

Military Business Cycle, Military Coups, and Economics of Corruption

Bhanupong
Lecture 26

A great quotation from our King

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

A Quotation from the President of the U.S.

“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.”

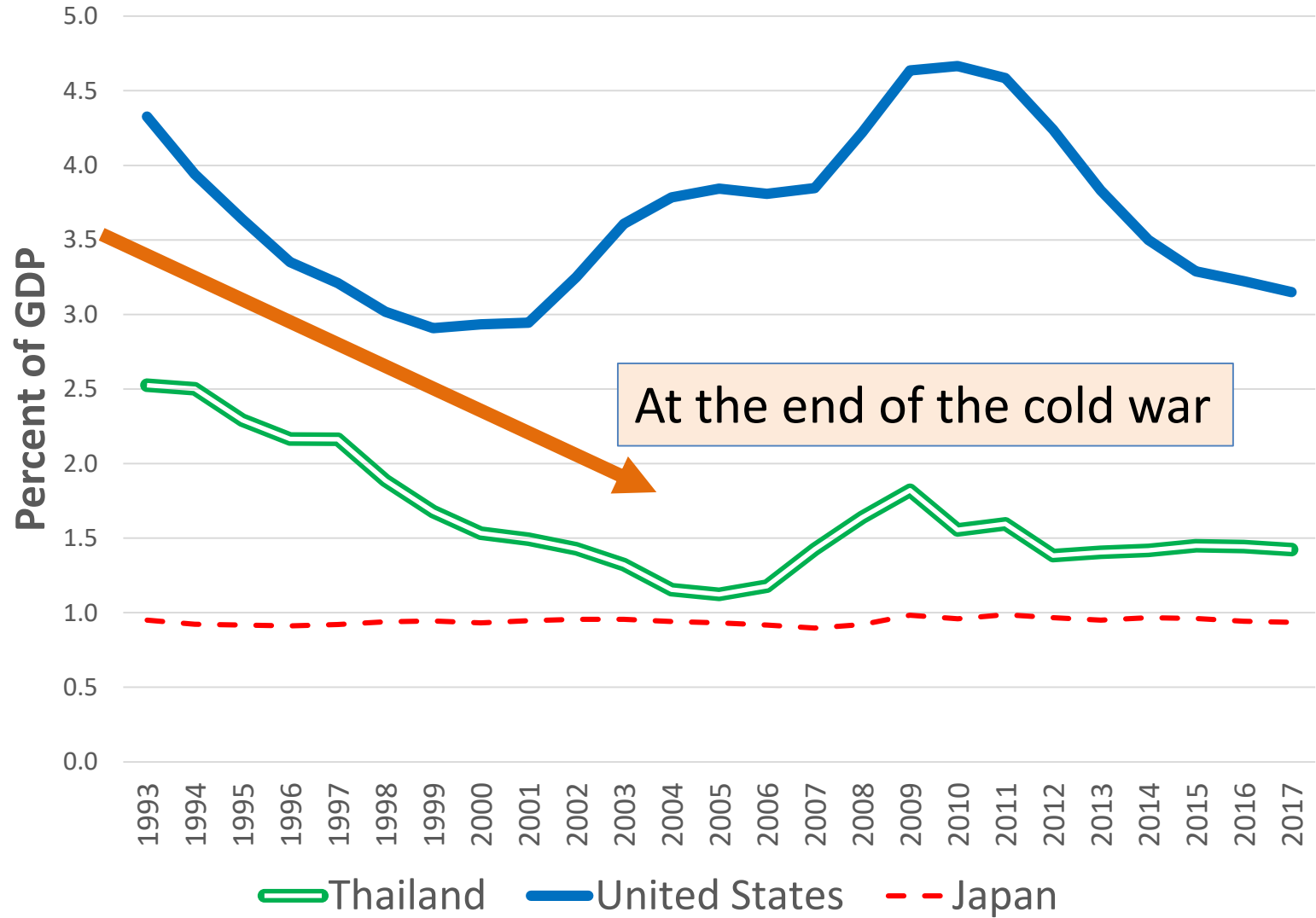
Main themes

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

1. Determinants of military spending

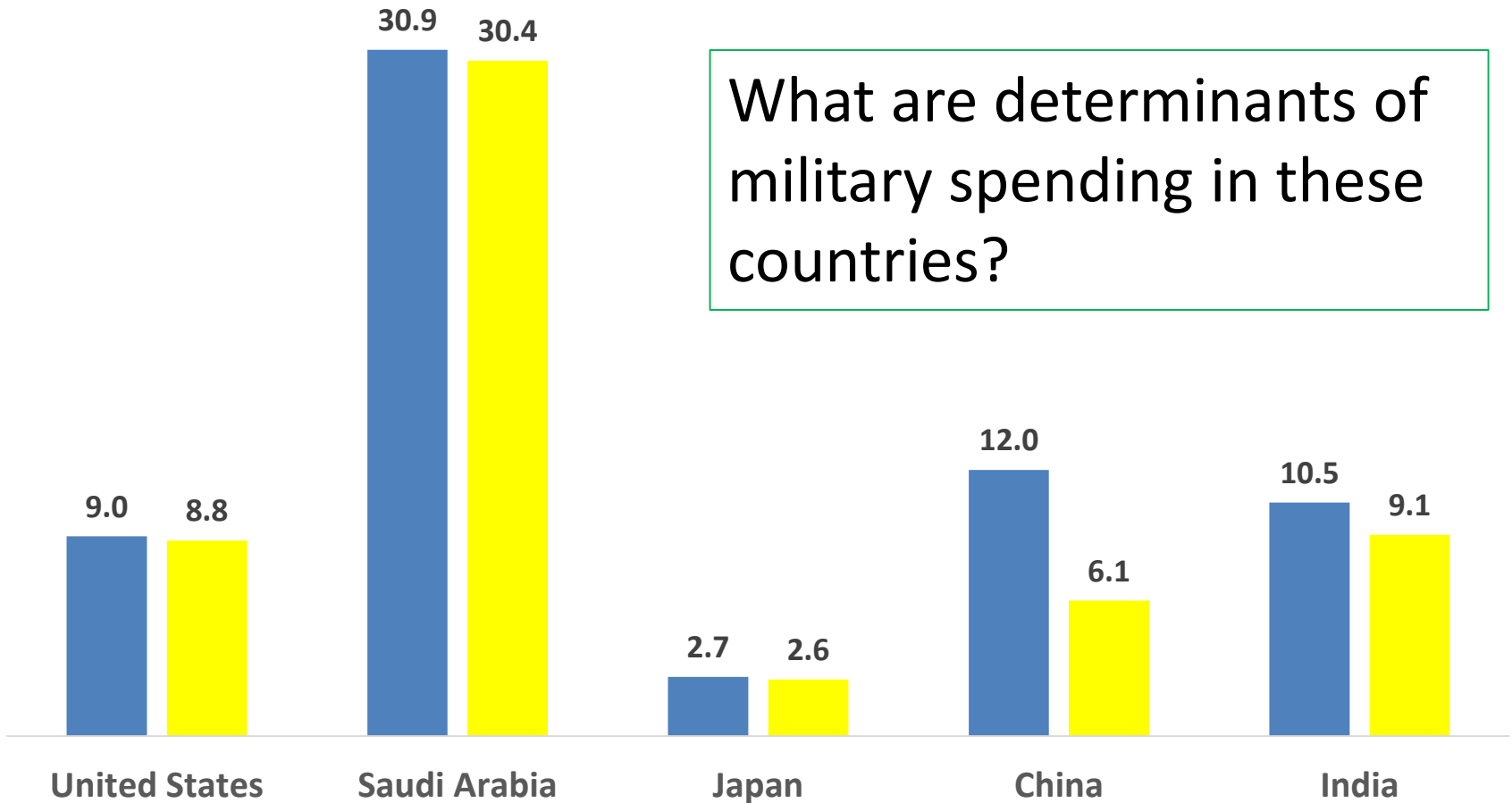
- *External and civil wars*, military spending by *potential enemies*, *population*, and *democracy*.
- While *democracy* is negatively related to military burden, other factors contribute to higher defense spending.

