

# **Buffeting by the Unholy Trinity and the 2006, 2014 Military Coups**

Bhanupong

Lecture 7

Asian Economic Papers 5(2), 2006

The Thai Economy after the coup

# outline

- The Avian Influenza
- The 2005 Asian tsunami
- The oil price shock in 2005
- The 2006 military coup
- Capital controls: December 18, 2006
- Return to happiness by the 2014 coup

## 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.*

# Bird flu

- Avian influenza (AI) broke out in Thailand in December 2003 and killed 14 people in the following 12 months.
- The Thai poultry industry had just recovered from the loss of generalized system of preferences (GSP) status in Europe in 1999 and the import ban on Thai chicken in 2002 resulting from the detection of antibiotic residues.

# The damage

The spread of 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

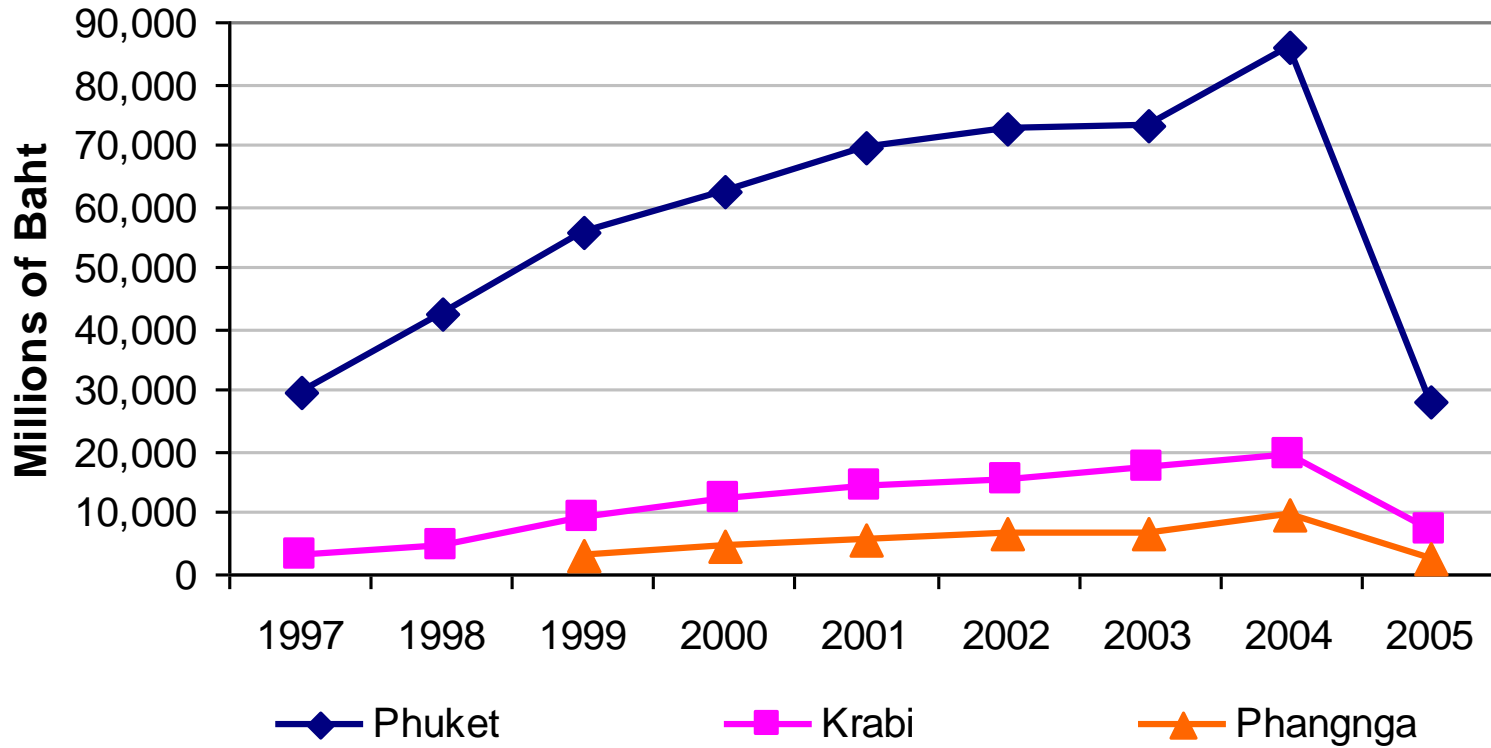
# The Asian Tsunami

- AI has caused less damage in Thailand than the tsunami that hit six southern provinces of Thailand on December 26, 2004, killing 5,394 people—half of them foreign visitors.
- The tourism industry was badly affected, in particular, the hotel business on the Andaman Coast. Fisheries were also affected by the tsunami, as a result of the destruction of fishing boats and shrimp farms.
- Estimates show that the tsunami reduced GDP growth in 2005 by 0.3 percentage points

