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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Scharinger, J. (2010). Thailand in the Face of the 1997 Asian Crisis and the Current Financial Crisis: an Interview With Johannes Dragsbæk Schmidt. *ASEAS - Austrian Journal of South-East Asian Studies*, 3(1), 101-111. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-362958>

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Im Dialog / In Dialogue

Thailand in the Face of the 1997 Asian Crisis and the Current Financial Crisis: An Interview With Johannes Dragsbæk Schmidt

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*ASEAS - Österreichische Zeitschrift für Südostasienwissenschaften / Austrian Journal of South-East Asian Studies
SEAS - Gesellschaft für Südostasienwissenschaften / Society for South-East Asian Studies - www.SEAS.at*

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The interview was conducted by e-mail on 3 April, 27 April and 4 May 2010.

JULIA SCHARINGER: In your article 'Financial crisis, social crisis and unequal development in the Republic of Korea and Thailand' (Dragsbæk, 2008) you mention major long-term impacts of the Asian Financial Crisis in 1997 on Thai society, such as a transition to flexible and informal jobs and growing social inequality. Could you briefly sketch how these factors arose and how they transformed the labour market throughout the duration of the crisis?

JOHANNES DRAGSBÆK SCHMIDT: In the aftermath of the crisis, although with some variations, Thailand introduced or expanded a host of labour market interventions and social protection programs. This could be seen as a re-active response to the massive



layoffs of regular workers in all sectors and the dramatic increase in poverty. Had it been pro-active, the government and public sector would have been prepared for the massive social costs. Another effect of the crisis was a significant shift from contract-based regular employment to non-standard or informal work. This informalisation of the labour force was aggravated by the bailout conditionalities attached to the IFIs' [international financial institutions'] intervention where also the demand for increasing labour market flexibility was introduced. The promotion of flexible labour market regulation was an attempt by the IFIs to enhance 'competitiveness'.

However, Thailand encountered important social problems connected with uneven development, inequality and challenges regarding the lack of policy responses towards distributional problems even before the crisis. Social policies and labour market regulation had evolved against the backdrop of political stability, 'full employment', high household savings, and what was perceived as strong and resilient family and community ties, which gave governments an excuse for not planning for eventual downside risks. According to the view of the IFIs, even during times of economic growth three issues were already challenging the social context: persistent pockets of poverty and rising inequality, protected labour market policies and industrial relations with job security, and rising needs for formal mechanisms to support household security. Looking back, the World Bank noted in 1998 that growth masked those problems but when the crisis stripped this mask away, the region's persistent social vulnerabilities were sharply revealed.

The ultimate impact of the IFIs' interventions was more job insecurity, a lowering of wages and increased competition among a growing pool of unemployed and informalised workers for a smaller number of jobs, a reduced role for organised labour, and a reduction in bargaining strength of industry- and economy-wide unions. Migrant labourers became scapegoats and in some cases were virtually thrown out of the country. This also had an important gender dimension as women were laid off first and had to bear the heaviest burden for the restructuring of industrial relations. I agree with Andrew Brown, who recently noted that the Thai experience shows that there have been efforts to manage labour tensions in new ways that bypass and further undermine ideas of representation and cognate institutional structures that have historically been linked to collective class-based action and organisation (Brown, 2004).

SCHARINGER: Which strategies did civil society use to overcome the crisis of 1997?

DRAGSBÆK SCHMIDT: Civil society in Thailand is not that different from other countries. It is split between civic and progressive forces and a more conservative – and in some cases anti-democratic and illiberal – sector. The new social policy of the post-Washington consensus deliberately uses the liberal language of participation and empowerment as a strategy of ‘anti-politics’. This is a conscious strategy leading to marginalisation of political contestation. Unlike earlier governance programs identified with structural adjustment, it envisages a more active role for the state as a regulator for civil society seeking to promote the disciplines of the market. This also became clear in the aftermath of the financial crisis in Thailand where the “maintenance approach” developed by the IFIs was devoted to a specific and strengthened role of civil society organisations and their ideological imperative as the pre-eminent measure for ameliorating the social impacts of the crisis, along with flexible labour markets. It leaves the important question in Thailand whether civil society is in fact undermining the key functions and social responsibilities of the state in terms of delivering public collective goods. The fact that the IFIs’ policy of dumping social services onto NGOs means they should take over the work without a corresponding transfer of funding and the development of a mutual relationship with the state – the split in civil society ultimately laid the ground for the present chaos and political turmoil in Thai politics and it can be argued that the danger of a civil war in late April 2010 can be traced back to the actions of civil society, the state and the aristocratic elite’s rejection of the accommodation of the then Prime Minister Chuan Leekpai’s approach towards the IFIs’ “maintenance ” approach”.

