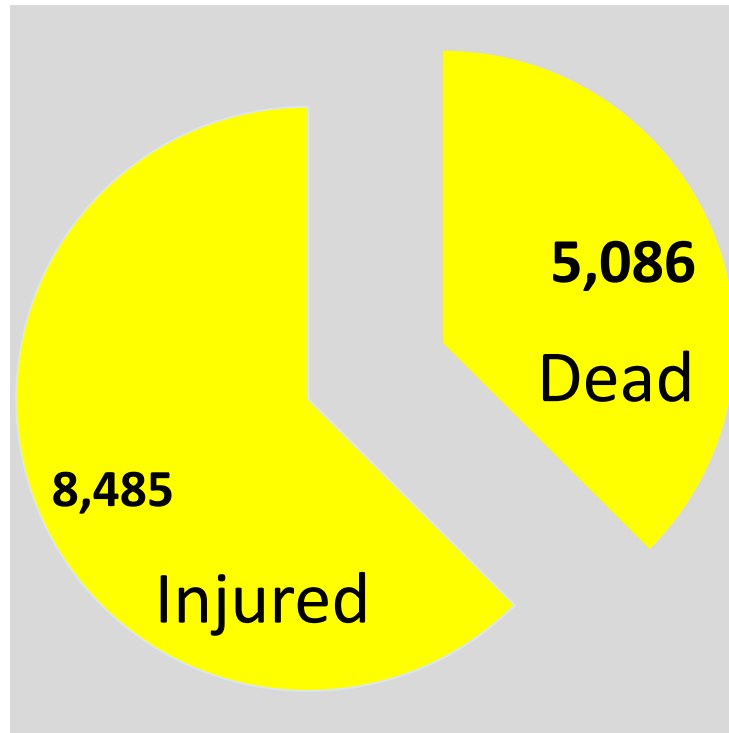
Mauro (QJE, 1995)

- **Political changes:** Possibility that institutional framework will be changed within the forecast period by elections or other means (e.g. military or/and juristic coup).
- **Political instability:** Conduct of political activity and the degree to which the orderly political process tends to disintegrate or become violent.

# Indicators of institutional inefficiency

- **Probability of opposition group takeover** (a snap election or dissolve the parliament )
- **Instability of labor market:** Degree to which labor represents possible disruption for manufacturing or business activity.
- **Conflicts with neighboring countries**
- **Terrorism**