# 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)
- Coup d'état (Sep 19, 2006)

# More Shocks (still counting)

- Bangkok bombing (Jan 2007)
- PAD uprising and airport shutdowns (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 Bangkok shutdown
- 2014: Military Coup
- 2015: ??
- Erawan shrine: August 17, 2015

# 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 recent 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.
- 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 industry

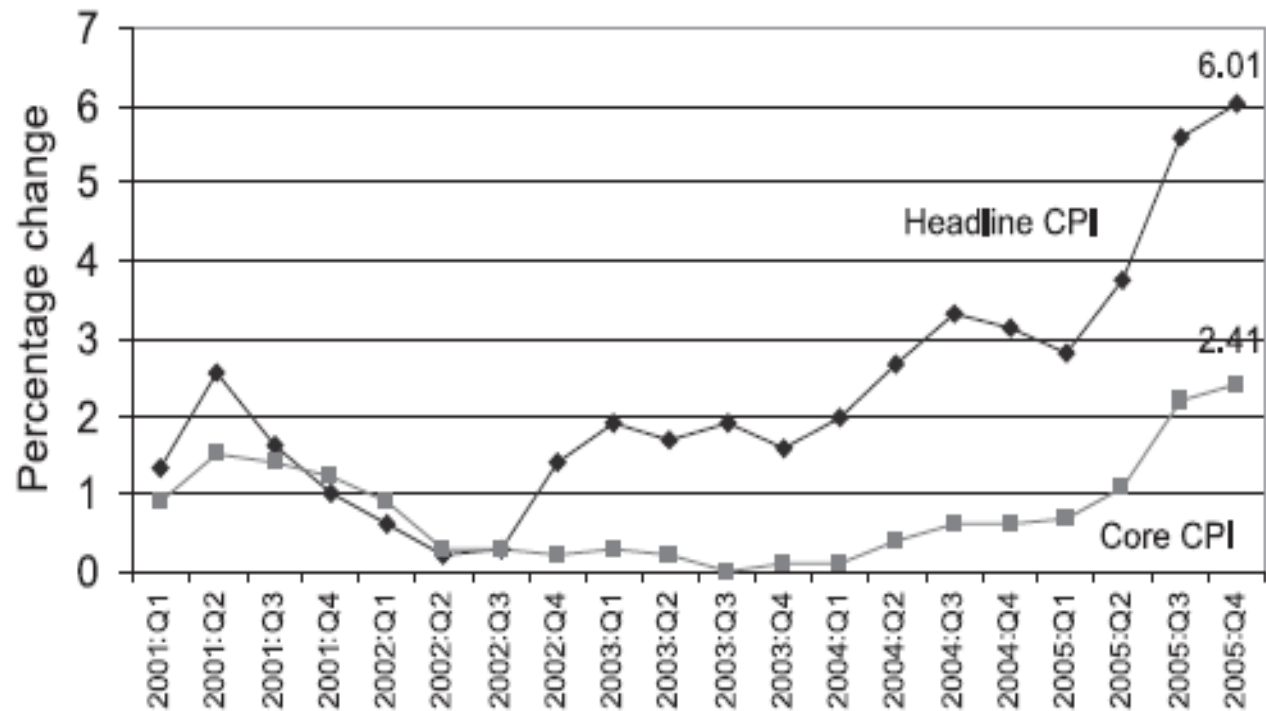
## Buffeting of Thailand

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

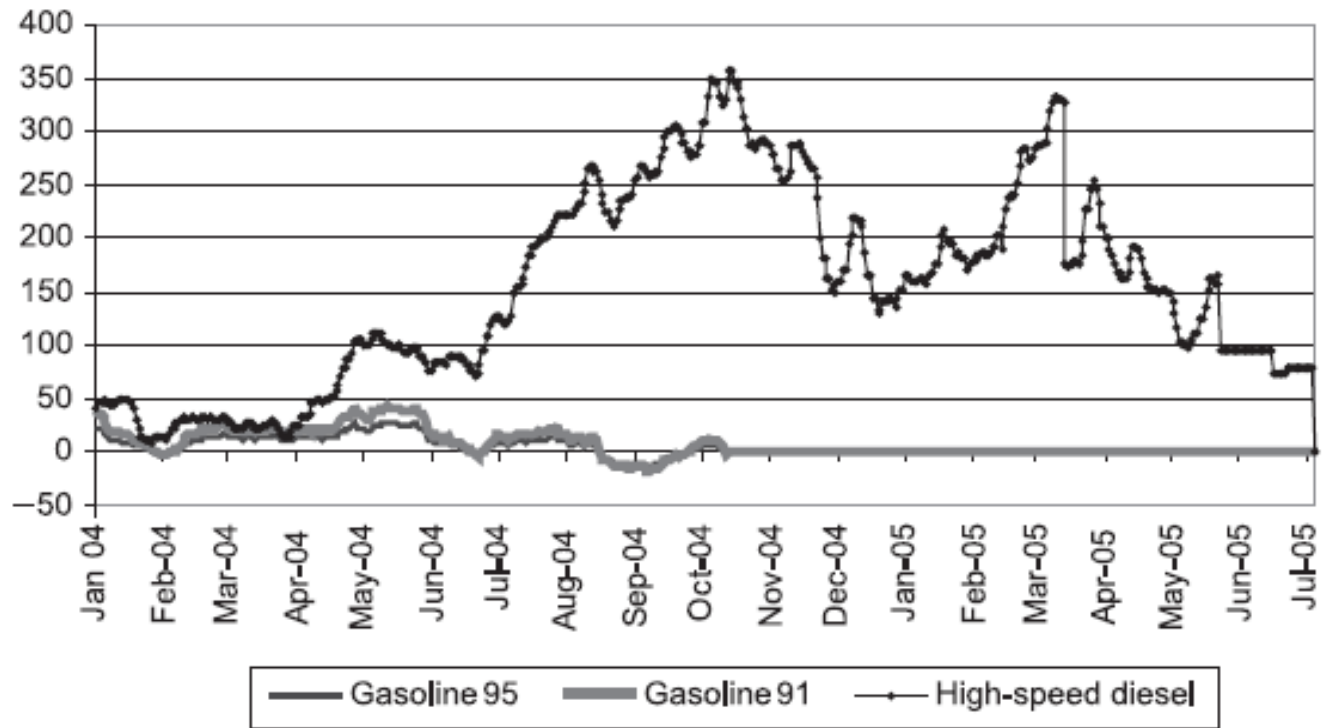
Sources: Bank of Thailand, International Monetary Fund.

Figure 4. Inflationary impact of the third oil price shock



Source: Bank of Thailand.

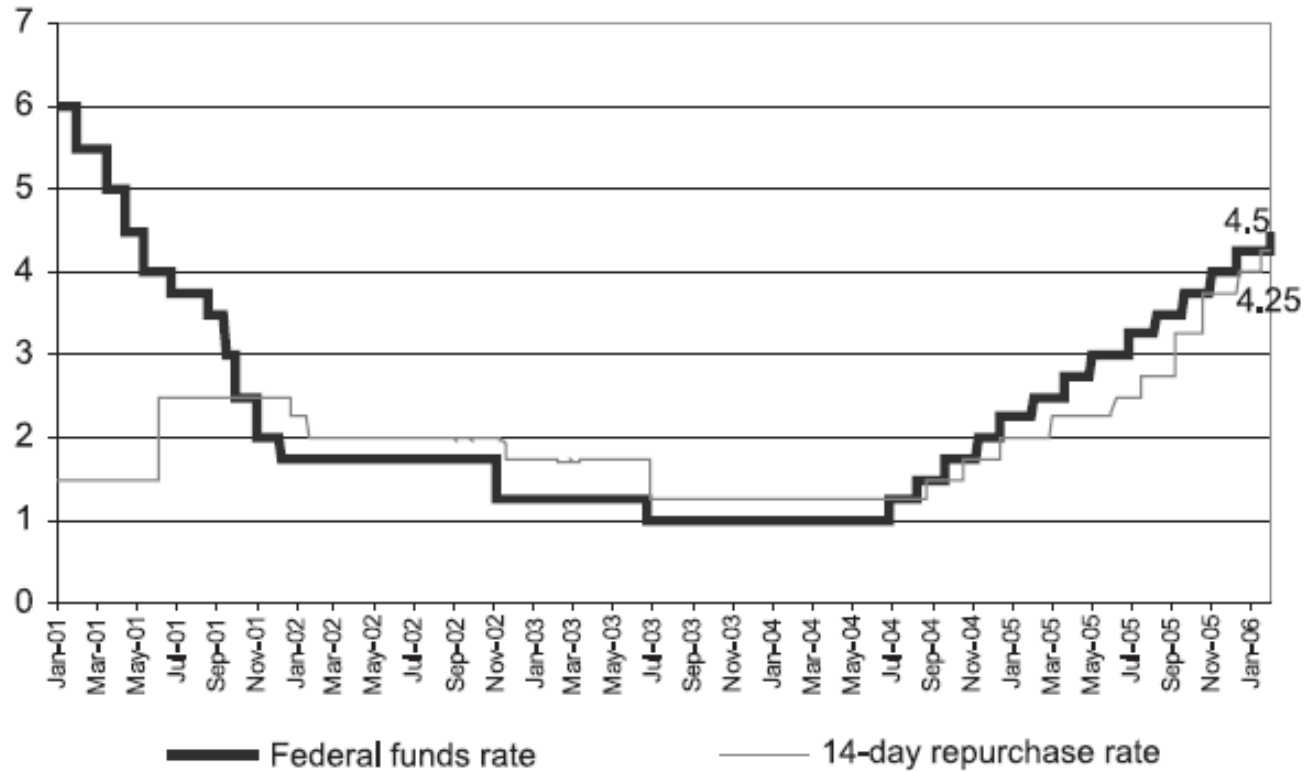
Figure 5. Oil subsidies per day (million baht)



Source: Energy Policy and Planning Office.

