The results of more than 40 years of World Bank/IMF investment in Thailand are still uncertain.

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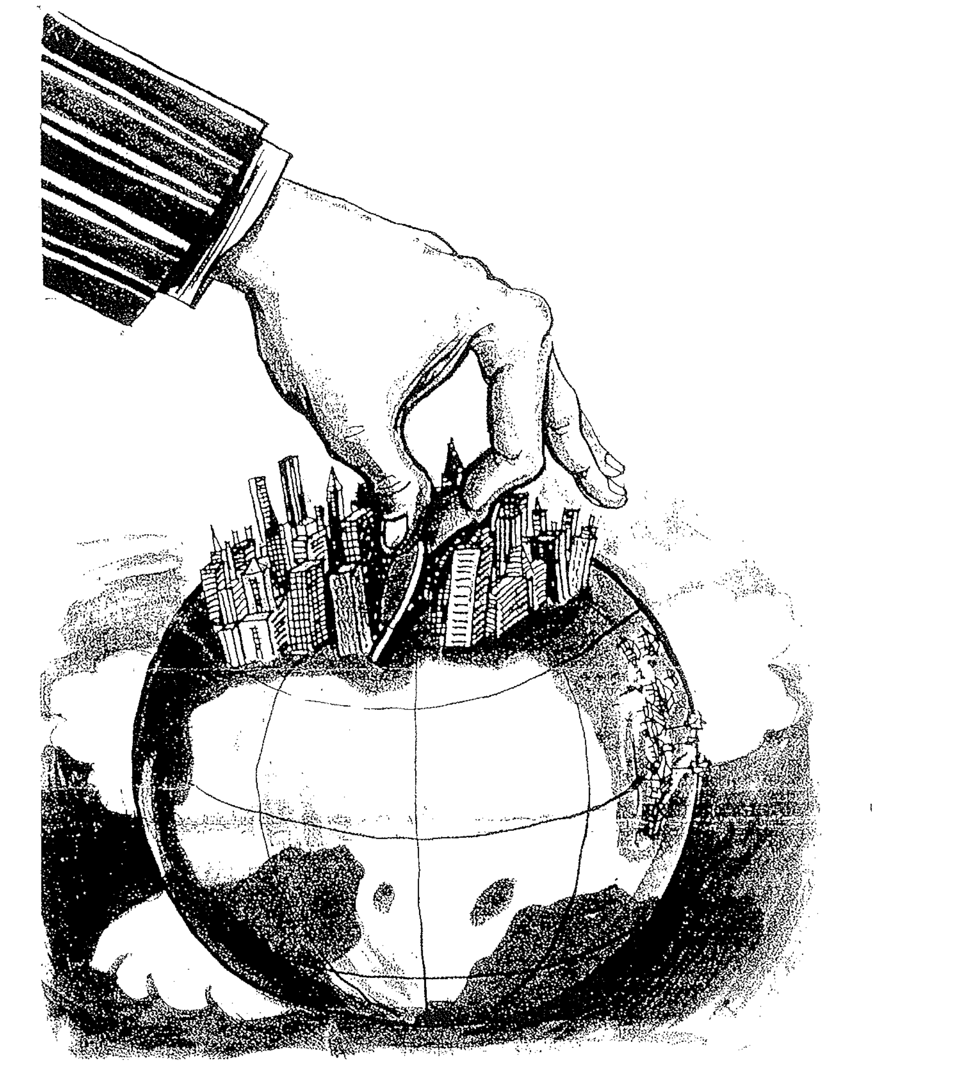

A LENDING LEGACY

"The Bank may come and go but the institutions and policies [that it has backed] usually take root and persist long after the Bank's loans have been disbursed," said Robert Goodland, World Bank chief for Latin America in 1989.

Goodland's statement reflects what Thailand, as a member of the World Bank and the International Monetary Fund (IMF) since 1949, has inherited from 42 years of association with the two multilateral lending agencies.

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THE WORLD COMES TO BANGKOK

A host of institutions, policy reforms, and the pattern of export-led growth Thailand has adopted are a few examples.

Out of the recommendations of the Bank and the Fund, however, emerge a large number of unplanned and unwanted consequences of development.

A large slum beside the Queen Sirikit National Convention Centre — where finance ministers, central and private bankers from 155 member countries are to discuss their business — is one. It was unexpected, it is regarded as being undesirable in the eyes of the host, and yet it is undeterred by the upcoming convention.

While the Fund boasts of Thailand as being "an excellent example of successful development, combining adjustment with growth" in the 1991 country report, the wealth that has come with that economic success is increasingly disproportionately spread, concentrating in the hands of a few. The *Pai Singtao* slum will provide a stark reminder of this as the guests and hosts pass by it during the conference.

The Thailand Development Research Institute (TDRI), an independent think-tank, in a study acknowledged by the National Economic and Social Development Board (NESDB), the government planning agency, reported that income distribution in Thailand is getting worse.

