# Thailand's devaluation, tax reform lead to instability, not solvency

by Sophie Tanapura

Six months after the devaluation of the baht, Thailand is further from economic recovery than ever. The finance ministry, on advice from the World Bank and the International Monetary Fund, put the baht on a floating rate, causing a 17% devaluation. Even by the twisted standards of the IMF, the policy has been a failure. Government promises that the devaluation would lead to increased agricultural exports have not come true, while real incomes have steadily declined since November. The only "plus" has been that the Ivy League-trained finance ministry whiz kids who orchestrated the devaluation stand exposed as incompetents. The door is being opened, in national policymaking, for alternatives to the Wharton School and London School of Economics "free trade" thinking that has undermined Thailand.

At the moment, resistance to the finance ministry's austerity program is centered in military and opposition business-linked political circles. The military was the first to react when the baht was devalued 17% in November 1984. Suddenly, overnight, their acquisition plans went up in smoke, including purchase of U.S.-built F-16 fighter-planes. In late April, Supreme Commander and Commander-in-Chief of the Royal Thai Army Arthit Kamlang-ek, and Deputy Chief of Staff of the Royal Thai Armed Forces Chavalit Yongchaiyudh, expressed concern about the poor state of the Thai economy and the threat this poses to national stability.

Earlier, a well-known military radio station aired an *EIR* exposé on Wharton School economist Lawrence Klein, which was widely interpreted as an attack against Klein's students in the Finance Ministry who oversaw the devaluation. Klein, in Bangkok in October 1984, urged Dr. Virabhongsa Ramangkura, special economic advisor to the prime minister and a Klein student, to devalue. Widespread distribution of the *EIR* exposé has contributed to the virtual disappearance of Dr. Virabhongsa from public view.

"Softening up" the Thai economy, through devaluation, has exposed other vulnerabilities. Thailand must compensate for the devaluation by expanding its export volume, and an increasingly ready buyer is the East bloc. Following the recent multibillion dollar tapioca deal between the Soviet Union and Thailand, Thailand and Romania signed a five-year agreement of understanding in early May worth $750 million. The agreement centers around exports of Thai agricultural products and other raw materials for Romanian machinery, technology, chemicals, and steel.

As *EIR* reported at the time (Vol. 11, No. 46, Nov. 27, 1984), the November 1984 devaluation compromised industrial and infrastructural projects, such as those of the Electricity Generating Authority of Thailand. Overnight EGAT had to shoulder an additional 8 billion baht in project costs, more than $290 million!

In a speech before the Royal Turf Club in April, Dr. Kasame Chatikavanij, then governor of EGAT, said, "Most affected by the devaluation were purchase contracts signed . . . whose payment must be made in U.S. dollars. The devaluation resulted in bigger debts and the collapse of many firms. Most of the country's foreign earnings go to purchasing oil and automobiles, and the national income from rice, rubber, and tin is not even enough for buying oil."

## A hole in the finance ministry's pocket

At the end of the first quarter this year, the finance ministry suddenly discovered that the devaluation had contributed to a 16 billion baht shortfall in revenue. To cover this, the ministry announced plans to revamp the tax structure to raise 21 billion baht more to reach the revenue target of 183 billion baht in fiscal year 1986.

The March 26 cabinet meeting reviewed a comprehensive tax package, including a 100% increase in excise taxes on liquor and cigarettes, a 10-20% increase in land taxes, and a 2% hike in service fees on land transactions to 9%. Fully assembled car imports, with an engine capacity over 2,300 cc, will be taxed an additional 300%; unassembled pickup trucks and vans, an additional 600%. Taxes on money-making foundations and associations was to be raised from 2.5 to 10%. Also under consideration is a 10% tax increase on lottery winnings. The government expects to earn 345 million baht annually from the tax adjustment on lottery prizes alone, and another 72 billion baht a year from horse races.

Only part of the package has been approved by the cabinet, and at least two items, both important basic consumer goods, are political hot potatoes. The first issue is whether taxes on diesel oil should be raised. There is fear that the oil fund may run into the red by May or June if the government continues to subsidize the present oil price structure.

The second controversy was whether or not a 5% additional tax should be slapped on interest on fixed deposits. As

Thai Farmer's Bank Senior Executive Vice-President Narong Srisa-arn warned, bank deposits would drop, and the tax would lead to a decline in investments with labor problems to follow. Finance Minister Sommai Hoontrakul defended the tax, saying that, "In socialist countries, such deposits are considered idle money and subject to higher taxes."