## Buffeting of Thailand

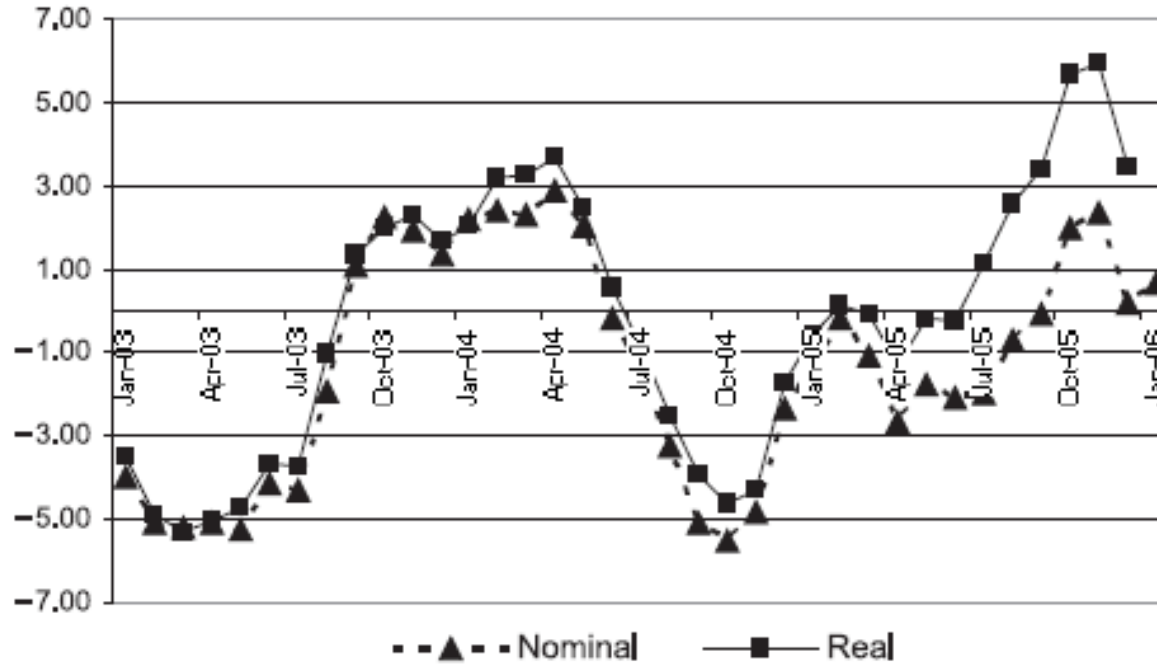
Figure 6. Federal funds and repurchase rates



Sources: Bank of Thailand, Federal Reserve.

## Buffeting of Thailand

Figure 7. Real and nominal effective exchange rate (% change year-on-year)



Source: Bank of Thailand.

# Appropriate policy responses

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.

# The Thai economy after the coup: 2006-2008

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

# 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

# Timeline of coups d'état

## 1958 Coup

General Plaek regime (1948-58) was overthrown by

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

**1971 Coup** (Nov 17) by Field Marshal Thamom against his own government.

## Oct 14, 1973

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

# Another coup, another constitution, and another election

**Oct 6, 1976**

PM Thanin

**Coup 1977**

(October 20) by Adm Sa-ngad Chaloyu overthrew the government of Thanin Kraivichien