International comparison of military expenditures



Defense Budget Percent of total government spending

■ 2001 ■ 2017



What are determinants of military spending in these countries?

Peace Dividend

- Military spending can be considered as a wasteful expenditure 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.
- ***Tanks versus PPE*** (Personal Protection Equipment during the Covid-19 outbreak)

A Stryker armored vehicle (80 mb) is displayed at the Royal Thai Army after the army received a batch of 10 of the 60 vehicles acquired from the US.



Army defers infantry carrier deal

Bangkok Post, April 23, 2020

- Earlier last year, the army struck a deal to buy the first batch of 37 “**refurbished**” US-made Strykers for 80 million baht each (2.9 billion baht in total), but under the contract, the US Army would give 23 more Strykers to the Thai army for free, bringing the number to 60 in total
- The army will **delay** its 4.5 billion baht procurement of a second batch of 50 US-made Stryker armored infantry carriers to the next fiscal year as part of the Defense Ministry’s **18 billion baht budget cut** to help the Covid-19 outbreak fight.

2. Political vs. Military Business Cycles

- 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)

The 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 Khongsompong* (Feb 1991))
- 2006 (Thaksin overthrown by *General Sonthi*, Sep 19, 2006)
- 2014 (Yingluk, overthrown by *General PCOC*, May 22, 2014)

The hypothesis of military business cycle

The Hypothesis

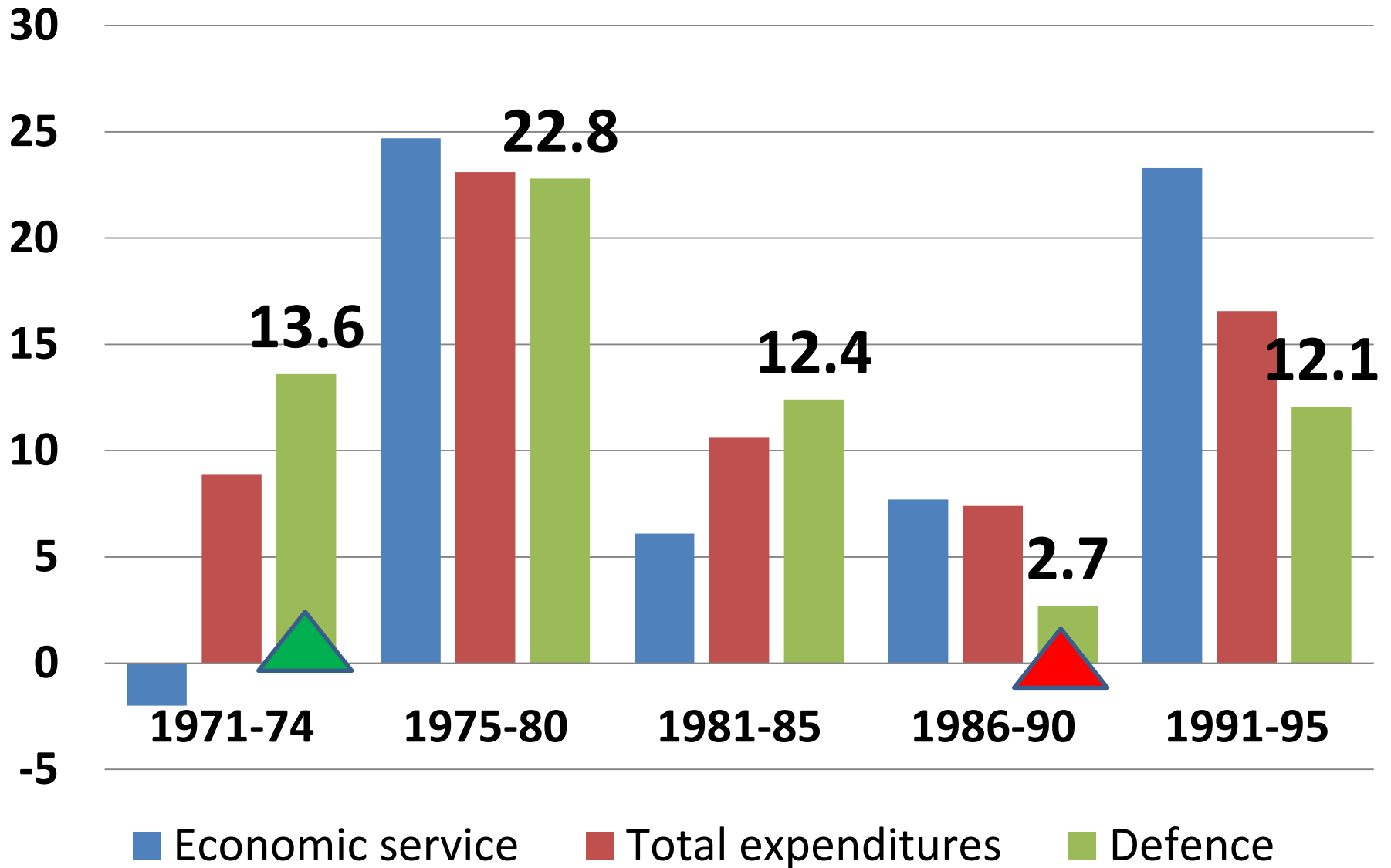
“Military spending rises rapidly after a military coup and slowly dies off as a democratic government is elected under a newly drafted constitution”