SCHARINGER: Both crises, back in 1997 and today, were majorly influenced by the financial markets, linked to huge credit schemes and quickly surpassed national borders – and had an impact on a regional or global level. Could you give some more of your thoughts on how the current crisis resembles or matches the crisis of 1997?

DRAGSBÆK SCHMIDT: In the wake of the 1997 financial crisis, when Thailand entered the IMF programme, they were told to tighten their monetary and fiscal policies by raising interest rates, getting and keeping fiscal budget surpluses and nationalising troubled banks. The programmes of today bear some resemblance to the 1997

response, but there are differences as well. The crises in 1997 and 2009 demonstrated the fragility of the over-reliance of the Thai economy on export-orientation and a major sell-out of Thai assets to foreign capital. Today, listed firms in Thailand trade at 11.9 times estimated 2010 earnings, making Bangkok the second cheapest market in Asia after Pakistan. This entails a danger that even more Thai assets could shift hands.

SCHARINGER: After the current crisis hit the global economy, major economic indicators and growth rates were in free fall. Growth rates in export-nations such as Germany dropped to an all-time low, while giants such as China could at least stabilise at a low, although greatly lessened, growth rate. In comparison to such developments, how was and is Thailand affected and how is it performing in the current financial crisis?

DRAGSBÆK SCHMIDT: The Thai case shows that crises can set in motion events that cause institutions to deteriorate. The 2009-2010 crisis has increased distrust and fear, and weakened the prospects for democratisation. Today the Thai economy is in low gear with slow growth and sluggish demand. This is also connected to the political situation, which remains unresolved. The problems of the important tourism sector are not so much related to the crisis as such, but are a result of the clashes between pro- and anti-Thaksin forces.

SCHARINGER: Compared to the impacts of the financial crisis back in 1997 on Thailand's society, what are the major problems and challenges of today's crisis to the average citizen?

DRAGSBÆK SCHMIDT: The growth prospects of the Thai economy depend on the economic prospects at the global and regional level. At present there are no signs showing that the Western economies may be beginning to bottom out. Like in the case of the 1997 crisis, even if the economy bottoms out, this does not mean that the problems are over. Trade with China is steadily growing, but it remains to be seen whether the Chinese market can absorb and replace EU and North American demand. Thailand bottomed out after about five to six quarters from the start of the 1997 crisis, but it took five years before output got back to the pre-crisis level.

The decline in non-performing loans ratio to below the level of 10 percent took even longer; about eight years. Thus, in the case of the present crisis, a quick return to business as usual appears to be out of the question. These measures and changes beyond the policy-makers' and average Thai's control have had a huge impact on the daily life of Thai citizens in the form of growing poverty and unemployment, and especially a growing informalisation of the labour market.

SCHARINGER: After the Crisis in 1997, Thailand's politicians took measures toward the future protection of its economy and financial stability. Do you think Thailand has gleaned anything from the former crisis and actually adopted strategies which are able to protect them now – not only concerning financial stability, but also in light of growth, exports, secure jobs or tourism?

DRAGSBÆK SCHMIDT: This is a highly political and perhaps ideological question. It seems that the Democrats tend to rely on a classical short-term strategy while the Thaksin camp wants to promote a more Keynesian inspired type of demand driven economic policy approach. It is true that the Thaksin administration used an expansionary fiscal policy in 2001 in an attempt to enhance economic growth. In its first term there was a focus on boosting rural incomes and development, but infrastructure development was declared the priority for the second term and this was on the whole seen as a success. In the beginning Thaksin relied on protectionism, a shift away from exclusively relying on export-orientation (EOI) towards the domestic market; a focus on social policies, and in general a populist and nationalist discourse. At the moment most of the policy responses to the crisis coming from the Abhisit government are directed toward the short-term need to shore up the economy. Fiscal injections are expected to generate greater domestic consumption that will ease the pain of domestic producers and consumers and there is certain degree of copycat economic policies in the sense that some social policies initiated by Thaksin have been continued by the Democrat-led coalition government. However, it appears that not much attention has been paid to how to make the fiscal injections sustainable. Even less thought has been given to what a new "rebalanced growth path" for the country might look like and how it can be achieved.

SCHARINGER: Regarding those protectionist strategies, how do you assess the current situation and vulnerability of Thailand's society in light of the financial crisis?

DRAGSBÆK SCHMIDT: The Thai crisis in 2010 is more a political crisis than an economic one, but behind this fault line is a structural problem related to re-distribution and inequality. There is a fear among the elite that the hegemony of the traditional paternalist Thai aristocratic elite is coming to an end. The challenge from the rebellion of the poor and marginalised – symbolised by billionaire Thaksin as a leadership figure – threatens to tear apart Thai society and, in the worst-case scenario, it will end in a civil war. The protectionist strategies promoted by Thaksin stand in sharp contrast to the fact that he also tended to act in a kleptocratic and autocratic fashion by expropriating public property and selling off his huge conglomerate for his and his family's own benefit. The levels of corruption and kleptocracy amongst members of the elite appear to have reached endemic heights – and this includes both camps: the royalist aristocrats and the more neo-liberal oriented, but social-protection aware, camp of Thaksin.

