

Asian Values and the Financial Crisis: A Case Study of Thailand

Pattarachit Choopol
p.choopol@bham.ac.uk

PhD Student in Asian Studies and Economics
The University of Birmingham
Department of Economics
Birmingham, England

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Abstract: (Return to Index)

Ongoing discussions examine the casual background of the financial crisis in 1997, particularly in Thailand, by the views of 'Asian values', political economy, and globalisation.

My questions include "Does 'Asian Values' lead to the financial crisis?" Asian socio-economic structure is a unique and main drive of their rapid economic growths. However, how have they contributed to the side effects of economic growth, namely corruption, dependency on the interested groups, and interference of business sectors?

Or is globalisation a key factor of the crisis? Multilateral international relations such as the WTO, the World Bank, the IMF, and regional corporations as well as bilateral international relations, such as trade partners, brought about the change of domestic economic policies.

I have found some evidence for a direct effect of Asian values on the financial crisis in Thailand. Moreover, external factors, such as international organisations, and internal factors, like political groups, businessmen, and technocrats have played a major role of Thailand's economic change.

.01. INTRODUCTION (Return to Index)

After the financial crisis in Thailand in 1997 impacted Asia, the turmoil provided a great shock to both Asian nations and members of the World community. Many questions were raised to analyse. Is it the end of the 'Asian Miracle'? [1] Why had it happened? What were the main factors of the currency crisis? Many critics focused on weakness of macroeconomic management.

Most of those questions focused on weakness of financial and macroeconomic management and also intervention of political factors. However, there are other elements—namely cultural identity, environmental impacts and human development—pushed the Asian economic growth quietly.

Thus, this article will examine the deep roots of Asian nations, so-called 'Asian Values' in Thailand as a case study. It is presented in six sections, first section as an introduction. The second will describe the Asian values, followed by Asian Values and Thailand in the third section. The financial crisis and forces of international influences will be investigated in the fourth. In the fifth section, impact of Asian Values on the financial crisis will be analysed. Then a conclusion in the sixth section.

.02. ASIAN VALUES[2] (Return to Index)

'Asians place community rights over individual rights; Asians believe more strongly in the family; Asians let their governments dictate their community's moral stance; Asian communities are hostile to permissive values; Asians are not indulgent parents; Asians have a knack for capitalism; Asians don't expect welfare; Asians place a higher value on education; Asians save more of their earnings.' [3]

Values are controversial, and their meanings are broad, complex, and ideal. Mostly, they comprise culture, tradition, moral, order, religion, and way of thoughts. Theodore de Bary gives a definition of 'values' that ordinarily connote the core or axial elements of a culture, as the traditional ground (mostly seen as moral but not exclusively so) on which rest the culture's most characteristic and enduring institutions (de Bary, 1998; 1).

Cauquelin, J, Lim, P. and Mayer-König, B. cited the Collins Standard English dictionary that 'values are there defined as 'the moral principles and beliefs or accepted standards of a person or social group' (Cauquelin, J, Lim, P. and Mayer- König, B., 1998: 2).

As the definition above, values are abstract, mostly relating to culture, tradition and religions. They bind people in the same community through patterns of behaviour, way of life, and communication. The values affect the history of each nation's building. The values have been passed from the older to the younger generations. Most of all, the values exclude people or groups who do not come from the same background. This can be seen the differentials of values between the western and the eastern.

'Asian Values' emerged in the 1990s as promptly as success in economic development of East and Southeast Asian nations. Many distinguish people, such as Malaysian Prime Minister Mahathir Mohamad and Singapore's Senior Minister Lee Kuan Yew, advocated importance of the 'Asian Values' as a catalyst of the economic growth. For their meaning, the Asian Values are a kind of defence against the Western way of life.

Godement (1999; 144) said that Asian Values rely on demographic research and the historical and spiritual roots of several leading Asian cultures. The 'Asian Values' themselves are a diffuse criticism. Asian Values give priority to 'society' above self. They emphasise on hierarchy in social and political structure. These values are said to include hard work, good education, family centeredness, and gratitude, as seen widely among the East Asian nations.