Corollary

Slumps in military spending foretell future military coups

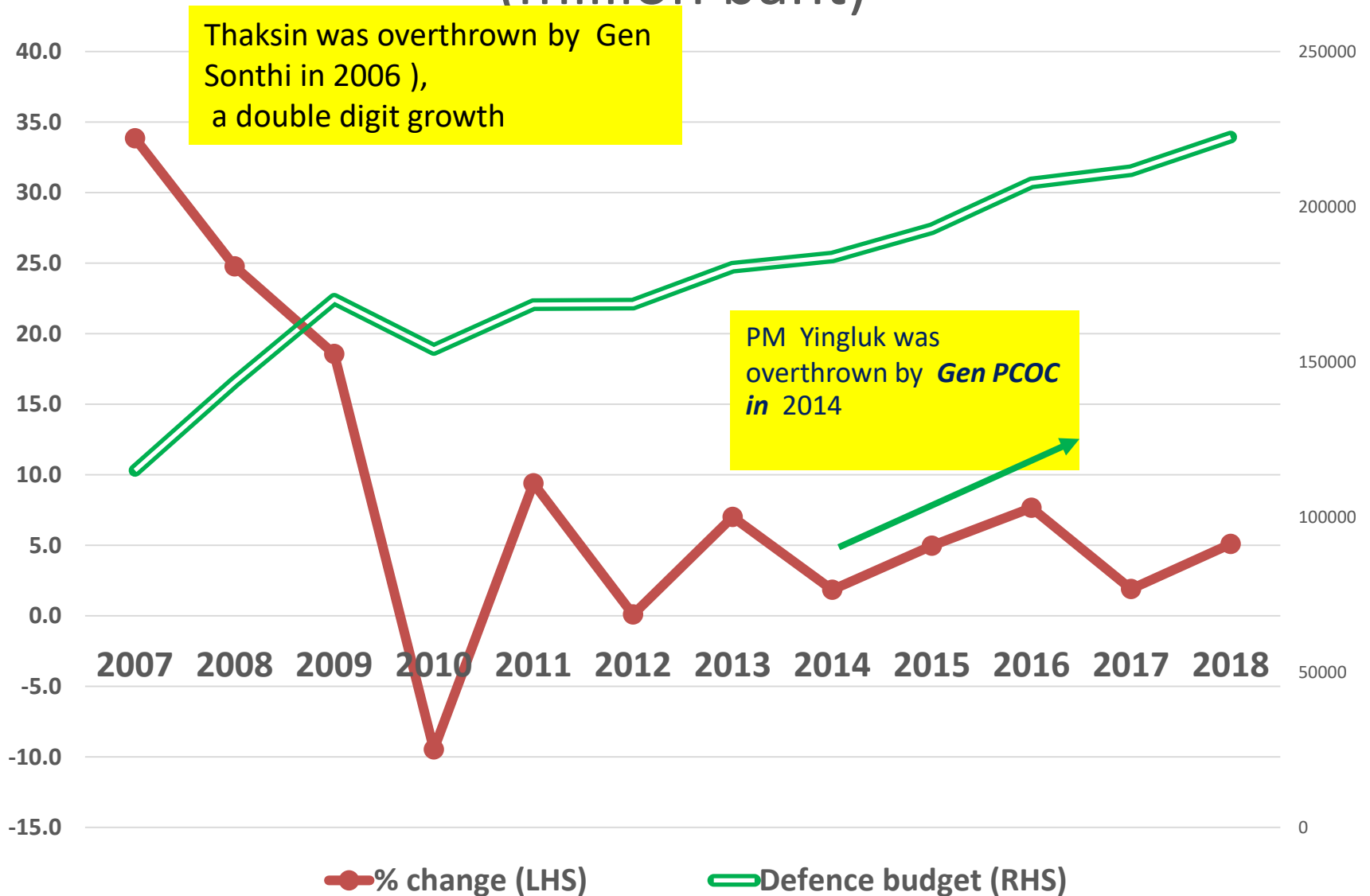
Military Business Cycle

(period average growth rate)



Thailand's Defense Budget

(million baht)



For country, religion, monarchy, and the people

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

18 Oct 2018 at 10:51 140 comments

WRITER: ONLINE REPORTERS



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.

“ I couldn't rule out another coup after the national election” Bangkok Post October18, 2018



“He was only stating a common truth,” said General Prawit Wongsuwan

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 high defense spending is not good for economic growth, but too low military spending may be dangerous to democracy, because the military must to be pacified.
- Were the justifications (excuses) for the 2006 coup similar to the latest one in 2014?
- Indiscipline and defiance to the rule of law generate a long-lasting impact, causing ***addiction to military coups.***
- ***“Short-termism”***

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: ***Time inconsistency problem***
- **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.

Strategic ambiguity: Fiscal illusion

- Politicians generally choose to be ambiguous
- According to 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 hidden goals” (Rogoff, 1990).
- Mega infrastructure projects and the development of the Eastern Economic Corridor (EEC).
- The BRI of the Chinese government (e.g. Paracel island in South China sea)

Multi-year Budgeting:

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)
- A military budget for the purchase of three Chinese submarine is a prime example of multi-year budget and seemingly transparent process (slide 79)

Fiscal indiscipline

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

Off-balance (hidden) budget

- Creative and strategic uses of what is kept in and off the public budget make the government budget nontransparent.
- **Central Budget Expenditures** include *hidden agenda* in the name of flexibility and **national security**.
- **Over-optimistic prediction** of policy impact makes proposed mega spending look attractive (e.g. EEC project) by inflated rate of return, while concealing long-term social, political, and environmental costs.