The income share of the top 20 per cent of the population rose from 49.3 per cent in 1975/76 to 55.6 per cent in 1986, while the poorest 20 per cent could take little comfort in their share dipping from 6.1 per cent to 4.6 per cent.

In simple economics, if losses outnumber gains, the merit of investment will be in question. Yet, in the case of Thailand, no fair calculation of the return on investment of the Bank-sponsored export-led economy has been made.

This article is not attempting to make an economic assessment. Still, the two institutions' past recommended policies, which have charted an extraordinary course of development in Thailand, are worth reviewing.

Economic policy reforms

A year after Thailand joined the two institutions in 1949, the World Bank sent an unusally large mission to Bangkok to survey the local economic and social conditions, a normal practice for new members before a loan can be approved.

As a result of that mission, a series of policy reforms were suggested with the Bank pledging to lend to Thailand to undertake mostly infrastructure projects to accommodate future economic expansion, said Chavalit Thanachanant, former Bank of Thailand governor in an interview with *The Nation*.

The Fund, meanwhile, agreed to Thailand's request to postpone the liberalization of its currency transactions under Article 4 of the IMF, which was a normal requirement for admittance.

It was not until 1963 that Thailand could actually eliminate most of the restrictions on currency transactions to comply with the requirement. The following challenge was for Thailand to subscribe to Article 8 to eliminate all restrictions for transactions and relax control on foreign exchange, a target Thailand met just last year.

At the annual Bank/IMF meeting in Washington in 1950, the first time Thailand was represented, three loans worth US$25 million were approved for the reconstruction of state railway lines, improve the port of Bankok and build a dam on the Chao Phya River to "increase its irrigation capability".

One of the policy recommendations the Bank put forth at that time included reduced state intervention and promoting the manufacturing base of the country. Under the nationalist government of Field Marshal P. Pibulsongkram, the recommendations never really materialized.

It was not until 1957, when the military government of Field Marshal Sarit Thanarat invited the Bank to play an active role to counter the nationalist sentiment instilled during that long period of nationalism.

In this process of integrating the Thai economy to a capitalist economy, the Bank proposed far-reaching policy recommendations to Sarit to reduce the amount of state intervention in the economy.

The state's role shifted from espousing economic nationalism and supporting public corporations to providing essential infrastructure and investment incentives for the private sector.

Seeing the move as "a turning point in Thailand's economic development", the Bank proposed the creation of several strategic institutions, rapid expansion of the agricultural sector, developing transport links between the provinces and Bangkok as well as strengthening the manufacturing base through the promotion of import substitution industries.

High rates of growth in agricultural output and exports during this period as a result of the state's hefty investment, mostly through Bank loans, in irrigation and transport networks was induced to create a conducive environment for the second staged development of local industries.

In 1958, the Bank's affiliate, the International Finance Corp, which lends to the private sector, helped fund the Industrial Finance Corp of Thailand (IFCT), one of the government's strategic instruments to developing small and medium industries.

These policies were achieved with the compliance of the Finance Ministry, which guarantees World Bank loans and budgets government expenditure, and the Bank of Thailand, which oversees the overall economic performance. The IFCT even falls under the jurisdiction of the Finance Ministry which holds the majority stake.

It has always been the Bank's and the IMF's policy to "promote an environment favourable to a higher contribution by the private sector and encouraging developing countries to integrate themselves into the multilateral trading system".

But Dr Grit Permtanjit, an economics professor at the National Institute for Development Administration (Nida), who studied the Bank's involvement in Thailand during that period, said the Bank's lending in Thailand then was not without political motives. He describing the World Bank as "the most influential actor in Thailand's political economic affairs".

Thailand, in the 1950s and 60's, played the crucial role in the United States foreign policy toward Southeast Asia as a front line state in the communism-threatened region.

Washington, at that time the world's largest donor country and the largest shareholder in the two development institutions, goes hand in hand with the Bank in business.

"Economic development is, after all, one of the best counter-insurgency weapons we have. If we develop among the rural people a friendship and loyalty towards their government, we shall have gone a long way toward making it possible for them to resist subversive communist attempts from the outside," said an American aid officer back in 1980.

At this crucial juncture, the Bank proposed the formation of several organizations through which it could exercise its power at the national level, since the Bank charter forbids political interference by the Bank in client countries.

Institutions

The Bank, said a Canadian economist working with Probe International, a non-governmental organization, did more than organize money for loans, it created institutions to do the borrowing as well.

"To carry out its agenda and its projects, the bank often set up autonomous government authorities, such as development finance banks, agricultural

Continued on B2 LEGACY

Continued from 8

LEGACY: Interdependence on the rise

credit institutions and energy agencies in borrowing nations," according to Patricia Adams.

With the formulation of new economic policies stressing private sector involvement and liberalization, came the establishment of the IFCT in 1958, the National Economic and Social Development Board (NESDB) in 1959 and the Board of Investment (BoI) in 1960.

To ensure that its policy reforms were translated into action, the first national development plan was implemented in 1961. Its drafting and reviewing was largely influenced by Bank staffers, as Dr Snoh Unakul, former NESDB secretary general, once said.