# Southern Violence: Number of dead and injured 2004-2012

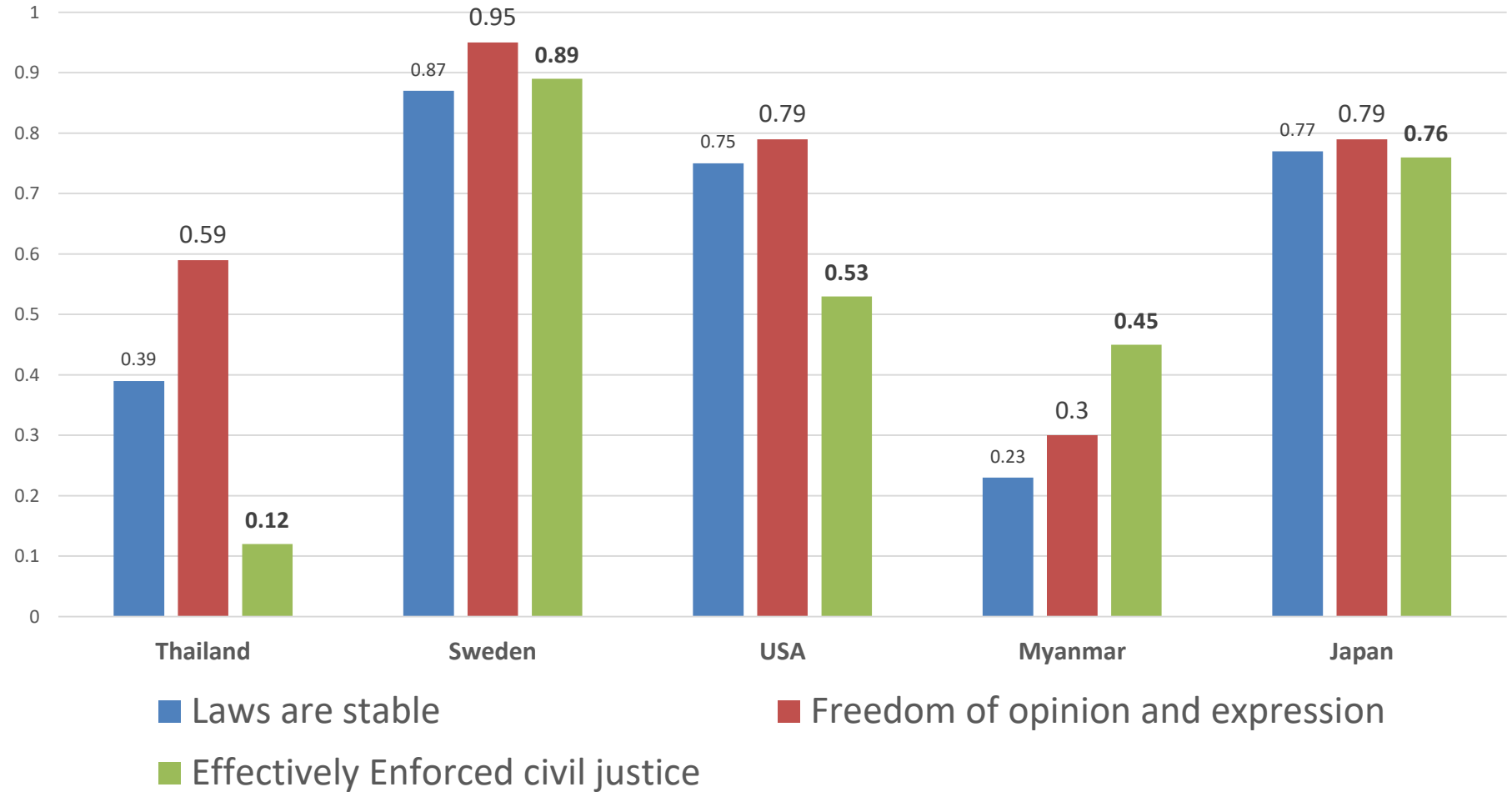


# Further Indicators of inefficient institutions

- ***Legal system, judiciary***: Efficiency and integrity of the legal environment because it affects business uncertainty and risks.
- **Bureaucracy** and ***red tape***

# Rule of Law Index: 2014

Source: [www.worldjusticeproject.org](http://www.worldjusticeproject.org)



## 4. Macroeconomics of Corruption

### Further Indicator of ineffective institution

The degree to which business transactions involve corruption or questionable payments