3. Dismal growth is caused by institutional inefficiency

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

9 Indicators of institutional inefficiency

Mauro (QJE, 1995)

1. *Political changes*

Elections, military coups, and juristic coups.

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.

Indicators of institutional inefficiency

3. High probability of a take over by opposition groups (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)

7. Inefficient institutions: Low respect to the rule of law and legal system

Poor legal system, judiciary inefficiency and the lack of integrity of the legal environment adversely affect business uncertainty and risks.

Compare Thailand's election announcement with India and Indonesia's national elections in 2019: They were 800 million Indian voters but the election results came out within a week.

The delay bodes well for the inefficient political institution in Thailand.

Integrity of legal environment and poor judiciary infrastructure

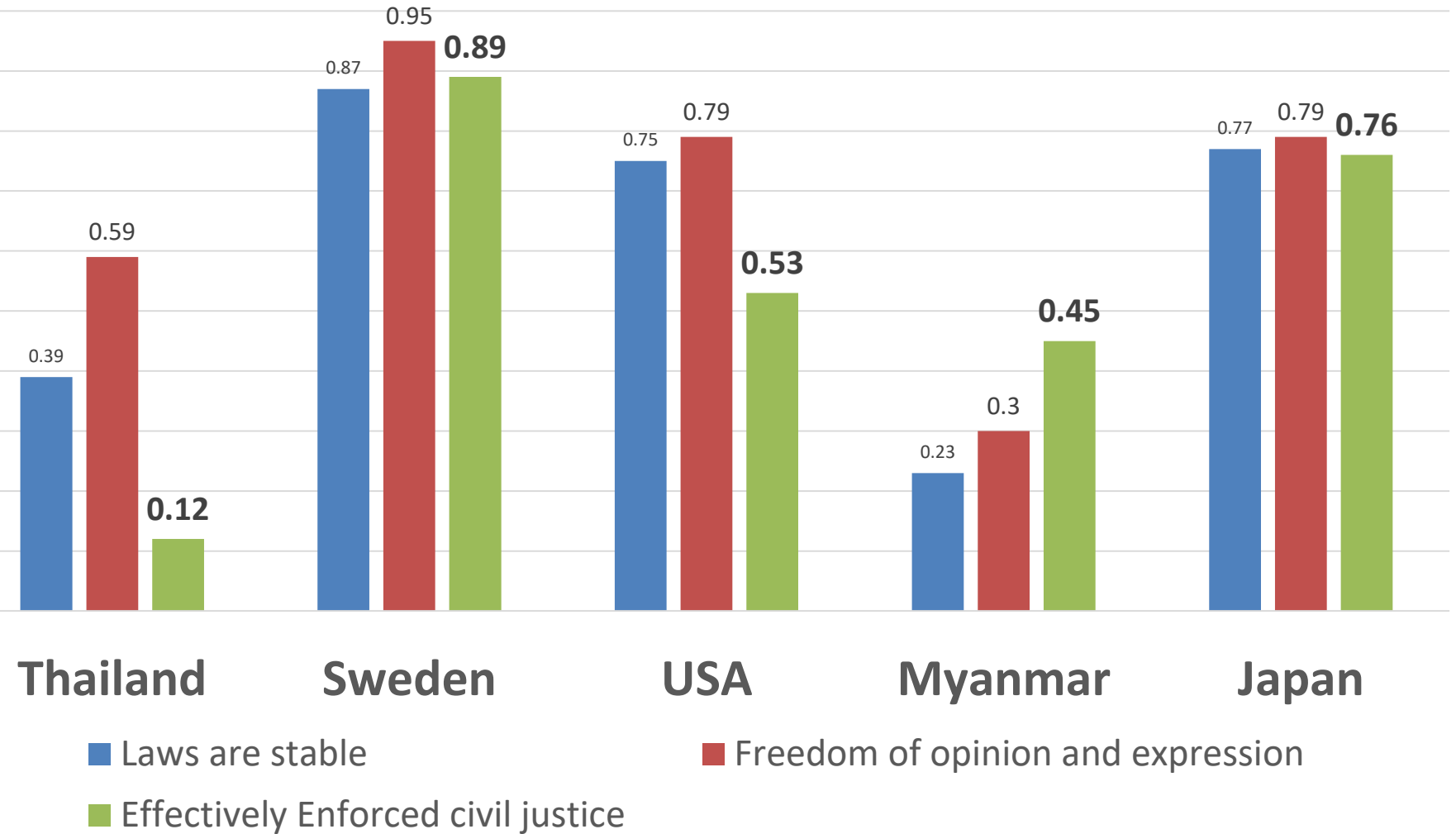
Recall the verdict by the Election Committee on the leader of Future Forward Party.

Recall the verdict on the General Rolex

Recall the constitution court's verdict on the status of PCOC: He was not a government official, hence he had the right to become our PM.

Rule of Law Index: 2014

Source: www.worldjusticeproject.org



Thailand

2017-2019

Rule of Law index: Trending down

Overall Score	Regional Rank	Income Rank	Global Rank
0.5	10/15	23/36	71/113
Score Change	Rank Change		
-0.01 ▼	-7 ▼		

		Factor Trend	Factor Score	Regional Rank	Income Rank	Global Rank
	Constraints on Government Powers	—	0.47	11/15	22/36	80/113
	Absence of Corruption	—	0.49	9/15	18/36	56/113
	Open Government	—	0.48	10/15	21/36	68/113
	Fundamental Rights	—	0.47	11/15	29/36	88/113
	Order and Security	—	0.69	13/15	20/36	69/113
	Regulatory Enforcement	—	0.50	9/15	17/36	59/113
	Civil Justice	—	0.53	10/15	18/36	59/113
	Criminal Justice	—	0.40	11/15	22/36	72/113

