

# [The governmental response as well as its effects](https://assignbuster.com/the-governmental-response-as-well-as-its-effects/)

I. IntroductionThailand is a country that has been plagued by political as well as economic instability and failure throughout its tenure as an independent nation (Samudavanija 340). Thailand had a booming second half of the nineteenth century from an economic standpoint, despite the rapid succession and instability of military and attempted democratic rule. During the two decades from 1960 to 1980, the Thai population enjoyed an average per capita income growth of almost 5% a year (Samudavanija 349). Although Thailand has a very slim income distribution consisting mainly of wealth in the industrialized areas in and around Bangkok, no one can particularly argue that as a whole each Thai citizen did not benefit, at least minutely, from such gains. After 1980, Thailand still maintained an average economic growth rate of 6% annually in GNP until 1992-one of the highest in the world at that time (Samudavanija 350).

Though the Thai Economy of the 1990’s was strong, it was plagued by an epidemic of corruption involved in stock markets and economic aspects in general, even more so than years past (Handley 102). During this time frame, Thailand liberalized financial inflows, banks and firms borrowed in U. S. dollars and did not hedge their positions because there was no perceived exchange rate risk (Thailand 1).

However this would soon grow into a major problem forming what has become known as the 1997 Financial Crisis. The growth rate Thailand saw from the 1960’s to a retarding rate around 1996 shows the unsustainable growth rate and parts of illegitimacy behind it (Leightner 245). The goal of this analysis is to review the causes of the 1997 Thai Stock Market Crisis, the actions taken by the government in attempts to recover from the crisis, and discuss the general well being of the recovering population. II. Causes of The CrisisA good portion of Thailand’s success in the 1990’s was due to the liberalizing of financial inflows, and large increases in export growth.

As the export growth began to slow in 1996, concerns soon arose about the ability of companies to repay the loans they had received over the past years, especially loans made in U. S. dollars as opposed to Thai baht (Leightner 246). The Thai economy at this time was growing exponentially, due much to an expanding financial sector. Corporate expansion was fueled by easy access for a plethora of Thai companies to make loans in both Baht and Dollars, but the time to pay was swiftly approaching.

The companies were not demonstrating the ability to repay international banks and foreign investors were growing restless. The instability in Thailand over the years, the lack of progressive transparency and increased globalization brought up questions involving repayment and the handling of money in Thailand, making foreign investors weary of their investments (Macdonald 690). In a short amount of time foreign investment firms and international banks began pulling out one by one. This caused the economic growth rate to slow and, ultimately, the crash in the summer of 1997. The government of Thailand was left to deal with reconstructing an unstable economy in the face of recession. III.

Government ActionWhat came to be known as Thailand’s 1997 crisis forced governmental and financial officials to seriously reevaluate the way their country conducted its business (Macdonald 697). Prime Minister Chawalit, to avoid complete collapse, was forced to sign an agreement with the International Monetary Fund (IMF) that granted access to a $14 billion dollar facility to supplement foreign exchange reserves, and restore financial market stability (Thailand 1). This agreement with the IMF, however, did not come free of charge. Once Thailand agreed to work with the IMF in exchange for the loan of funds, it lost the majority of its control over its own financial sectors.

The problem of insufficient regulation of globalization arose with the advent of globalization. The problem was exacerbated by the type of corruption that occurs when government and business are so tightly linked (Macdonald 697). This phenomenon is best showcased in the government’s response to the troubles in the financial sector. Representatives of the suspended finance companies, on several occasions, met with government officials including but not limited to, Prime Minister Chavalit, and the leader of the second largest party in the coalition, General Chatichai, to lobby for weaker financial guidelines (Macdonald 697). The owners, and major officials of the bankrupt companies reluctantly proceeded with IMF and government required audits, and market valuations of their assets. Apart from the IMF requirements, the Thai government itself began turning the financial sector around with its own admittance of the problem.

It launched its first financial restructuring package on October 14, 1997. The goal of this plan was to separate and suspend the weakest institutions and support those remaining. Following Prime Minister Chavalit’s resignation, the following December, new Prime Minister Chuan Leekpai’s administration followed up by closing 56 of the 58 finance “ weak” financial companies in question. In addition, the administration took control over two more banks, making the repossession total since 1995 four of the fifteen Thai banks. Once repossessed, shares in each bank dropped as much as 1/1000th of their previous value (Leightner 247). This symbolized an important break with the past as it overturned the informal network and pushed Thailand as a whole toward having a more open financial system, and increasing transparency in a western style.

(Macdonald 698). As companies and banks alike began to fear government take-over, they became increasingly cooperative and exclusive as to whom they extended loans. This crack down on behalf of the government, aided by the IMF, was exactly what the country needed, to secure stability in hopes of eventually regaining the growth they once had. In addition to the aforementioned reforms taken by the government and IMF, selected systems were enacted to stimulate recovery as well. The government started by reducing the value-added tax from 10% to 7%, and successfully encouraged a substantial decline of interest rates. They also set a stimulative budget deficit of 6% of GDP, down from 8%, to create as many as 500, 000 more jobs.