The debate is complicated further by talking of 'Asian Values'; why do 'Asian Values' not encompass the South Asia or the Middle Asia?

In fact, Asia regions are diverse cultures. Those are each to some degree multicultural. There are various civilisations from Islam, Hinduism, Buddhism, and Confucianism, which are key influences on Asian people's ways of thinking and social practices. Some of them may be combined in some countries, but some may not. Buddhism and Confucianism may be merged well in some Asia nations, such as Thailand. In some Asian countries, only Islamism plays a major role, such as in Indonesia. In India, Hinduism is the main religion. Even though they are in the Asian region, social practices of Japanese and Indonesians are different.

Hence, the conception of 'Asian Values' does not cover all Asia nations. Indeed, the concept of 'Asian Values' arose after the Asian rapid economic growth, so-called the East Asian Miracle', by the 1980s (World Bank, 1993). The West criticised an origin of the growth, and some concluded that because of their comparative advantages. Some said about luck and opportunity. Some argued that the 'Asian Values', focusing on discipline, industriousness and diligence, were a main drive of the economic miracle.[4]

Obviously, hard work, filial piety, respect for leaders, and ‘society above self’ came from thoughts of Confucius. Confucianism, a philosophy, not religion, originated in China and spread throughout East Asian nations.

Ideas of Confucius rest on ethical concepts. The ‘five ethics’ are humanity, righteousness, propriety, wisdom, and faithfulness. These ethics teach people to be benevolent to others, obey ethical codes, give priority to their community and state more than individuals. Consequently, they are loyalty to their nations and respect to their governor. In return, the rulers also supposed to treat their subjects with the five ethics.

The important ethic of wisdom encourages people to pay attention to both informal and formal education. This is why East Asian people always give priority to education, which is a major factor of their rapidly economic growth. Furthermore, the Confucian key concepts of 'filial piety' strengthen disciplines and social structure. The filial piety is the respect shown by children to their parents and particularly to their fathers, and then to be extended by each subject to the emperor and his representatives. When applied in organisations, subordinates always show respect to their managers and follow what managers or leaders instruct rather than show their suggestions.

Confucianists, thus, are family-oriented, and respect notions of kinship and friendship. This way of thinking tends to generate ‘family-like’ ways in a company. It gives an advantage to companies or organisations because employees are loyalty to their employers. Business owners often recruit their employees by considering family and/or educational background over skills and experiences. This behaviour discriminates against other people who do not come from the same background. With these strong value of working hard and promoting education, Confucianists are industrious and diligent.

Some critics say that many countries, notably countries in the continent of America and Europe, which did not apply the thoughts of Confucius, could still grow economically. It is true, but those countries have never achieved the growth as rapidly as those in East Asia did. (see table 1) Even though Japan’s growth rate was lower than other East Asian countries, it was higher than other high-income countries during the 1980s, when it went upward.

Table 1: Comparing the Average annual growth (%) between some countries of the East Asia and of the high-income countries.

Countries

1980-90

1990-97

The East Asia

China

10.2

11.9

South Korea

9.5

7.2

Hong Kong

6.9

5.3

Singapore

6.6

8.5

Malaysia

5.2

8.7

Thailand

7.6

7.5

Indonesia

6.1

7.5

High-income

United Kingdom

3.2

1.9

USA

2.9

2.5

Italy

2.4

1.1

Germany

2.2

1.5 a

Switzerland

2.2

-0.1

Japan

4.0

1.4

Source: World Bank

Note: a is the average data from 1990 to 1999

As for the East Asian's political structure, the patriarchal idea also derived from Confucius. This idea was introduced to maintain social orders and stability. Within the system, the state or government intervenes over market forces, particularly in Taiwan, Singapore, South Korea, Malaysia, and China. Unsurprisingly, there have been closed relationships between government and corporate interests. In this regard, the Western point of view argued that Asian Values leads to corruption and distorts human rights (de Bary, T. 1998, Lingle, C., 1997).