8. Bureaucracy and red tape

8. Bureaucracy and *red tape*

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

9. corruption

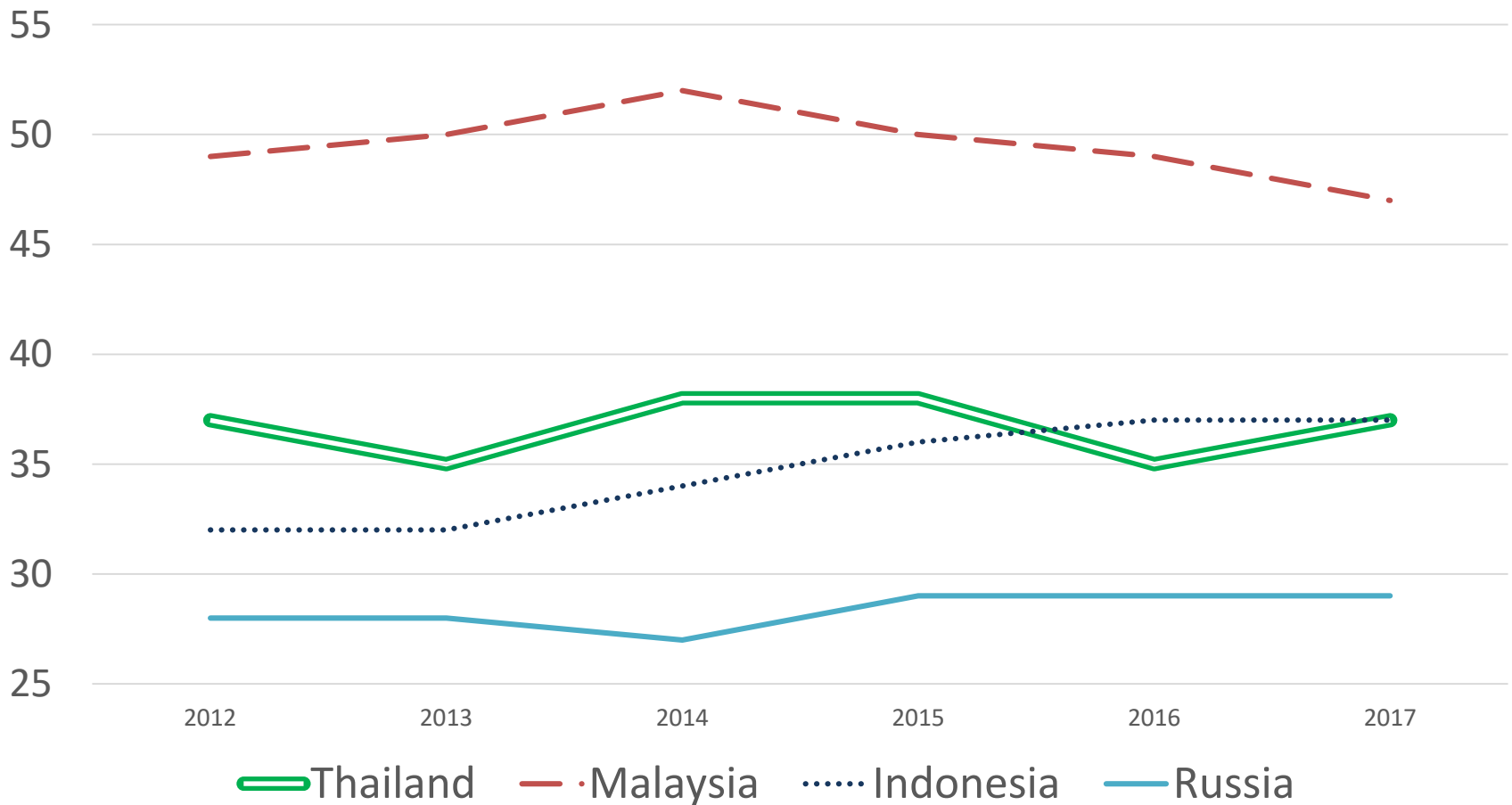
Another Indicator of ineffective institutions

Corruption Perceptions Index (CPI)

The degree to which business transactions involve corruption or questionable payments

Corruption Perceptions Index

Thailand's rank in 2017: 96/180



The National Anti-Corruption Commission expects Thailand to score 50 out of 100 points in 2021. Thailand got only 37 points in 2017