General Kriangsak

General Prem 1981

**Coup 1981**

**Coup 1985**

PM Chatchai

**Coup 1991**

# A vicious cycle

*And we thought that we saw the last coup in 1991*

Between 1991 and 2005: A period of no coup

PM Anan

PM Chuan

PM Banhan

PM Chawalit

PM Chuan

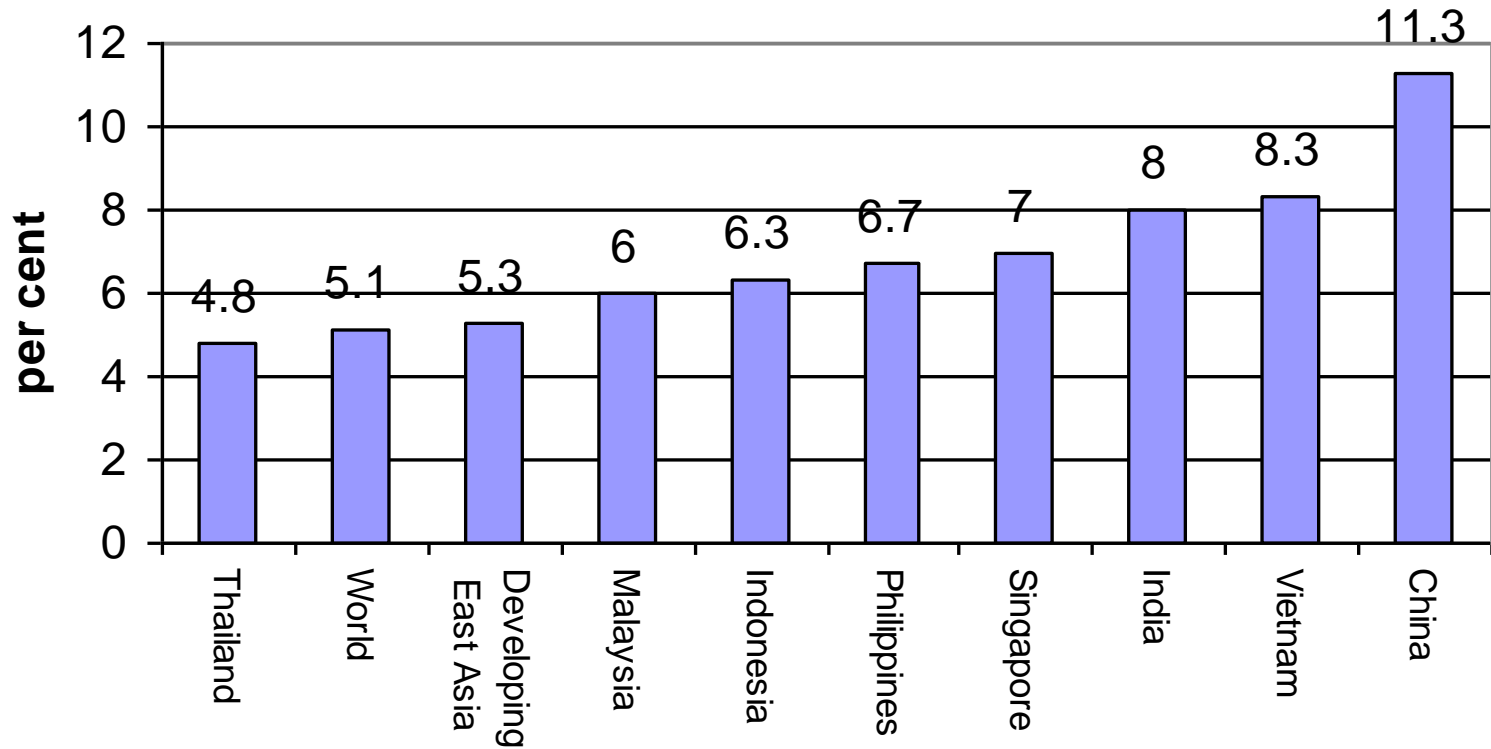
PM Thaksin

# Thailand's perennial problems

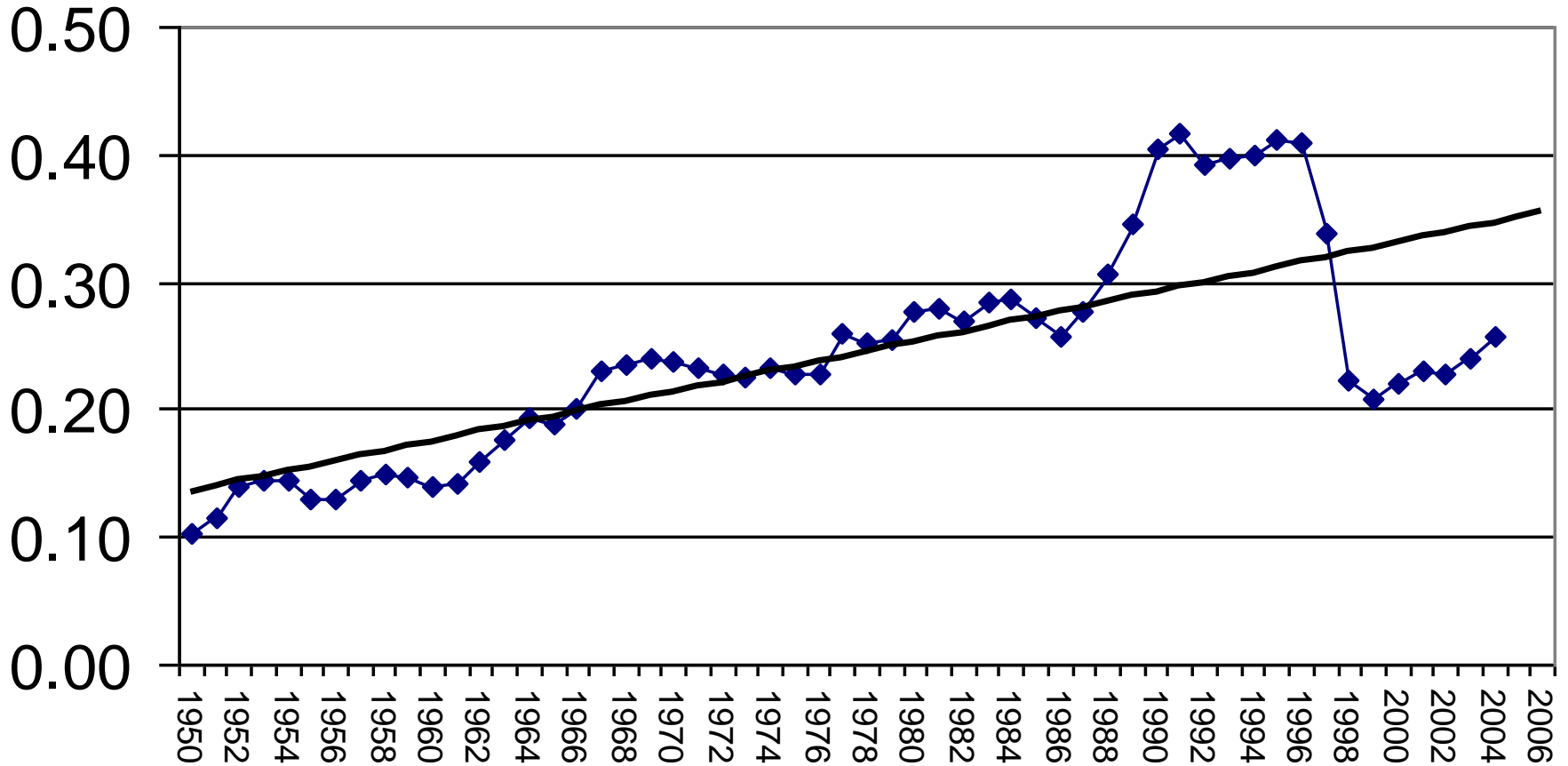
- Exchange rate risks