However, there are several studies about linkage between Asian Values and Asian leaders (see for example Milne and Mauzy 1999; Milner 2000). They found the East Asian nations' leaders use the cultural factors to build national and regional ideas as well as separate them from the Westernisation. Milner (2000; 64) stated that the Southeast Asian leaders must always construct their ideological packages in a cultural context, such as Prime Minister of Malaysia, Dr. Mahathir Mohamad and Singapore's Senior Minister Lee Kuan Yew.

.03. ASIAN VALUES AND THAILAND (Return to Index)

Thailand's Background

Thailand has never been under colonial rule and Thai people are proud to have maintained their freedom. It has been a democracy under a constitutional monarchy since 1932. However, there were weaknesses of political institutions in the Thai polity. With stronger roles, bureaucrats could dominate Thai political and public administration. Many Thai Prime Ministers were bureaucrats before appointed and those could stay in the position longer than the one who has

never been in the bureaucracy. For example, General Prem Tinsulanond was in the position for eight years (1980-88), longer than other Prime Ministers were. Fred W. Riggs classified the Thai political system as a 'bureaucratic polity' (Riggs; 1965).

Most Thai people have a hard working manner. This is a key-driving factor of business and economic growth. In a labour survey, Thai workers work on average over 2500 hours a year, compared with less than 1800 hours in most Europe (Buckley, 1999; 7). Moreover, with strong discipline in hierarchical system, organisations or companies can maintain their social orders that were followed by employees without disagreement. Meanwhile, labour unions in Thailand hardly play a significant role of claiming workers' right. Most decision-makings in Thai companies tend to be top-down decisions, especially in small companies that use the family-like management. The medium to large enterprises would rather decide by bottom-up in their policy-making, but remain to make a final decision from high-level administrators.

Furthermore, Thai people give priority to education as a part of human capital investment. Hence, its literacy rate is so high; in 1997, the rate was 95 percent of the total population.[5] Thailand has the compulsory education for a total of six years between the age of seven and 15. And it tends to extend the compulsory to nine years between the age of seven and 18. Thai people believe that better education means higher production levels and greater salaries.

Economic Leaders in Thailand

Differentially between other East Asia nations and Thailand, the roles of government in other East Asia nations, especially Japan, South Korea, Singapore, Malaysia, and Taiwan, are so strong that they are leaders in economic stimulation. While the Thai government is an economic facilitator, as it provides investment incentives to encourage private sector, heads infrastructure projects to support economic activities, as well as designs appropriate policies and programmes, it can not dictate people to follow the policies. This implies that the roles of Thai State are not strong. Thailand has changed its cabinet many times since 1932. Hence, Thailand has to use roles of businessmen and the middle class to upgrade its economic development.

Thai businessmen originally were Chinese people who migrated from Mainland China. In the early stage, most of the immigrants worked as labourers in farms or rice mills. Some ran businesses between Chinese or European and indigenous people. In the past, Thai people did not like to do businesses. Mostly, they preferred working as bureaucrats to doing businesses, as their motto, 'Ten merchandisers have no power as one bureaucrat' (Sip Pho-kaa mai tao Phraya leng).

The migrated Chinese were well integrated into Thai society. Mostly, these groups married local women and called themselves as Thais or changed their names and surnames to Thai names. Their younger generations are called Sino-Thai. Up to now, with hard working manners, most of businesses in Thailand are in hands of the Sino-Thai business communities. For example, by the

early 1980s, four families of Chinese origin controlled 62 per cent of total banking deposits (Christensen, et al, 1993).

The Thai-Chinese administrative style is based on Confucian values that emphasised the family-like way. Their companies always employ and provide a high position to their kinship. By the 1980s, the Sino-Thais have played an important role in political system. For example, Mr Banharn Silpa-archa, a local businessman, was a Thai Minister in the late of 1980s, and became a Prime Minister in 1995.

The modern middle class in Thailand is still high-level bureaucrats and military officers who have held political and bureaucracy power since the 1950s. Therefore, the two groups dominate Thai economic and political activities are the Sino-Thai businessmen and the bureaucrats and military officers. Those groups have a kind of relationship as mutual benefits, or 'patron-client' relationship.