SCHARINGER: Which strategies is civil society using to deal with the current crisis? Are there any observable strategies yet?

DRAGSBÆK SCHMIDT: Civil society appears to be paralysed by the present political crisis and can be characterised by its anti-Thaksin doctrine. Both camps in civil society supported the military coup against Thaksin as both see him as a corrupt politician and an unreliable person. For some he is even seen as an anti-monarchy politician and a threat to national unity.

SCHARINGER: In response to the current crisis, the Thai government introduced an economic stimulation package meant to protect its economy and stimulate the consumption rate of people with low incomes. Do you think this package could fulfil its expectations, or do you see alternative instruments as necessary to secure income and domestic consumption?

DRAGSBÆK SCHMIDT: I do not see this package as sufficient. It appears that there are many structural problems in the Thai economy which needs to be addressed. These

problems are of a more long-term nature related to access to improved education, skills upgrading, increased taxation especially of the rich, and the implementation of pro-poor policies – the last could be in the form of re-distribution and the establishment of social welfare entitlements. The present political turmoil also appears to be a competition between two interpretations of “Buddhist economics” in the form of what has been called “sufficiency economics”.

Sufficiency economics is a concept that was invented by King Bhumipol during the Cold War and the communist insurgency in the Northeastern part of Thailand. In a number of speeches he explained “that the centre of his view was the modern maxim promoted by King Vajiravudh: every citizen’s paramount duty is to the unity of the nation under the king”. In the same vein he noted that part of the problem of Thailand’s lack of unity was selfish capitalism, which lacked morality and was by nature divisive. Capitalism did not reward most the hardest workers or those who performed their duty. It rather benefited those who took advantage of others, and this eroded unity. Bhumipol said trader and land speculators who took advantage of peasants “may be on side of terrorists.” He further noted that rural development should be carried out with a high degree of ability, wisdom and intelligence coupled with honesty without any thought of financial gain. He concluded that modern government had been imported from the West and was not appropriate for Thais.

These remarks are reflected in the Tenth National Economic and Social Development Plan (2007-2011), which set the target of reducing poverty from 13 percent in 2004 to 4 percent by 2011. It also targets a ratio of the richest quintile to the poorest quintile of no more than 10 times. Very much inspired by Bhumipol’s self-sufficiency approach, the development plan also emphasised implementation of the “Good Living and Happiness Society Strategy” which consists of five development plans: (i) a sufficiency economy plan aimed at building up knowledge and creating occupational skills; (ii) a community development and opportunity creation plan focusing on reducing household expenditures (e.g. use of organic fertilizer and vegetable home gardening) and creating market opportunities for community products; (iii) a rehabilitation plan for natural resources; (iv) a vulnerable people and senior citizen assistance plan; and (v) a provision plan for basic services (e.g. health, education, and vocational training). The plans will be implemented through projects jointly designed and implemented by community leaders, local governments, provincial governments and the central

government.

Thaksin had also used the concept in a strategic way to pursue what was termed his populist spending programmes in the sense that his support for local initiatives was a way to exploit rural dissidence, protest which evolved into a rural movement – but once he came into power he revealed his lack of interest in the rural and local causes. His main strategy for rural change was to pump in capital funds. He had no interest in land reform, land-to-the-tiller programmes, tax reforms, or other policies to shift the structural position of peasants within the national economy. One needs to be reminded that 70 percent of the population live in the countryside and more than 500,000 farmer households are landless in a situation where there still is plenty of arable land available. In reality Thaksin only paid lip service to the ideas of sufficiency and self-reliance. His economic policies and his true feelings were clearly diametrically opposed. Sufficiency economics, with its inward-looking strategy stressing self-reliance at the grassroots level and the creation of stronger ties among domestic economic institutions, was the ideological device which acted as oppositional tool to overthrow Thaksin. In fact, it was the accusations about corruption and popular support for the notion of sufficiency economics around which a considerable number of social movements, NGOs and labour groups against privatisation could gather and find a common cause against Thaksin.

SCHARINGER: From your analysis, which parts of society will be affected the most? Is there a classical winner and loser divide?

DRAGSBÆK SCHMIDT: This depends on the outcome of the current clashes between the red and the yellow shirts. The current problems are no longer closely related to the global meltdown but have become more domestic in nature. A quick look at recent Thai history would tell us that the progressive and pro-poor forces in civil society will lose and we will soon see a military coup or a military clamp-down on the protesters. The winners will be the middle class and the pro-US and conservative elite. Another scenario is a compromise between the factions of the Thai elite and a re-imposition of a weak but democratically elected government unable to touch the privileged minority elite. The losers in both scenarios are the peasantry and poor working people.