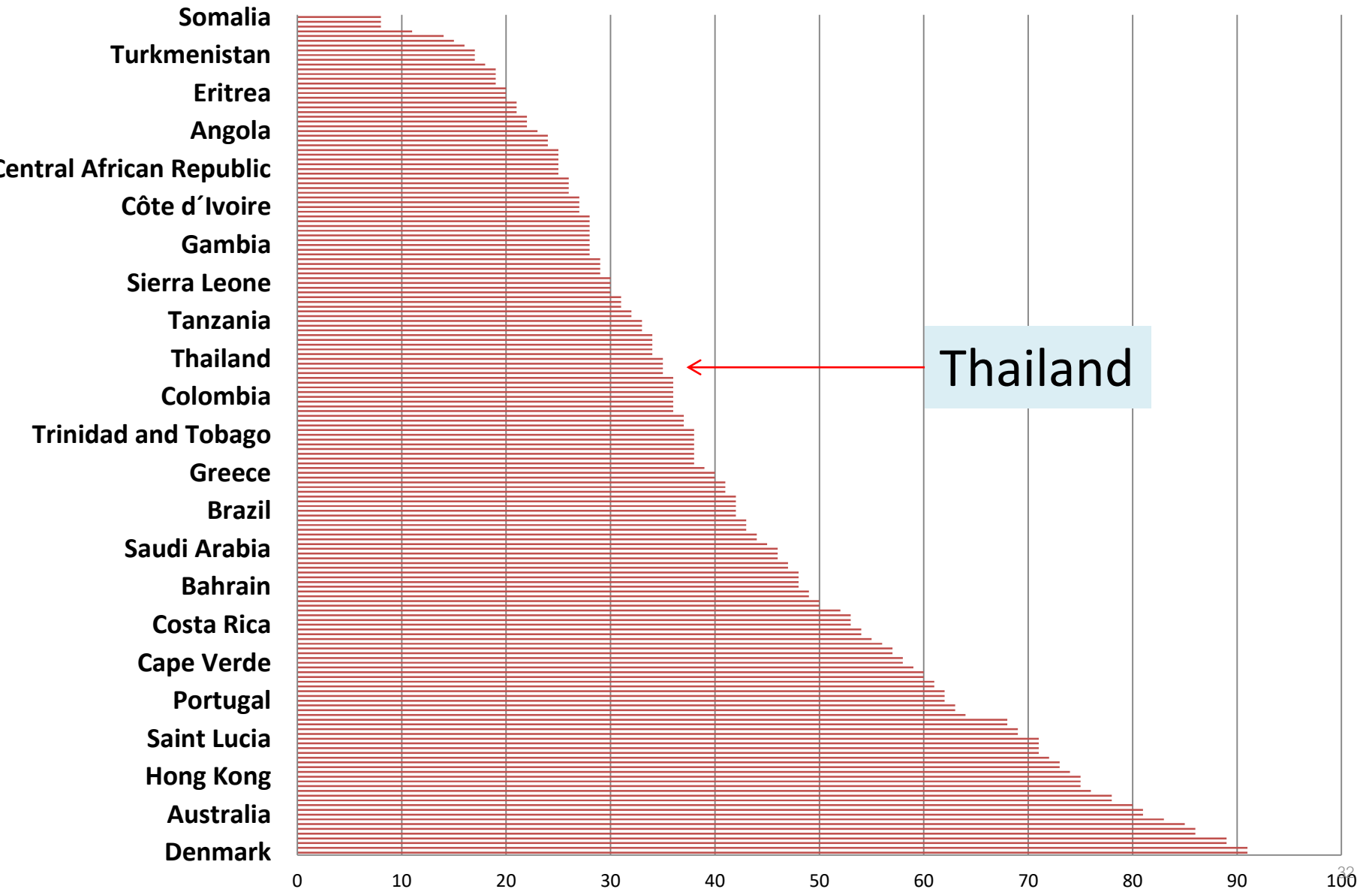
Corruption Perception Index (CPI)

# Corruption Perception Index: 2013

	score	Rank (177)
Somalia, N. Korea	8	175
Thailand	35 < 50	102
China	40	80
USA	73	19
Japan	74	18
Netherlands	83	7
Singapore	86	5
Denmark	91	1

Corruption can lower investments by reducing the private **marginal product of capital**; thereby lowering economic growth rate.

# Corruption Perception Index: 2013



# Bay tong, Yala, 2014



**The UK GT200 distributor was found guilty of fraud  
But Thailand purchased GT 2000 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)

# The Army's GT200

## Detecting *golf balls or bombs?*

- A bomb-dowsing rod: The GT200 devices have proved worthless at finding explosives. (**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 last night to make it work properly”





## 5. Thailand's imported war machines A multi-billion-baht boondoggle

- 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 [Bazán](#), *Chakri Naruebet* was ordered in 1992, launched in 1996, and commissioned into the Royal Thai Navy in 1997.