The architect of the tax package is the former economic and financial counsellor to the Royal Thai Embassy in Washington, D.C., Niphat Bhukkanasuth. Considered to be a rising star in the finance ministry, as well as a protégé of Finance Minister Sommai, Mr. Niphat is now deputy director general of the finance ministry's fiscal policy office. Allegedly, he and Minister Sommai worked hand in hand on the draft of the tax proposals. Mr. Niphat, whose father is a very close friend of the minister, is like a nephew to Sommai. Mr. Niphat first joined the fiscal policy office when Fabian economist Dr. Puey Ungpakorn, groomed by the London School of Economics, was director-general of the office.

Two years ago, Minister Sommai intervened to protect Mr. Niphat from an investigation launched by the corruption commission into his alleged involvement in a shipping scandal while a UNITHAI director. Niphat was packed off to the embassy in Washington, where he became a loyal and useful coordinator between the World Bank, the IMF, and Minister Sommai. This author met Mr. Niphat at an embassy reception last December, where he prided himself as a principal architect of the baht devaluation and proposed further devaluation.

After one too many cocktails, he threatened this author, "I will have you shot. There is nothing to discuss about the devaluation policy. It is done and that's it."

The first major political test of the finance ministry's latest austerity measures took place in the Bangkok by-elections in early May. Going into the elections, rumors circulated that the business-linked Chat Thai party would force a no-confidence vote against the government in protest of the devaluation and tax package. A cabinet reshuffling is still not to be ruled out.

At Thammasart University recently, Chat Thai Party parliamentarian Pongpol Adireksarn, warned that present economic policies are very similar to those of 1931, and could lead to institutional changes in the country. Then, he said, when the government sought to solve the trade deficit problem by devaluing the baht vis-à-vis the British pound, and by imposing harsh taxes on every conceivable taxable item, mass layoffs of government workers and functionaries resulted. These measures, he concluded, led to the 1932 coup d'état and the shift from an absolute to a constitutional monarchy in Thailand.

Mr. Adireksarn is himself committed to Thailand's development, including construction of the Kra Canal and the Eastern Seaboard project. He has participated in *EIR*-sponsored conferences in India and Thailand, to put such a regional task force approach forward as the only acceptable alternative to the IMF-World Bank plan for Thailand.

## Interview: Supachai Panitchapakdi

# World Bank plans 'totally unacceptable'

*Dr. Supachai Panitchapakdi has been an outspoken critic of World Bank policy. Until the end of 1984, when the following interview took place, he was Director of the Office of the Governor of the Bank of Thailand. He told* EIR *then, that the World Bank's "three 'Ds' policy (deflation, devaluation, and deregulation) is totally unacceptable." Dr. Supachai is currently director of the Financial Institution Supervision and Examination Department of the Bank of Thailand.*

*Dr. Supachai did his undergraduate and graduate studies at Erasmus University, Netherlands. His doctoral thesis on "Educational Growth in Developing Countries: An Empirical Analysis," was written under the guidance of Prof. Jan Tinbergen, a Nobel Prize winner in economics. Unlike his professor, who is a member of the Club of Rome, Dr. Supachai believes in the necessity for infrastructural development and is very critical of monetarist economics.*

**EIR:** I have heard that the Energy Generating Authority of Thailand (EGAT) is ready to consider once again a national nuclear energy program. Compared with our foreign earnings capacity, how much more do you think Thailand can borrow and not fall prey to the mercy of the creditors?

**Dr. Supachai:** Let us look at the Eastern Seaboard project. This is going to cost us almost $5 billion, but probably more like $2.5-3.0 billion in the next 10 years. . . . This is the foreign borrowing part. The rest could be in the form of joint ventures. Our foreign debt is currently at $11 billion. Add three more and it is still bearable, if the international interest rates do not change drastically in the meantime. This is the key factor, because it is a rate which is controlled by just a few industrialized countries, which makes it doubly dangerous. . . . The real value of the dollar has been distorted. Because the dollar is a reserve currency, it has become an international liquidity currency that is accepted by everyone. Because of this role of the dollar, the U.S. government can afford indefinitely a very significant budget deficit, something which would not be tolerated in any other country.

You see, most U.S. citizens . . . don't realize what effect such interest rates have on other people. Of course, with high interest rates, the dollar becomes a very strong currency.