SCHARINGER: What needs to be done to protect the citizens from the current crisis? What should politicians do and what could be done by the citizens themselves?

DRAGSBÆK SCHMIDT: This is indeed a difficult question to answer. Basically it is up to the Thai people to decide their own destiny. My personal view is that Thailand must re-think its current overreliance on EOI and foreign capital. To address the issue of social justice, which is one of the most pertinent structural problems in Thai society, by the introduction of a fair tax and redistribution policy including a variety of social protection programmes and to lift restrictions in the Thai legal system which obstruct the establishment of free and autonomous trade unions and political parties which adopt a social profile are two ways to overcome the impacts of the present and future crises.

Another important issue is related to the draconian and anachronistic *lèse majesté* laws, which prohibit any discussion about the role of the monarchy in Thai society and politics. One of the results of the 1997 crisis was the introduction of Thaksin's social policies and his courting of the heirs to the Throne. In reality the competition between benevolent elite-directed discourses is a question about winning the hearts and minds of the rural poor – especially in the Northeastern Isan region; in this equation Thaksin became a threat to the old conservative elite and this threat is still very influential in Thai politics. It seems that the majority of ordinary citizens vote for social change and it is important to keep in mind that organisation according to (economic) interests as opposed to other lines is one important avenue of change and a way to avoid the social pitfalls of crises.

SCHARINGER: What is your perspective on the social and political instabilities in Thailand? Does it make civil society more vulnerable to impacts of the crisis? Does it contribute to the spread of the crisis? Are the rising instabilities even an effect of the crisis?

DRAGSBÆK SCHMIDT: Advocates on both left and right have relied on the idea that civil society can replace the role of the state. The basic argument I want to make is that civil society, at least in its mainstream understanding, cannot replace the state, but should make a greater effort to pressure the state to take up basic responsibilities and enhance developmental and social regulatory state capacities in accordance with

its level of development. There is great danger that the current overemphasis on civil society detracts or hijacks the focus away from what is of immediate importance in any country with high levels of poverty, inequality and social crisis. If civil society includes social groups and strata like organized labourers and the peasantry, it probably makes more sense. Recent examples have shown that the labour movement has been relatively successful in pushing for the Social Security Act despite resistance from the entrenched politico-business alliance – the elite. In fact the experiences with Thaksin, the military, and the present Democrat-led government illustrate the problem with the very idea that Thai civil society can act as a progressive force at the national level. Civil society is per definition undemocratic and not elected by anybody. It is furthermore contested terrain where anti-democratic ‘dark’ forces at least in the Thai context seem to have the upper hand when it comes to issues of democratisation and real representation of the poor. The major problem is the weakness of the political system itself, which makes political representation in accordance with class and other social and political interests difficult if not impossible. The other problem is that Thai NGOs in some cases have become too powerful and actually reduce the strength of adequate social movements which could act as mobilisers for progressive social change and democratisation.

SCHARINGER: You seem to place a great emphasis on Thaksin’s past administration and his current supporters. In the aftermath of the Financial Crisis in 1997 he played an important role. How do you estimate his direct or indirect influence now?

DRAGSBÆK SCHMIDT: Thaksin’s Thai Rak Thai party was in fact partly born out of strong progressive civil society sentiments characterised by the introduction of a coherent social policy, increased protectionism, and nationalism. Since the imposition and hegemony of the Thaksin regime and later on the military coup in September 2006, civil society has been identified by the split between the progressive red shirts (United Front for Democracy Against Dictatorship or UDD) working for social change and the royalist and more conservative yellow shirts (the anti-Thaksin People’s Alliance for Democracy or PAD). The confrontation between the two is still unresolved but it seems there is a danger that it can end in a violent and bloody solution unless a compromise is offered by the government.

It is too early to judge whether Thaksin can return to Thai politics or not. He remains an important political and symbolic figure for the UDD Red shirts in the sense that he stands for social and political change. As long as the stalemate continues, Thaksin and his supporters must be included in a compromise – and it is not impossible that the Puea Thai party will win the next election. However behind it all is the question about succession to the Throne. The Thai monarchy is in crisis partly because Thaksin became a rival and interfered in the succession and partly because the Crown Prince is disliked by many Thais. As long as this issue cannot be debated openly, Thaksin, the UDD and the Puea Thai party will remain a formidable opposition to the ruling elite.

SCHARINGER: For the final question: How long do you think the crisis will last? How long will the impacts of the crisis be recognizable in Thailand's society?

DRAGSBÆK SCHMIDT: This is difficult to answer. The political crisis could in principle end tomorrow if King Bhumipol intervenes and imposes a compromise. The economic and social crises will last much longer and cannot be solved overnight.

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