- Fluctuations of the world economy
- Weak governing institutions: the rule of law
- Political and Southern violence
- *Military and judicial coups threat*

# 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

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

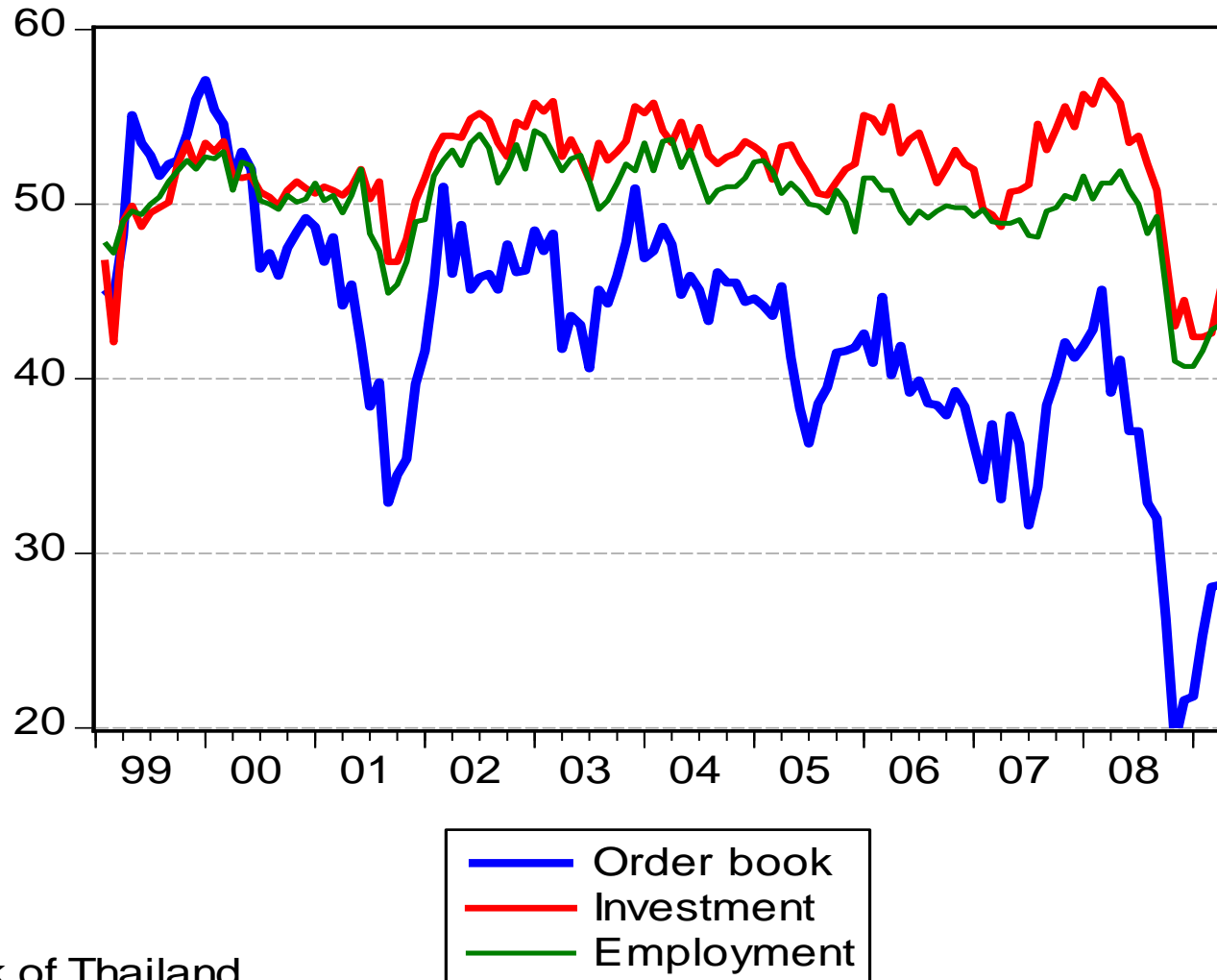
- For every 1% of increase in unemployment rate, GDP will be lower by roughly 2% (In USA).