# Thailand's first aircraft carrier

- The flagship of the Royal Thai Navy and Thailand's first and only aircraft carrier.
- The aircraft carrier HTMS Chakri Naruebet was sent out to rescue people stranded on islands like Koh Tao.
- Requires a vertical takeoff aircraft

# HTMS Chakri Naruebet



# China's first aircraft carrier: Laioning



# USS Carl Vinson



FILE - In this March 15, 2017 file photo, U.S. Navy aircraft carrier, the USS Carl Vinson approaches to participate in the annual joint military exercise called Foal Eagle between South Korea and the United States, at Busan port in Busan, South Korea. The Pentagon says A U.S. Navy aircraft carrier strike group is departing the South China Sea to provide a physical

# List of aircraft carriers by country

Country ↕	In service ↕
 Argentina	0
 Australia	0
 Brazil	1
 Canada	0
 China	1
 France	1
 Germany	0
 India	2
 Italy	2
 Japan	0
 Netherlands	0
 Russia	1
 Spain	1
 Thailand	1
 United Kingdom	0
 United States	10

# The 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.
- The Gripen has never effectively flown in combat.

# The Gripen



# 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.

# Real Fear? Too heavy 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 care for environment: 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 too, 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.

# Ukraine BTR-3E1 armored personnel carrier(APC).

- The purchase of the Ukrainian armored cars was another expensive exercise in poor military judgment.
- Altogether 535 units were bought at an average price of one million baht apiece;

# Ukraine BTR-3E1

The **BTR-3** is an 8×8-wheeled [armored personnel carrier](#) was designed by Adcom Manufacturing from [UAE](#) in 2000/2001 and manufactured in [Ukraine](#)



ins/c/c9/BTR3.jpg

# Ukraine BTR-3E1

- 96 BTR-3E1s delivered with the price tag of 4 billion baht, 120 more on order from Ukraine.
- The first 2 of 96 BTR-3E1 have been delivered at U Tapao Airport on 17 September 2010.
- The second batch of 121 BTR-3E1s with a price tag of 5 billion baht have been ordered by Royal Thai Army and 14 BTR-3E1s have been ordered by Royal Thai Army
- October 2017, 49 Oplot Ukraine tanks were delivered

# 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.

# 28 more Chinese tanks: VT-4

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.

# 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.

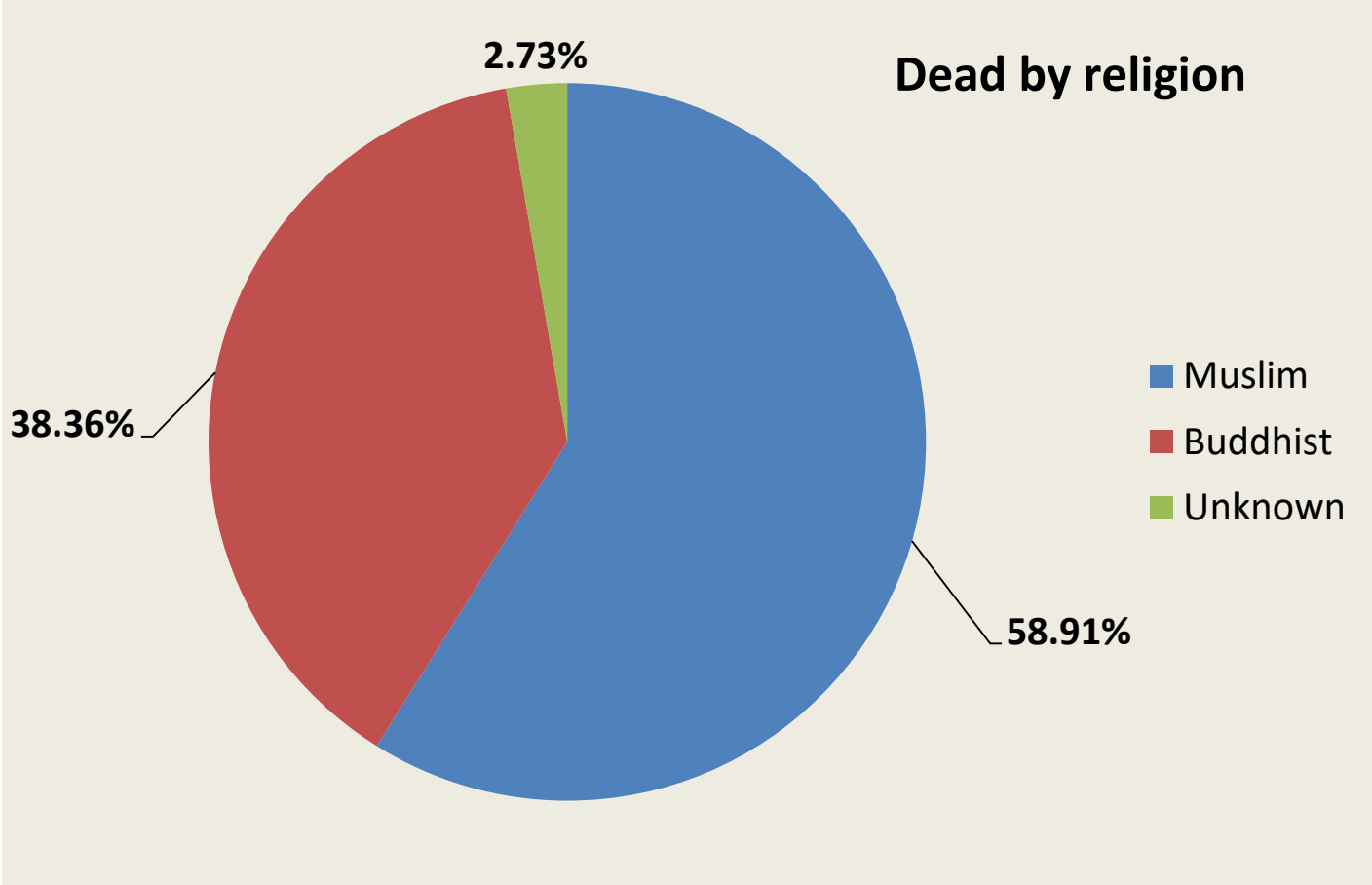
Military hardware produced in the US and other Western countries is high quality but also expensive.