Two different worlds

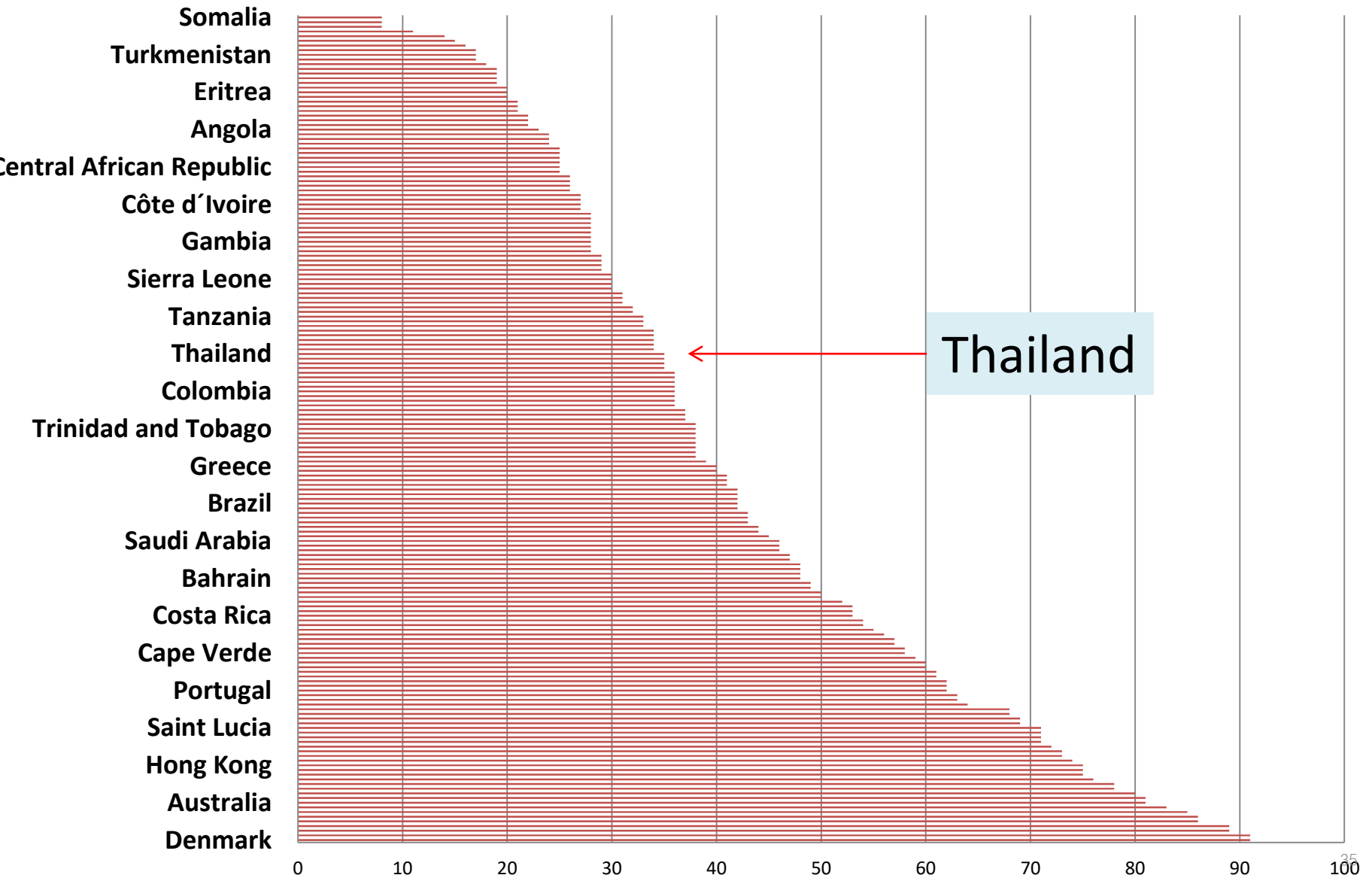
The Least Corrupt

1. New Zealand
2. Denmark
3. Finland, Norway, Switzerland
6. Singapore, Sweden
8. Canada, Luxembourg,
Netherlands,
United Kingdom
16. United States

The Most Corrupt

180. Somalia
179. South Sudan
178. Syria
177. Afghanistan
175. Yemen, Sudan
171. Lybia, North Korea, Guinea-Bissau, Equatorial Guinea

Corruption Perception Index: 2013



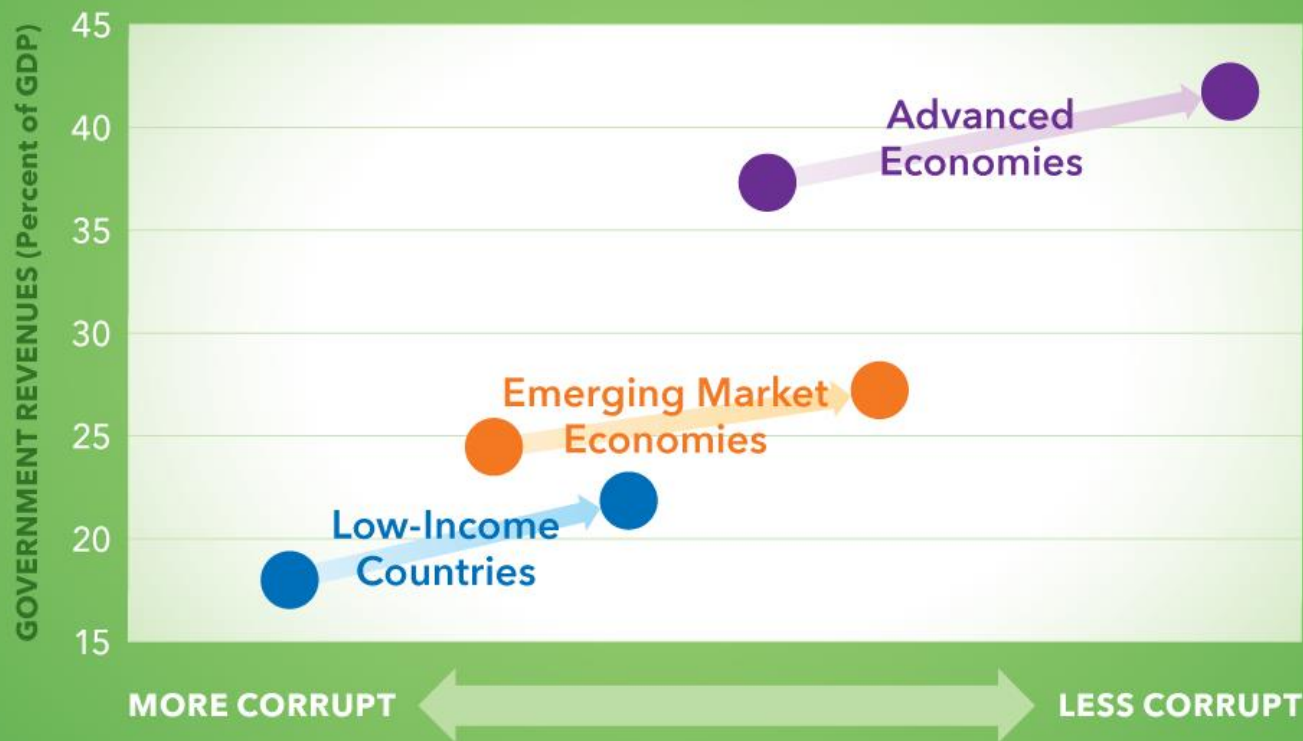
The Economics of Corruption

1. Corruption decreases investment by reducing **marginal efficiency of investment**; thereby lowering economic growth rate.

2. Corruption reduces tax revenue collections

Corrupt Countries Collect Less Tax

The least corrupt governments collect 4% of GDP more in tax revenues than countries with the highest levels of corruption.



Learn more in the latest Fiscal Monitor.

3. Corruption helps evade taxes

- **The IMF** analyzes more than 180 countries and find that more corrupt countries collect fewer taxes, as people pay bribes to avoid them, including through tax loopholes designed in exchange for kickbacks.
- Also, when taxpayers believe their governments are corrupt, they are more likely to evade paying taxes.
- The IMF show that overall, the least corrupt governments collect 4 percent of GDP more in tax revenues than countries at the same level of economic development with the highest levels of corruption.