Indeed, Thailand's socio-political structure has greatly concerned on patron-client relationship before the political reformation from absolute monarchy to democracy in 1932.[6] As a result, dependence on individuals or groups who are more powerful is not something new for Thai people. Characteristics of the relationship are similar to the 'give and take' benefits between rulers and clients. Thus, there have been no conflicts as long as both sides are satisfied with their advantages.

Thai Social Relationship

Thai people always help a person they know, so the relationship will be a kind of dependence on mutual benefit. This kind of relation has been transformed Thai history, which patronage relationship had influence on Thai social relation.

Under the patronage system in Thailand, bureaucrats or technocrats gave protection and patronage to private enterprises, particularly Chinese traders for money, gifts or services, in return. Even though there was reforming of administrative system in the 1880s, the public servants still use their power and position to private sectors. Whereas the businessmen, especially Chinese entrepreneurs still give gifts (some arguments call 'bribery') to the bureaucrats.[7] Mainly they invite the military-bureaucratic leaders to join executive boards or hold stock in companies at no cost (Phongpaichit, 1998).

Some argue the patron-client system leads to corruption, which is a key cause of the crisis. In addition, Thai people value 'gratitude'. Hence, they always give gifts to their patrons on special occasions, such as for birthday, or for New Year's Day. In this case, the Western point of view sees this as a kind of corruption. These relationships also created an economic behaviour, so-called 'Crony Capitalism' (see further in the fifth section).

Figure 1: Thai people social relationship:

.04. FINANCIAL CRISIS AND OUTSIDER INFLUENCE (Return to Index)

Although came behind others on the 'East Asian Miracle', the Thai economy in the latter half of 1980s and the early of 1990s was in the spotlight of the world economy. With its policies of industrial promotion and export-led growth, the Thai economy reached double-digit growth rate of 13.2 percent in 1988 and maintained a stable growth rate of about 8 percent through the mid 1990s. Because of plenty of natural resources, cheap labour market, and political stability, Thailand attracted foreign capital to pour in from the 1980s to the early 1990s. Thailand was the 'Fifth Tiger' of Asia as many critics acknowledge.

During the economic boom, many arguments offered prizes for Thailand macroeconomic management. For example, the International Monetary Fund (IMF) Managing Director Michel Camdessus said, 'We have all admired the 'Asian miracle' based on saving, prudent fiscal policies, investment in physical and human capital, and...liberalisation and opening up'. The World Bank stated that Thailand provided 'an excellent example of the dividends to be obtained through outward orientation, receptivity to foreign investment, and market-friendly philosophy backed up by conservative macroeconomic management and cautious external borrowing policies' (cited in Hewison, K., 2000; 201).

Influences of Globalisation

Nevertheless, eager to be a financial hub in this region and want to be a 'good boy' of international organisations, Thailand converted its conservative fiscal policies to liberalisation. In this regard, Thailand had to accept the Article VIII of the IMF agreement, which obliges Thailand to allow unrestricted international payments with respect to current account transactions on May 22, 1990. Besides, Thailand's parliament passed the Securities and Exchange Act on May 16, 1992 to expand the scope of activities of commercial banks, under and agreement of the GATT's Uruguay Round meeting. The latest and worst financial measure before the crisis in 1997 was the establishment of the Bangkok International Banking Facilities (BIBF) in March 1993 to internationalise the financial market.[8] All those brought Thailand to face with the financial crisis in 1997.

The financial globalisation led by major international organisations directly influenced the Thai economy. With the wave of globalisation, Thailand, a small agricultural country, could become a manufacturing exporter. Then, from an industrial exporter, Thailand could be a hub of financial market. Finally, Thailand was a first domino of the financial crisis in 1997 that spread through the world.