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

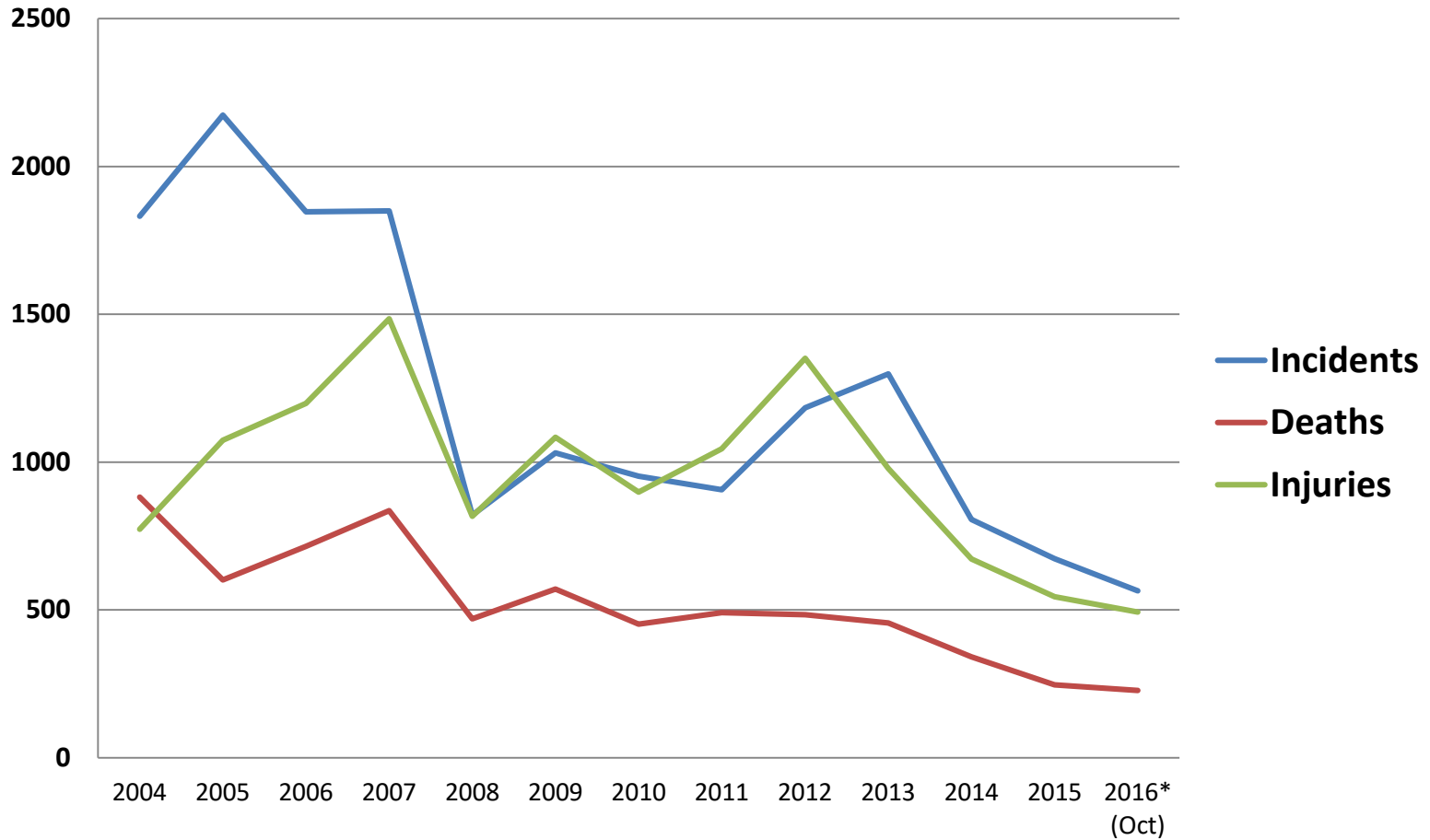
Still, the US had previously not offered to sell weapons to Thailand due to the US's own legal restrictions on selling weapons to Thailand since the coup, he said.