4. Corruption wastes taxpayers' money

- The Fiscal Monitor shows that countries with lower levels of perceived corruption have significantly **less waste in public investment projects**. We estimate that the most corrupt emerging market economies waste twice as much money as the least corrupt ones.
- Governments waste taxpayers' money when they spend it on cost overruns due to ***kickbacks or bid rigging in public procurement***. So, when a country is less corrupt, it invests money more efficiently and fairly.

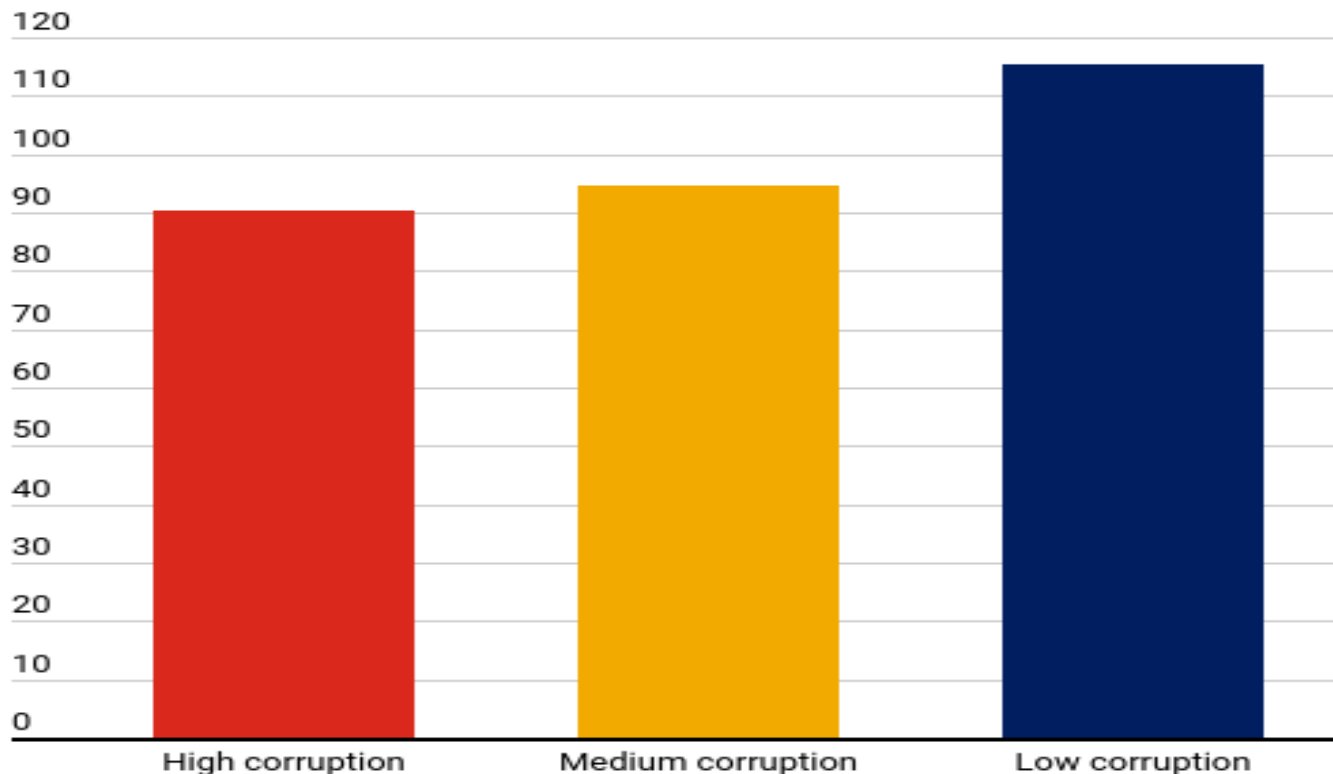
5. Corruption distorts government priorities

- *Corruption also distorts government priorities.* For example, among low-income countries, the share of the budget dedicated to education and health is one-third lower in more corrupt countries.
- It also impacts the effectiveness of social spending. *In more corrupt countries school-age students have lower test scores.*

Corruption hurts education

Students in countries with less corruption have higher test scores.

(test scores; global average = 100)



Sources: Patrinos and Angrist (2018); Worldwide Governance Indicators; and IMF staff estimates.

Note: Test scores for school-age students are harmonized across sources. The correlation remains significant when controlling for other factors, including GDP per capita.

Because of terrorism, we need bomb detectors: GT 200

Bay tong, Yala, 2014



Thailand purchased GT 2000 bomb detectors and employed in the Deep South. The army bought them from a UK distributor who was found guilty of fraud in the UK.



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.

“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 manufacturers were sent to jail for deceiving the public.

5. Thailand's imported war machines

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

- 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.
- In February 1991, PM Chartichai was overthrown by *General Suthorn Khongsompong*

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.
- “Keeping up with the Jones” behavior described by Duesenberry’s Relative Income Hypothesis

HTMS Chakri Naruebet

It requires a
vertical takeoff
aircraft



China's first aircraft carrier: Laioning (a refurbished Russian carrier)



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	0
 Canada	0
 China	2
 France	1
 Germany	0
 India	1
 Italy	2
 Japan	0
 Netherlands	0
 Russia	1
 Spain	1
 Turkey	0
 Thailand	1
 United Kingdom	2
 United States	11
TOTAL	22

The Air force and the Gripen

- Adding to the equally ground-bound Alpha jets purchased against massive public opposition, the Gripen jet fighters were purchased from Sweden.
- Vertical takeoff jets bought together with the aircraft carrier.
- The Gripen ***has never effectively flown in combat.***

The Gripen



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

Customer: Thailand, Five T-84 Oplot-M in service.
In 2011 the Royal Thai Army placed an order for 49 more and awaiting delivery.



October 2017, 49 Oplot **Ukraine tanks** were delivered

- T-84 Oplot is a turret retaining the 125 mm gun.
- The ***thermal sighting system*** is intended to 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** is a system intended to automatically load the main gun with ammunition of the available types and consisting of a conveyor, automatic loader and control system.