At the beginning of the financial liberalisation, Thai investors took great advantage of a vigorous source of short-term funds. The Thai banking companies played a crucial role in liquidating the financial market. However, the liberalisation without prudential regulation and supervision allowed people, banks, and corporations to borrow from foreign financial institutes. With lower interest rates than domestic rates, the influx of foreign capital increased sharply during this short period. Most of the inflow was private debts and almost half of which were short-term loan debts. Before the advent of the economic crisis, Thailand's total debt was US\$ 90.5 billion or 49.83 percent of GDP, in 1996. Of which, about US\$ 73.7 billion, were private debts (see table 2).

Downturn of the Thai Economy

Unfortunately, the huge capital channelled over supplied the property sector and stock market instead of going to the real sectors. Furthermore, the Thai banks were not prepared to analyse the feasibility of lenders' projects that created a large number of non-performing loans (NPLs) later. These situations also happened in South Korea and Indonesia. In 1996, export growth fell sharply to -1.9 percent from 24.8 percent in 1995, because of depreciation of the Japanese Yen and the Chinese Yuan in the early 1990s, as well as growing competition from China. During this time, import growth rose to facilitate heavy industries—petrochemical, real estate projects, and the automobile industry especially in 1995 up to 31.9 percent or US\$ 70.4 billion. As a result, there were the large current account deficits of 7.8 and 7.9 percent of GDP in 1995 and 1996, respectively.

Most of all, Thai baht was pegged to the US\$ in the basket system since 1963 until the baht floating, so the exchanged rate was almost stable. The stability of the baht was useful to exporters and money traders that could predict their profits. However, the stable exchange rate of the baht gave side effects to the money liberalisation. During that period, both domestic and foreign speculators traded the Thai baht with the US\$ immensely due to the overvalued real exchange rate. However, Thai government and central bank, the Bank of Thailand (BOT) did not handle the situation better. They were worried about impacts on exporters and short-term loans of investors if the baht decreased in value.

This above situation led to speculative attacks on the baht, starting from January 1997 and escalating until June that year. To defend the baht, Thai government consumed almost all the

Thai foreign exchange reserve, but it did not help. Finally, the government switched from the basket-pegged exchange rate system to the managed floated system on July 2, 1997.

Following that, 42 finance companies were suspended, leaving only 34 out of the original 92 financial companies in operation. During the first month after the floating, the Thai baht depreciated from approximately 25.88 baht/US\$ 1.00 to 38 baht/US\$ 1.00. Thus, Thai government had to ask for a rescue package from the IMF of about US\$ 17.2 billion, including stand-by credit, that reached in August, 1997.

The Thai politic system was also affected. The cabinet of General Chavalit Yongchaiyudh had to shuffle in 1997, after just being one year. The new government under Prime Minister Chun Leekpai, leader of the Democrat Party, had a good opportunity to administer the country. As for social impacts, unemployment rate increased dramatically from 1.6 and 1.5 percent in 1996 and 1997, respectively up to 4.4 percent in 1998 (see table 2). Many companies had to close due to bankruptcy. Children had to leave schools because their parents had no money to pay for the tuition fee. The financial problem, additionally, did not limit only in Thailand, but it also affected many countries in Asia.

The crisis stemmed from the disproportionably slow pace of institutional development in Thailand with the fast-changing process of global economic integration (Heller, 2000; 12).

Table 2: Thailand's Macroeconomic Indicators before and after crisis

1995

1996

1997

1998

GDP growth (%)

8.9

5.5

-0.4

-9.4

GDP (billion US\$)

168

182

146

118

Per capita income (US\$/year)

2827

3027

2404

1923

Unemployment (billion persons)

556

498

495

1423

Unemployment rate (%)

1.7

1.6

1.5

4.4

Inflation (%)

5.8

5.9

5.6

8.2

Fiscal balance (billion baht)

112.5

100.0

-44.3

-107.9

Ratio to GDP (%)

2.7

2.2

-0.9

-2.2

External sector (US\$ billion) a

Exports

55.7

54.7

56.7

52.9

(% change)

24.8

-1.9

3.8

-6.8

Imports

70.4

70.8

61.3

40.7

(% change)