In an effort to regain the growing economy it once had, the government combined reform in transparency with monetary policy systems (Overholt 1024) . IV. Thailand Since 1997Although the government made attempts publicly to recover economic ground lost, they proved to be inefficient. As of the end of June 1999, it looked probable that the government would manage to spend only 650 billion baht of its planned 800 billion baht budget (Bowornwathana 90). The government planned to give funds out to villages around the countryside, in hopes of reviving the property sector. Unfortunately this money was not used by the villages efficiently and in addition the government failed to compensate for the fact that the money would have to be repaid.

Although the plans were not thought through to the fullest extent, some of the systems began to show signs of a recovering economy. In the first quarter of 1999, growth was 0. 9% however at years end the average was just under 3% (Bowornwathana 88). Throughout the year of 1999, it became increasingly apparent that much of the country’s recovery could be found within itself, meaning in more efficient use, and allocation of funds.

For example, Thailand spent about an equal proportion of GDP on education as other Asian countries (Overholt 1025). However much of the money was wasted, lost in the shuffle. The constitution proposed and passed in 1999, required that every child be given twelve years of schooling, as opposed to the previous nine, but does not explain how this is to be done. No laws were put in place as to what occurs when the children do not reach the 12 year education minimum, leaving the people with a law, but no consequences (Overholt 1025).

This leads to a reversed societal system, leaving the future population under educated. These children, with lack of schooling go to work for minimal amounts, instead of pursuing the education that could in the long run push their country’s economy out of recession. Although situations in Thailand could not be fixed over night, short of a complete societal change, 1999 was a relatively good year for the population. It saw an increase in health care, jobs being created, and the beginning steps back toward economic rejuvenation (Bowornwathana 88). It is still visible however that the reforms, systems, and corruption in general in the Thai government still have a long way to come.

Thailand seemed set to enjoy growth of about 5% in the year 2000, on its way up from the crash in 1997 (Montesano 176). The major difference from ’99 to ’00 was the increase in exports, much like the early 90’s, but this time exports were regulated more seriously in the hands of the IMF and government control. Even within the government there have been visible changes, first and foremost being the introduction of the National Counter Corruption Commission or NCCC. Though the commission has been around for a short period of time previous to the year 2000, its first major arrest was Sanan Kachonprasat, an interior cabinet member of Prime Minister Chuan Likphai’s administration (Montesano 173).

He was accused of misrepresenting his assets as a loan when making a required declaration of his worth, a problem associated with much of what we see leading up to the crash of 1997. This was a huge step in the right direction for all parties involved, showing the purpose, and correct use of all the new institutions. Exporting as well as daily affairs in the business sector appeared to be running smoothly, at least through the first two quarters. In the Thai economy, a minimally troubled banking sector was necessary for growth however by the fourth quarter bickering between the Bank of Thailand and Finance Minister Tharin had gained momentum (Montesano 177). As time would show, Tharin’s financial-sector-led strategy to lift the economy bordered on disaster.

By the fourth quarter, the Thai Stock Market had fallen over 40% for the year, and the baht reached its lowest level since the crash in 1997 (Montesano 177). Although the economy would recover minimally toward the end of the fourth quarter, the instability in the stock market proved to be a problem through the middle of 2001. Thailand, although certainly on route to recovery from the 1997 crash, still has a long way to go. The problem I found facing Thailand’s recovery from such an economic disaster was not strictly economically related. The largest problem of all is properly implementing economic reform, while overcoming the political corruption and systems put in place many years ago.

V. ConclusionPolitical instability seems to be the cause of most dilemmas found in Thai political or economic structures to date (Samudavanija 342). When an administration or government is based on corruption, and authoritarian rule, whether called a dictator or democracy, it is extremely difficult to establish reform. In the midst of economic crisis it is difficult enough to institute change without having to break down a system of corrupt elite. Overall the Thai economy is on the upward slope since the crash, with new reform, partially implemented by the IMF, decreasing the opportunity for corruption within (Macdonald 698).

The Thai people, though struggling, and still dealing with uneven income distribution are recovering. The good news is as a byproduct of the economic crisis, from internal change, and mandated change from foreign pressure, reform amidst the corruption is in sight for the Thai economy and political forums. A series of electoral and political reform has been passed in recent years aiding in the recovery. As presented, the proper systems are in place to recover fully from the catastrophe however it is up to proper leadership, outside consulting, and the Thai population as a whole to continue in a full recovery. There are no signs of this being an overnight occurrence; however it is feasible, and will be accomplished when all the proper criteria are met.