

Continuing fallout from financial crisis

Thai government survives no-confidence motion

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The Thai government of Prime Minister Chuan Leekpai comfortably survived a no-confidence motion in the week before Christmas by 229 to 125. But the five-day debate left some marks on the principal opposition targets—Finance Minister Tarrin Nimmanahaeminda and Interior Minister Sanan Kachornprasart—and highlighted the potential for further political fallout from the country's heavily indebted financial system.

As the minister in charge of police, Sanan was accused of dropping a case against friends charged with illegally occupying land and of having “unusual wealth”. Tarrin was attacked for favouritism to foreigners, personal friends and businessmen sympathetic to his own Democratic Party. But one of the most damaging charges against the government concerned Tarrin's handling of the investigation into the debt-ridden Krung Thai Bank. Opposition speakers accused him of protecting his brother who had been president of the state-owned bank for seven years during the 1990s.

The Krung Thai Bank was one of the many financial institutions hard hit by the Asian meltdown, which was sparked in July 1997 by the floating of the Thai currency against the US dollar. According to an internal PricewaterhouseCoopers report leaked last August, the estimated level of non-performing loans at Krung Thai was a staggering 84 percent. Though the actual level is disputed, it is almost certainly higher than the 59 percent claimed by management.

The opposition alleged that Tarrin had been slow to investigate the bank and then, after the leaked report, had put together an investigative committee drawn from his own department and the central bank that had absolved his brother Sirin. Asked in an interview whether Sirin could be at fault, Tarrin replied: “If you set a higher financial standard for Krung Thai than other financial institutions, then yes. If not, then no.” The answer contained an implicit warning to his political opponents: if you want to set high standards then businesses in which you are involved can

easily be investigated in the same way.

Control over the country's main banks and financial institutions is in the hands of a relatively few wealthy families, all of whom have political connections. Despite the high levels of bad debt and the closure of virtually all of the country's finance companies, there have been few prosecutions. As an article in the *Far Eastern Economic Review* in November noted: “When the Bank of Thailand recently moved to prosecute 40 executives from now-defunct finance companies, the bank Governor Chatumongkol Sonakul acknowledged ruefully that many were members of his own social circle. ‘Five of the 40 are in my golf club; two are relatives; and 10 more, we have dinner with quite often.’”

Thai police are attempting to extradite businessman Pin Chakkaphak from Britain to face charges of embezzlement in connection with his failed company Finance One. Pin, known widely for his fast cars and fast money deals, had built Finance One into a \$5.5 billion enterprise by 1992. But by the beginning of 1997, it had become one of the most spectacular finance company failures that contributed to the economic collapse later in the year. But Pin argues that he and a handful of other financiers are simply being made the scapegoats for loose financial practices that were widespread and condoned by the Thai central bank.

No one, including the parliamentary opposition, is keen to rock the boat too much. As elsewhere in Asia, the 1997 economic meltdown opened up deep divisions within the ruling elites over the direction of economic policy. The Chuan government, and Tarrin in particular, has implemented International Monetary Fund (IMF) policies of opening up the economy to foreign investors; the opposition led by General Chavalit Yongchaiyudh from New Aspiration Party is more closely associated with sections of business spawned under long years of military dictatorship and economic protectionism.

Taking a leaf out of Malaysian Prime Minister Mahathir

Mohamad's book, Chavalit relied on crude nationalist appeals during the parliamentary debate. He accused the Chuan government of "allowing foreigners to control our country's major sectors, especially financial institutions" and said that it had become "an international joke" in Asia for kowtowing to the West. Chavalit claimed that the policy of currency and capital controls imposed by the Mahathir government had, despite harsh IMF criticisms, resulted in a better economic outcome in Malaysia than had occurred in Thailand.

In reply, Chuan claimed that the economy was in far better shape than when Chavalit was in power. Indeed much of Chavalit's criticism failed to carry any effective punch because his government was in power in mid-1997 when the financial crisis erupted. Chavalit lost his parliamentary majority precisely because the IMF, the US government and sections of big business had little faith in the ability of his government to carry out their economic demands.

In recent months, media commentators have speculated that the worst of the Asian economic crisis is over, pointing in particular to South Korea and Thailand. Official figures for the third quarter of last year point to a 7.7 percent growth rate in Thailand. The IMF projections for Thailand for last year are for a 4 percent growth rate, as compared to a contraction of 9.8 percent in 1998. Other indicators, including consumption, manufacturing output and industrial exports, are all up. Thailand announced last year that it would forego the last loan of \$3.7 billion from the IMF's \$17.2 billion bailout.

The higher growth rates have been largely the result of increased exports, which in turn are dependent on the economies of the major industrial countries, particularly the US. Moreover, as in South Korea, the "recovery" rests on precarious foundations. The Thai economy, the second largest in South East Asia after Singapore, is still heavily burdened with bad debts and, as a result, its financial system is as shaky as it was two and a half years ago. The country's total external debt was projected to hit \$59.2 billion or 24-26 percent of GDP by the end of last year.

Non-performing loans (NPL) are estimated to be a massive \$69 billion or nearly half of the financial system's total loans. The scarcity of bank loans since the latter half of 1997 has forced corporations to turn to the so-called underground lending market. In a comment to the *Far Eastern Economic Review* last year, Lynn Exton, first vice-president of Merrill Lynch in Hong Kong, warned: "Without proper resolution of the NPL problem, we could see another banking crisis in the next five to six years."

The IMF and international investors have been pressing for a more radical restructuring of the country's financial system. Scott Christensen, regional banking analyst with

Jardine Fleming, commented in the same *Far Eastern Economic Review* article last November: "In my opinion the government has been pandering to these big bank families for too long. It should get tough." He said the government should have insisted on more stringent provisioning for bad loans and tougher lending criteria.

No one, however, has any long-term solutions to the problem. The spokesmen for international finance capital like Christensen are pressing Chuan to implement measures that will force large sections of Thai capital to the wall and provide opportunities for foreign investors. Chavalit, representing those layers of business most likely to go under, is attempting to retard the process. That is why one of the most bitterly debated issues last year was the revamping of the country's bankruptcy and foreclosure laws to make it easier to take insolvent companies to court. More importantly, regardless of whether Chuan or Chavalit has been in power, the social conditions facing millions of the poorest layers in Thailand have continued to deteriorate.

Chuan survived the no-confidence vote with relative ease. In the aftermath of the debate he indicated there would be no cabinet reshuffle and spurned opposition demands to bring forward the national elections that are due this November. A poll carried out by Suan Dusit, an Internet research agency, shortly after the vote found a majority supported the government and only 18 percent opposed it. But the apparently strong political position of the Chuan government could rapidly evaporate should the country's debt-laden financial system once again plunge the economy into crisis.

See Also:

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