31.9

0.6

-13.4

-33.8

Trade balance

-14.7

-16.1

-4.6

12.2

Current account balance

-13.2

-14.4

-3.1

14.3

(% of GDP)

-7.8

-7.9

-2.0

12.3

Balance of payments

7.2

2.2

-10.6

1.7

International reserve

37.0

38.7

27.0

29.5

Total outstanding debt (US\$ billion)

82.6

90.5

93.4

86.2

Public sector

16.4

16.8

24.3

31.2

Private sector

66.2

73.7

69.1

54.8

Debt service ratio

11.4

12.3

12.5

21.0

Exchange rate (baht/US\$)

24.93

25.34

31.37

41.37

Source: National Economic and Social Development Board data bank

.05. ASIAN VALUES AND THE THAI FINANCIAL CRISIS (Return to Index)

Some critics questioned the 'Asian Values' as a key factor of the crisis. Why did they say so?

A main factor of the crisis is, certainly, the economic factor. The IMF and the World Bank pointed out that the crisis came from financial vulnerabilities including structural weakness and macroeconomic imbalances that led to poor investment and excessive risks (World Bank, 1998; 6-8; Lane, et al., 1999; 19-20). Thailand had some economic problems before the crisis, such as a

large current account deficit and overvalued real exchange rate which was fixed with the US\$ for a long time. These let speculators attack the Thai baht easily.

Moreover, political factors were other catalysts of the crisis. The weakness of macroeconomic management was derived from the tight connections between banks and borrowing customers. This relationship has been seen throughout Asian countries. This close connection encouraged an economic pattern called 'moral hazard'. Moral hazard exists when domestic banks and other financial intermediaries consider that they have an implicit insurance of governmental help if they encounter any financial difficulty. The net effect of the moral hazard was to establish a climate where over-borrowing and over-lending increased. (Jayasuriya, 2000; 145)

This government intervention also gave negative effects on the Asian economy. The collusive connection between government, businessmen, bankers, and bureaucrats, as Krugman (1998) called 'Crony Capitalism', was a major cause of the crisis. Crony capitalism is the habit of giving preference to friends and relatives that has undermined the efficiency of business activities, meaning that it led to corruption.

Figure 2: Causes of the financial crisis:

Figure 2 shows those three factors as the major causes of the crisis. Those factors are also come from the same origin, 'Asian Values'. It means 'Asian Values' create improper characters of economic and political patterns. Then, those improper behaviours led to the financial crisis. 'Asian Values' brought about the financial crisis in 1997, but only briefly. Some argue many factors contributed to the financial crisis in 1997. This is true, but we also cannot reject that its main factors stemmed from the financial sector. The bubble economy made the crisis move faster and worse than anyone expected it to. The bubble economy came from over-investment and overvalued, and those derived from the Asian Values.

With goodwill, friendship, and mutual benefits of Thai banks and borrowers, or 'crony capitalism', a large number of loans, mainly NPLs, were increased. With the collusive relation between politicians and businessmen, banking companies believed that their government guaranteed their financial transactions, so they lent more to finance risky and doubtful investment projects, mostly to the property sector.[9] This resulted in a huge number of NPLs, which were at the high rate at 25 percent of total loans at the beginning of the crisis, as quoted in JP Morgan study (McHale, 1999; 8).

In Thailand, character of the tight relationship as 'crony capitalism' would rather use in term of the patron-client relationship because Thai bureaucrats have dominated political and

administrative power while businessmen have played a significant role in economic activities. Both establish mutual benefits. This is different from its neighbours—Singapore, China, Malaysia, and South Korea, where roles of state are such that they dominate their economy. Moreover, those countries have a government-big business coalition to carry out the economic activities. Anyway, no matter what it is called, meaning of them are more or less the same, that is the close relationship of groups or individuals who have influences in economic and political activities. Furthermore, both groups can take advantage of each other.