Even in the first development plan, elements such as the ones we see today in the seventh plan, did appear. They included policies to proscribe new state enterprises and transfer the old ones to the private sector and to exploit the country's "competitive edge" to propel economic expansion.

At that time, Thailand's competitive advantages were an abundant land, natural resources and low-cost labour, which today are largely myths.

Cash crops were introduced to replace rice farming. Forests were cleared to expand farm production and support the fledgling industries. Mineral deposits were mined and exported. Prices of rice varieties were kept low through various taxes. Labour wages were repressed.

All these were done with a single prime objective — to maintain the country's competitiveness. Dependency on foreign markets was increasing.

At this stage, the NESDB, which influences the approval of each investment project, was used as an effective means through which the Bank could exert its authority.

Ukrist Pathmanand, a political scientist at Chulalongkorn University, said at *The Nation* roundtable on the role of the World Bank and IMF on Thailand's development (held Friday), that at least in the first three national development plans, the names of Bank advisers appeared prominently on the plans themselves or on the projects which the NESDB and the Board of Investment proposed.

To date, the Bank's loans have been concentrated highly in the crucial fields of energy, agriculture (mainly large-scale dams and reservoirs) and transport, taking up 38 per cent, 23 per cent and 18.9 per cent of the Bank's total lending to Thailand worth US$1.75 billion.

Although the Bank does not lend directly to the agency it helped form, all of these large-scale projects were proposed and scrutinized by the NESDB before submission to the Cabinet for approval.

The situation Thailand is experiencing is not different from other developing countries who are Bank "clients".

In Columbia, 36 of the World Bank's first 51 loans went to autonomous agencies that the Bank either established or entrenched, wrote Adams in her recently-released book, *Odious Debts*.

"In effect, the Bank acquired the powers of a surrogate government at the international level, while at the national level it became a powerful administrative arm of the Colombian government that "bypassed governmental decision-making, including the legislative and judicial branches", she quoted Colombian political scientist Fernando Cepedo Ulloa and John Howard from the New York-based International Legal Centre as saying.

In the 35 years since Thailand's the policy shift adopted by the Sarit administration on the basis of Bank recommendations, the national planning agency still adopts most of the advice which appeared in the World Bank report on Thailand in 1959.

Familiar terms such as liberalization, globalization, free trade, private investment and export promotion are predominant in the seventh plan.

Apart from the NESDB, the Board of Investment and the Industrial Finance Corp of Thailand were set up at the initiative of the Bank to promote Thailand's industries which were almost non-existent in the 1950s. The manufacturing industry accounted for only 10 per cent of the gross domestic income, as opposed to around 30 per cent per cent now.

The BoI was created to administer a package of investment incentives designed initially to promote import substituting industries while the role of the public sector was limited to providing basic infrastructure.

The promotion package was overhauled in 1972 to give greater incentives to export industries in the face of increasing procurements by the US government to satisfy its bases in Indochina and Thailand.

The export promotion policy was maintained until recently when the Chatichai government decided to generalize tax preferences through sharp cuts in import tariffs. A major policy shift from project administration to servicing was approved.

Export-led growth

Thailand has adopted export promotion as the basic industrialization strategy although the merit of such a policy as the propeller of growth is itself being increasingly questioned by a growing number of development planners and economists, said Giri.

First and foremost, export promotion strategy does not render itself to the essential causes of industrial backwardness and to the structural necessity for self-sustained development, he added.

Like import substitution, export promotion did not ensure that economic wealth, once generated by industrial development, will be appropriated indifferentially given the constraints of the established pattern of income distribution.

Moreover, export promotion makes the Thai economy more exposed to the instabilities of the world market. The stake is high as the growth in world trade grows at a much slower rate now.

The two oil shocks in the '70s and '80s hit the Thai economy hard. The IMF and the Bank came up with austerity measures to cut government expenditure, further reduce state control to stimulate private investment and to promote exports.

The relentless economic expansion suggested by the World Bank was disrupted. Unpopular devaluations of the baht were launched, rocking the stability of the Prem Administration.

The quick recovery of the world economy after the oil shocks, the continued healthy growth rates of developed nations for several consecutive years, and the then relatively open markets combined to work well for Thai exports.

However, the conditions are changing now. The world economy is sinking deeper into recession while new measures are introduced by industrialized nations to protect their own industries. Thailand's export industries are facing a big challenge.

Now, Thailand is enjoying steady economic growth. But the interdependence between the Thai economy and the world, which will increase over time as Thailand moves to adopt Article 4 of the IMF to free exchange rates controls and allow the baht to reflect its market value, means the whole economy is exposed to even more uncertainties.

As Chavalit, the former central banker said, in the near future, Thailand will not repeat the cycle of counselling from the Bank and the IMF to find a remedy for its economic misfortunes.

But if inflation continues to grow unabated, and the gap between savings and investment continues to rise — plus the social and environmental burdens that are mounting unceasingly — Thailand may very well have to look to the Bank and the IMF again for "advice". That will depend, though, on the quality of future administrations.