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 will become like an adviser in developing our weapons industry

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 Ukraine tanks

VT-4 Chinese Tanks



- The US has legal restrictions to sell weapons to Thailand since the coup. That is why the army turned to China
- Chinese tanks again?



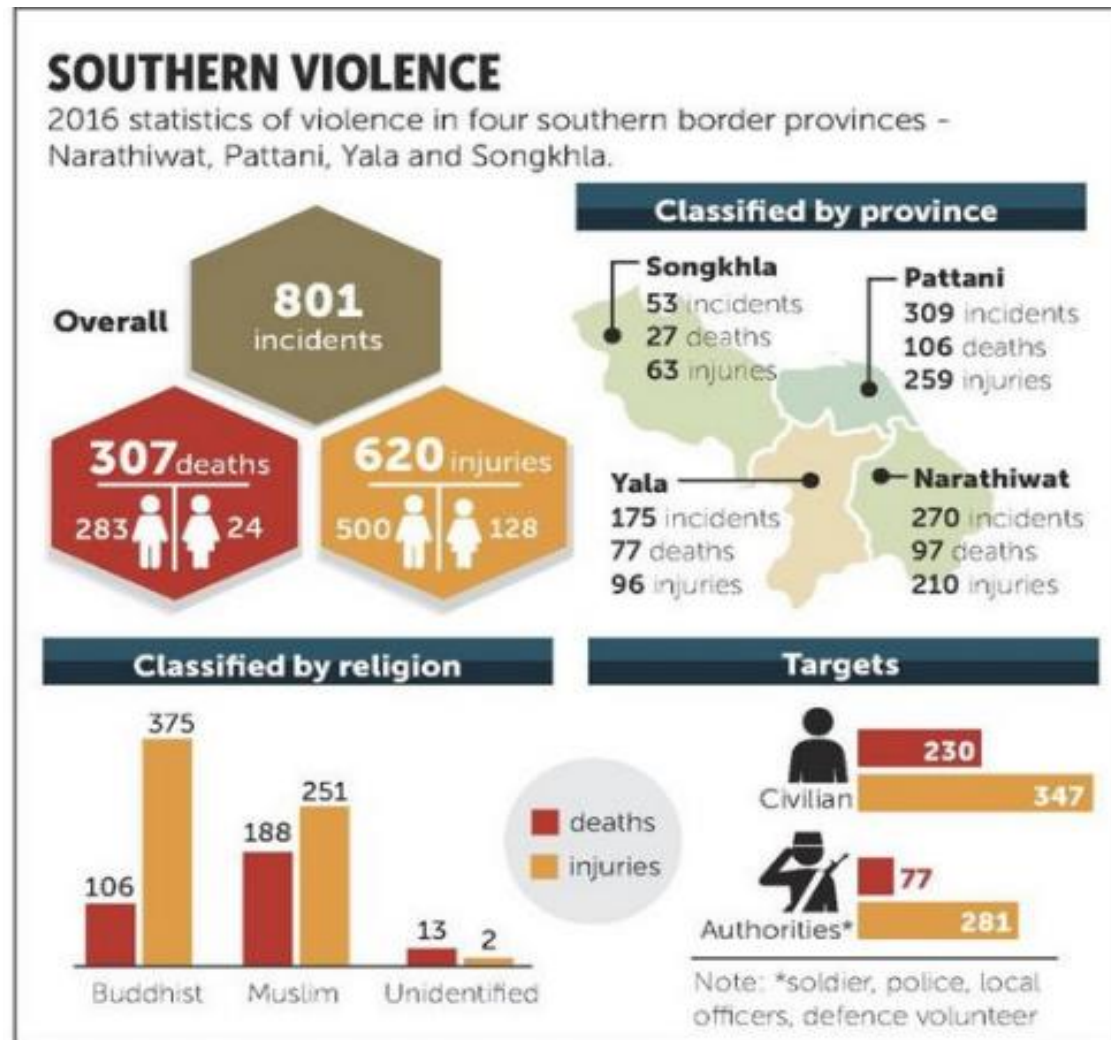
**History repeats itself, first as
tragedy, second as farce.**

Karl Marx

The South Thailand Insurgency

- The former Sultanate of Pattani, which included the southern Thai provinces of Patani, Yala, Narathiwat, and neighboring parts of Songkhla was conquered by the Kingdom of Siam in **1785** and has been governed by Thailand ever since.
- Over 6,500 people died and almost 12,000 were injured between 2004 and 2015 in a formerly ethnic separatist insurgency, which has currently been taken over by hard-liner jihadis and pitted them against both the Thai-speaking Buddhist minority and local Muslims who have a moderate approach or who support the Thai government.

We need effective surveillance of the area in the deep south



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.



With 70 million baht cameras, can you see the insurgents hiding under the trees in the rice field below?



Back then, when PCOC 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 Chalermschai 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.

Submarine fever

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 there."
- A 7.7 billion baht budget for the U-boats

Mr. Suthep defended the purchase *illogical argument*

- During that time, the 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,"
- **“Some countries in the region have submarines and could pose a threat to the national interest.”**
- Singapore 6, Malaysia 2. Indonesia 5
- (To keep up with the Jones: Conspicuous Consumption)

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? Is this a fake news?

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 as payments can be made over a period of about 10 years" (A multi-year budget)

Chinese made S26-T (We need three subs)



A Chinese friendship price: 12 billion baht

A new life after the 2014 coup

- Plans to acquire submarines have gained new life since the 2014 coup after the navy struggled for years to persuade governments to purchase six second-hand submarines from Germany.
- There have been no submarine purchases for more than 60 years and the navy says Thailand needs modern submarines *to protect its maritime territorial interests*.
- They will be stationed in both the Gulf of Thailand and the Andaman Sea.

Cost effectiveness, transparency, and budget priority

- In 2011, the navy wanted to buy six German-made (U-boat) second-hand submarines at a cost of 7.7 billion baht, but the plan was shot down by the then Yingluck Shinawatra government.
- However, things improved for the navy after the 2014 coup
- On April 18, 2017, the cabinet approved the first purchase of a Yuan Class S26T submarine worth 13.5 billion baht from China.

Navy presses for 2nd Chinese sub

July 30, 2019



In April 2020, the Navy postponed the purchase of the second submarine due to the criticism related to the country's priority during the time of the coronavirus outbreak.

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.”