Presently, the patronage system has transformed little. Thai politicians still depend on data and information of public policies from bureaucrats. However, the high-level public officials of Thailand still depend more on politicians, particularly when they need a promotion to be in higher position. They had to pay a politician a large amount of money or high value gifts to get a higher position. Phongjean, a columnist of *Matichon* stated that a Thai high-level official accepted that he/she paid for the promotion of about baht 60 million or US\$ 1.7 million (Phongjean, 2001). It can be said that the kind of patronage system led to corruption.

Money Politics

Under the electoral polity of democratic system, Thai politicians also rely on businessmen. Close relationship between businessmen and politicians are necessary for funding political activities. In brief, to win the election, money does matter. In many democratic-developed countries, such as USA, money of political parties comes from legitimate government sources or publicly acknowledged donations. Most of all, those politicians spend money for electoral campaign and other political parties' activities. For example, in 1994 and 1998 in California, Michael Huffington and Al Checchi poured enormous sum of money into their persuasion, mostly through television advertising (Thompson and Thompson, 2000; 123).

Conversely, politicians in some countries, such as Thailand, get most of their contributions from hidden private donations. This is a channel for a person, who controls economic power, tries to involve in political system. Some argue this pattern is called 'money politics' (see further in Thompson and Thompson, 2000, and Jayasuriya, 2000). Moreover, there is vote selling and buying in Thailand. In 1995, at least one billion dollars—about 0.5 percent of GNP—was widely estimated to have been spent in the Thai elections, mostly bribing individuals to vote for one candidate or another (Thompson and Thompson, 2000; 122). In short, the more important an electoral vote is, the more significant businessmen become. As Tanin Jeravanonda, owner of both many domestic companies and multinational corporations, stressed the government has to help businessmen (if there are some problems) (Phongjean, 2001).

After becoming a government, Thai politicians (with the help of bureaucrats) usually interfere responsibilities of bureaucrats that sometimes create problems on administration. For instance, before the advent of the financial crisis, Thai the government intervenes in macroeconomic

management, particularly with the financial controls of technocrats. This led to hesitant and unconfident decision makers who occasionally made a wrong decision. Maintaining exchange rate is a good example. As mentioned before, Thai real exchange rate was fixed with the US\$ for a long period, which is not suitable for the financial liberalisation in 1993. However, there was no changing the real exchange rate to be flexible to the current situation because Thai government was concerned more with foreign debts and export-import business. That led the government to hesitate in making decisions.

Interference of Thai government was seen obviously in 1995, under Banharn's cabinet. This government put the pressure on the BOT to reduce the interest rate.[10] Banharn's government also relaxed conservative macroeconomic policies to stimulate Thai economy, by speeding up budget spending on public projects, reducing the interest rate, maintaining the GDP growth of 8-10 percent, and spending government reserves instead of having a large account deficit in Thailand. As Professor Phongpaichit said, 'under Banharn, the political pressure on economic policy reached a critical stage—partly because the economy was becoming fragile, partly because Banharn's cabinet did not want to be obstructed by strict bureaucrats, partly because Banharn simply did not understand economics or its importance' (Phongpaichit, 1998; 261).

Corruption

When talking about the collusive relation of businessmen, politicians and bureaucrats, under the democratisation, a question arises: "Do 'Asian Values' lead to corruption?"

An idea of 'Asian values' is importance of friendship, and gratitude. Asian people help each other, and then lead to interdependence among them. If someone helps you, you have to show thankfulness or a gift of goodwill in return. There are many forms of 'gratitude', such as gifts, flowers, wine, jewellery, etc. However, the boundary between the 'gifts of goodwill' and bribery and corruption is not clearly marked. In the western views, 'gifts of goodwill' is a kind of bribery or corruption. Bureaucrats and politicians have their own duties to serve all people, instead of giving preferences to some and not to others.

In the Asian opinions, especially those of Thai people, the 'gifts of goodwill' are showing thankfulness, gratitude, and keeping relationships. As a result, these 'gifts of goodwill' promoted economic growth, as per Thai businessmen's point of views. It seems to be as a mutual benefit; business groups give gifts or some high-valued things in order to ease bureaucrats' and politicians' management. However, in the Western views, the gift of goodwill is corruption. Somehow, it is useful, as John Kennedy liked to say 'A rising tide raises all boats'—including, one might add, those flying the skull and crossbones (Thompson and Thompson, 2000; 125).