# 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.
- *We must uphold fairness and social justice: no more double standards*

# Business sentiment Index

*How can we rekindle favorable investment climate?*



# GFC: Gold price as an indicator of the lack of consumer confidence



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

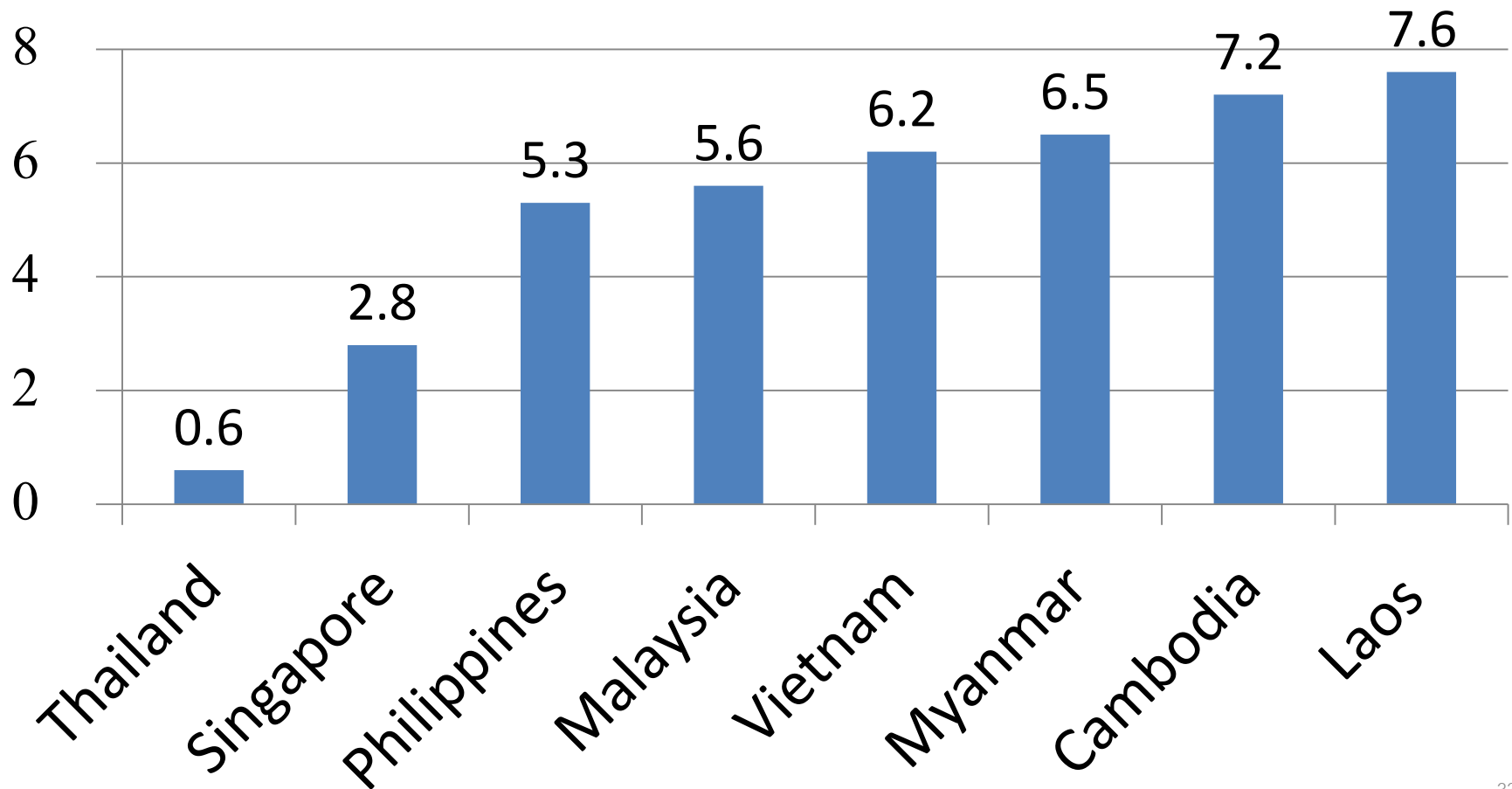
	<b>FY 2007</b>	<b>FY 2008</b>	<b>% Change in value</b>
<b>Defense</b>	<b>7.3</b>	<b>8.6</b>	<b>17.8</b>
<b>Education</b>	<b>18.0</b>	<b>18.1</b>	<b>0.56</b>
<b>Public health</b>	<b>4.0</b>	<b>3.9</b>	<b>-2.56</b>
<b>Central fund</b>	<b>12.6</b>	<b>14.8</b>	<b>17.4</b>
<b>Agriculture</b>	<b>4.1</b>	<b>3.9</b>	<b>-4.88</b>
<b>Total amount (billon baht)</b>	<b>1566.0</b>	<b>1660.0</b>	<b>6.0</b>