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

# Violence in the South (2004-2012)

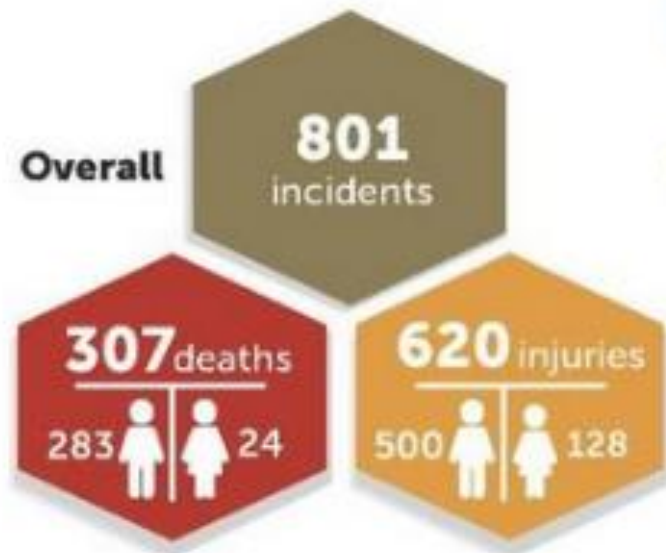


# Number of deaths and injuries stemming from attacks in the deep South

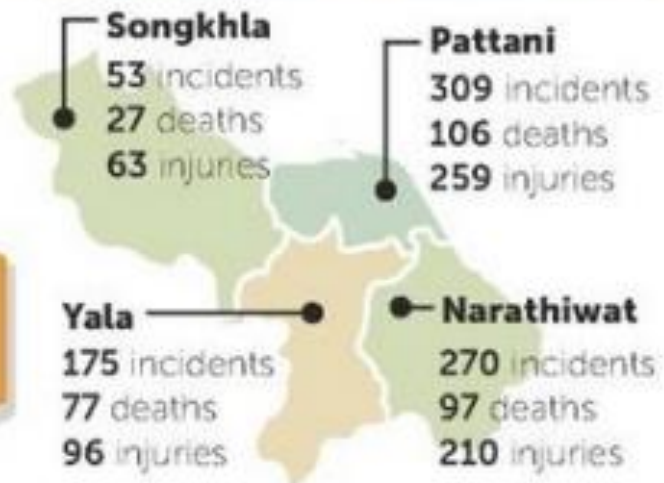


# SOUTHERN VIOLENCE

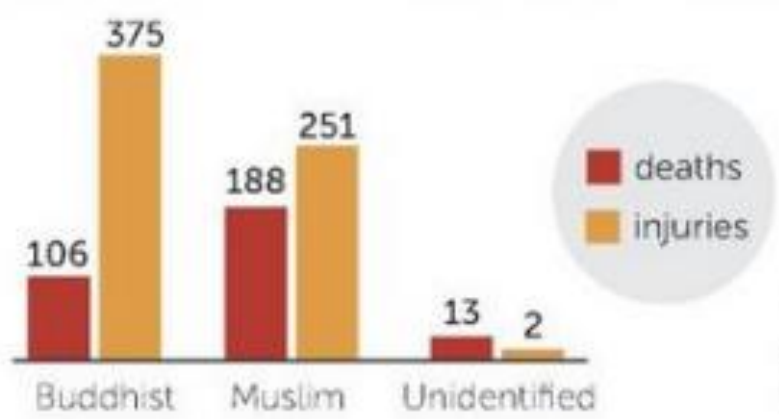
2016 statistics of violence in four southern border provinces - Narathiwat, Pattani, Yala and Songkhla.



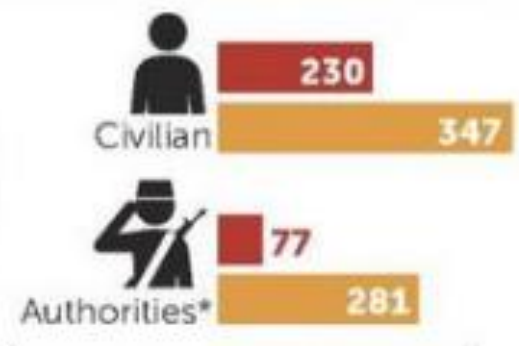
## Classified by province



## Classified by religion



## Targets



Note: \*soldier, police, local officers, defence volunteer

# Bay Tong, Yala



# A Sky Dragon: Air surveillance

The 350 million baht airship, which leaks and has yet to be fixed and which fails to rise to a safe altitude, above the reach of gunfire. The 350-million-baht "Sky Dragon" had problems with flying.



The ship cost 250 mb, Two cameras cost 70 mb, and ground support system 20 million baht

With 70 million baht cameras, Can you see them hiding under the trees in the rice field?



# 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.

# 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.
- However, there was additional criticism that the airship flew lower than was safe, making it an easy target, so it was eventually put in storage again until its term of operations expired.

# Submarine fever



# Gulf of Thailand: Not too shallow to submerge

- Rear Admiral Suriya Pornsuriya, the first commander of the submarine unit, said:
- "These submarines will travel at a depth of 30 metres,"
- "Don't believe rumors they can't run in the Gulf of Thailand because the sea is too shallow. They can work well there."

# Khun Suthep's illogical argument

- 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," and that **"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 first Chinese submarine

*The Nation July 2, 2016*

- **The Royal Thai Navy will buy its first submarine from China in the coming fiscal year, Defence 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 as payments can be made over a period of about 10 years," he said.

# 36 billion baht for three Chinese submarines

A source at the navy, meanwhile, said the navy's proposal to purchase the first Chinese-made S26T submarine at a cost of 12 billion baht is expected to be sent to the cabinet for approval by no later than March.

The first Chinese-made submarine is expected to be bought during fiscal year 2017, while two more are expected to be procured under an 11-year plan.

In total, 36 billion baht in budget will be needed for the three submarines, said the source.

The proposed submarine purchase has been delayed repeatedly in the past though signs are it could now finally get a push-along.

# Similar illogical argument

Prawit said China's submarine technology was good and modern, playing down criticism of the move. 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.

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

***Really?***

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.”