Corruption is a disease, but one cannot stop just 'gifts of goodwill' when there are firm connections to traditional values. Mutual benefits takes place, the two sides have to take care of

each other. These types of corruption debilitate the development of civil society and distort economic development. Corruption leads to higher costs through excessive bureaucratic procedures, and increased uncertainty due to shifting legal frameworks (Lingle, 2000; 144). Hence, although growth can be achieved in the short run despite corruption, long-term prospects will suffer.

As for the case of Thai financial crisis, corruption, as a part of 'Asian Values' gave negative effects on its economy. The collusive relationship led deregulation of financial policies to liberalise capital inflows from outside, replacing domestic savings, which were not enough to expand business activities.

.06. CONCLUSION (Return to Index)

In seeking causes of the financial crisis in Thailand, many critics focus on poor macroeconomic policy, moral hazard and crony capitalism. However, the fact remains that 'Asian Values' are responsible for the crisis because the 'Asian values' are the origin of the above factors.

Although the external factors are chiefly international organisations as a beginner of financial liberalisation, the tight connection system played a significant role in financial deregulation.

Nonetheless, it is not true that 'Asian Values' are not good and only distort economic development. Indeed, 'Asian Values' provided an informal safety net to those vulnerable after the crisis. When the Thai baht collapsed, some companies had to file bankruptcy. Some had to downsize by laying-off workers. Those situations created unemployment and other social problems. The unemployment rate rose up to 4.4 percent of total population in 1998 from 1.5 percent in 1997. (See table 2)

In this regard, 'Asian Values' showed their roles to cushion those vulnerable groups. Most of those laid-off returned to their hometowns to undertake their own small business or do agricultural activities. The 'connection' is still important. They set up a charity in their community or society for helping the vulnerable. Existing associations gave free food and tried to gather sources of jobs for the out-of-work, although there were fewer jobs than unemployed. It showed that 'Asian Values' are a cushion when the Asian people faced with severe impacts.

What does Thailand need in the aftermath? The answer is 'good governance' for the financial management. Thai government should (1) undertake the conservative fiscal and economic policies, by enhancing high rates of savings, keeping inflation rate low and maintain the exchange rate flexible; (2) develop human capital through educational system and training programmes, and upgrade Thai people's health and nutrition; (3) strengthen the real sectors and support agricultural sectors; (4) as well as encourage absorption of foreign technology transfer.

.07. NOTES (Return to Index)

[1] The Asian Miracle was initially used by the World Bank to explain the success of Asian economic growth.

[2] Some critics call 'Asian Way', but I would like to use Asian values, because the word covers more in term of importance and usefulness.

[3] The Far Eastern Economic Review (10/10/1995; vol. 158, no. 32, p. 37.)

[4] Also see further in Hodder, R (1992); Mackarras, C. (1995); Islam, I. (1995); Cauquelin, J. Lim, P. and Mayer-König, B. (1998); and Gereffi, G (2000).

[5] NESDB data bank.

[6] The society was vertically organised through reciprocal patron-client relationship. Patron offered protection to their clients, who in turn owed labour or service to their patrons, the ultimate patron being the ruler of the state.

[7] This blurring of the boundaries makes many people accept the practice of presenting gifts and money to government officials as legitimate, as part of good Thai culture.

[8] Banks under the BIBF will be authorised to undertake the following activities.
- In the forms of foreign currencies: take in deposits and loans from abroad and extend loans to baht overseas (out-out) and local (out-in) markets. In baht: take deposits and loans from banks (both Thai and foreign) abroad and make loans to banks abroad (out-out in baht).

[9] By the end of 1997, the share of loans to the property sector in total loans was of 30-40 per cent in Thailand. (IMF, 1999; in n.a. 9).

[10] Mr. Banharn Silpa-archa was a local Sino-Thai businessmen before being a Prime Minister.

Miss Pattarachit Choopol
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