A Siamese Tragedy

A Siamese Tragedy:
Development and Disintegration in Modern Thailand
By Walden Bello, Shea Cunningham and Li Kheng Poh
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WALDEN BELLO HAS CONSISTENTLY SUPPLIED the most incisive analyses of the financial crisis which overtook Asia in 1997 and lingers to the present.

The three key features of his assessment have been: a precise explanation of how the nineties influx of foreign capital into Asian countries was directed into speculative investments that did not build the real economy; an insistence that although foreign hot money and speculation were the proximate causes of the crisis, fundamental weaknesses in the real economies of the Asian Tigers underlay the financial collapse; and a consistent focus on how class divisions contributed to the crisis.

In *A Siamese Tragedy*, Bello and his co-authors turn their attention to a detailed case study of the financial crisis in Thailand.

Capital flowed into Thailand in two phases in the 1980s and 1990s. First, following the revaluation of the yen in the late 1980s, Japanese multinationals shifted investments in plants and facilities from Japan and into Asia. Japanese foreign direct investment in Thailand skyrocketed.

Then, in the 1990s, Thailand sought to attract new foreign financial flows, through maintenance of a high interest rate, pegging the currency, the baht, to the dollar, and by liberalizing the financial sector. This financial trifecta was a winning ticket; with the assurance of easy convertability and a the baht value pegged, money poured into Thailand to reap the generous returns from outsized interest rates.

The result was a speculative bubble that rapidly expanded the provision of credit to Thais, resulted in a real estate and Bangkok building boom, and triggered a cascade of conspicuous consumption among the elite and even large segments of the middle class. It was an inevitability, Bello et. al. argue, that the bubble would burst. The high volatility of the foreign money (i.e., its tendency and ability to shift out of the country in a panic even faster than it came in) meant that the bursting would likely be explosive, as it proved to be.

But what made the Thai economy especially vulnerable to the sudden exit of speculative capital in 1997, *A Siamese Tragedy* contends, was the fragility of the pillars on which the underlying Thai economy rested. The economy was too dependent on foreign money and exports, leaving it vulnerable to external disruptions, like sudden withdrawal of capital or a withering of the Japanese market. The highly unequal income distribution of the growth years, and the urban build up at the expense of rural investment, created an economy without widely spread purchasing power, so the local market did not provide sufficient demand to fuel the economy. The rundown of natural capital — through deforestation, chemical abuse of the lands, dam-building and other mechanisms — destroyed the natural resource base of the economy. And the underinvestment in infrastructure and government goods caused serious social and economic problems, most visibly Bangkok's notorious traffic.

After the crisis hit, the entry of the International Monetary Fund (IMF) as the savior of Thailand made a miserable situation even worse. The Fund urged even higher interest rates, to reattract the foreign investors who had just fled — but in the process spiraling the economy into even deeper depression. It urged government budget cuts — even though the government had not borrowed profligately in previous years (that had been the private sector) and even though such spending cuts would also make the economic downturn more severe. Eventually, as it became clear how harmful the IMF prescriptions were, Thailand refused to follow them, and successfully negotiated a more moderate set of conditions with the Fund.

A Siamese Tragedy does much more than discuss the financial crisis. It looks closely at the weaknesses it identifies in the real Thai economy, examining labor's weaknesses, the underinvestment in agriculture, environmental devastation and the AIDS crisis.

It suggests the response to the Asian crisis must not only be to control financial speculation and foreign hot money, but to wed social and environmental movements behind a program of egalitarian, sustainable development that is domestically driven and distributes benefits broadly. ■