# 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.

# The high price of the May 2014 coup

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



# Thai coup adds to challenges for the Thai economy

24 May 2014 , AP

- Thailand's economy was already struggling before the country's military seized power in a bloodless coup Thursday, saying it needed to restore order after six months of protests aimed at ousting the elected government.
- The military takeover, the second since 2006, could ensure stability in the short term. 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.

# Thai junta boosts spending on defense, and education in draft budget

- BANGKOK, Aug 18, 2014 (Reuters) - Thai junta leader General Prayuth Chan-ocha, stressing that the military had a "limited time" in power before a return to civilian rule, submitted a draft fiscal 2015 budget on Monday, with defense and education receiving hefty increases.
- The military seized power in May after months of street demonstrations which led to the ouster of Prime Minister Yingluck Shinawatra.

# Guns vs. Schools

- The Ministry of Education was allocated 498.16 billion baht (\$15.66 billion), a 3.2 percent increase from last year's budget and 19.5 percent of the total budget allocations.
- Prayuth has called for education reforms as part of his plans to reshape the country and restore political stability.
- Defense spending, which typically increases in Thailand after a coup, grew 5 percent from last year's allocation to 193.07 billion baht (\$6.07 billion).

# Rosy prediction after the coup

- **"If we don't increase the budget and purchase new weapons, then nobody will fear us,"** Prayuth told reporters.
- The 2.58 trillion baht (\$81.08 billion) draft budget, up around 2 percent from 2014, was submitted to the military-dominated National Legislative Assembly and will be considered by ad-hoc committees and adopted in the coming weeks.
- "The NCPO wants every ministry to put the budget to the best use possible because we have a limited time in power," Prayuth said, referring to the National Council for Peace and Order, as the junta is formally known.
- The economy may expand 3.5 percent to 4.5 percent next year (2015), he added, as the political situation stabilizes.

# The National Economic and Social Development Board (NESDB)

- NESDB compiles gross domestic product data, on Monday **trimmed its 2014 full-year growth forecast to 1.5-2.0 percent** from a 1.5-2.5 percent range.

*(The actual GDP growth in 2014 was 0.7%)*

- Thailand avoided recession in the second quarter, the state planning agency said, but questions remain about the pace and depth of growth.
- The board said it expected to see steady economic recovery in the second half of the year.
- Prayuth, who led the May 22 coup, became the prime minister.
- He outlined a three-phase plan of reconciliation, formation of a government and elections in 2015.

# PC-O-C's wishes

- "I hope that in 2015 the country will come into its own," Prayuth said. "We seized power in order to improve confidence in the country."
- Since taking power, the junta has made delayed payments to rice farmers, capped fuel prices and made a point of reassuring foreign investors that Thailand will return to democracy within a year. It has also approved urgent infrastructure projects.
- The moves appear to have helped consumer confidence which rose to the highest in 11 months in July, data this month showed. (\$1 = 32 baht)

# 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.