THE IMPLICATION OF THE IMF RESPONSE TO THAILAND'S ECONOMIC CRISIS EXPERIENCE : ORGANIZING FINANCIAL INSTITUTIONS

By

Chalee Khansiri

THESIS

Submitted to
School of Public Policy and Management, KDI
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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Chalee Khansiri

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

AMC	:	Asset Management Cooperation
BIBF	:	Bangkok International Banking Facility
BoT	:	Bank of Thailand
FIDF	:	Financial Institutions Development Fund
FRA	:	Financial Sector Restructuring Authority
IMF	:	International Monetary Fund
RAB	:	Radanasin Bank

Chapter I

INTRODUCTION

The financial assistance by the International Monetary Fund (hereafter IMF) in response to Thailand economic crisis since the middle of 1997 has been widely criticized as interference with the country's own decisions and as a source of disruption of a recipient country's management. My study shows the value of the relations between this international institution and a country like Thailand during an economic crisis period, and suggests the IMF assisted Thailand to sustainable recovery.

My study aims to explore the factors that caused Thailand's economic crisis before it turned to ask for the assistance from the IMF. Then, it examines the relations of international institutions and domestic members. There are various ways present the relations among them. For instance Cohen argues that international cooperation may take many forms, ranging from simple consultation among governments, or occasional crisis management, to partial or even full collaboration in the formulation and implementation of the policy.[1]

As for occasional crisis management, the international institution like the IMF was piority took placed to fulfill the financial management. In this regards, Soros mentioned that the IMF does not have much to say in the internal affairs of its member countries except in the time of crisis when a member countries turn to the IMF for assistance.[2] At this stage, lots of criticisms on IMF policies toward member recipient country have made these policies an important issue. Nevertheless, the study aims to

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[1] Benjamin J. Cohen, "The Triad and the Unholy Trinity : Problems of International Monetary Cooperation" in *International political Economy : Perspective on Global Power and Wealth* (Boston : Douglas Bell, 2000), p.246

[2] George Soros, *The crisis of global capitalism : open society endangered,* (New York : Public Affairs, 1998) p.180

elicit lessons and experience that may prove useful for future development and policy framework designs. These lessons could prevent the reoccurrence of such crises, and enhance strengths inherent in the country's economic and financial systems. Equally important is to improve understanding of the events and adjustments required by Thailand to enhance the performance of the Thai economy in the coming years.

Therefore, the value of international institution such as the IMF is reflected in my analysis of Thailand. The IMF's contribution during the economic crisis period of 1997–1999 built up the structure for Thailand's recovery path, especially in the sector of financial institutions. In this connection, I argue that it is difficult to hold that the role of the IMF was detrimental to Thailand. Though there is some validity for various criticisms of the IMF's actions, on balance IMF made a number of small mistakes, but did the big and necessary thing right.

A. Summary of Content

Chapter I of this study presents the hypotheses from which I drew the analysis of the IMF's contribution to Thailand economic crisis experience. It presents the statement of problem to reflect why do I study for this thesis. It also discusses how I gathered data and information to my research study.

Chapter II is a review of related literature. It is necessary to examine what scholars say about international institutions and domestic politics to better understand views on the value of such institutions. This section presents various views of international institutions or regimes and how they affect domestic politics. It also introduces the views of the relations between the IMF and Thailand which are main actors examined in this research study.

Chapter III presents the background of the causes of Thailand economic crisis, giving the factors and views on the causes of the crisis which are necessary points of references for discussion in the argument which follows.

Chapter IV first discusses and explains in detail for the basic element of the IMF adjustment program. After that, the section focuses on the obligations of the IMF on how Thailand apply for its domestic implementation. The details show that the IMF measures were unavoidable path for Thailand's recovery.

Chapter V is the main section of the study and presents the implication on domestic country after comply with the international institution. It examines the relation of the financial sector and the financial institutions in which the financial sector is challenged by the government to be in line with the IMF measures. Also it shows how such reformed institutions need to lead the financial sector for guiding and gathering the deteriorated financial sector to recover from the crisis. It also compares the situations before and after adopting the IMF measures.

Finally, chapter VI sum up my finding , explanation and interpretation of such finding. Although the result of the study may seem not enough to support my hypotheses, however at least the study present the positive rather than negative affect and take it into account for presenting the valued of the international institution as a path for recover the domestic country during the hardness time.

B. Statement of the Problem

Thailand is a member of the IMF; and is subject to the institutional principles governing members' behavior and decisions in the financial management during a period of financial assistance. By analyzing the relations between them, my study aims to present how this institution has importantly affected domestic 55policy and what international institution acts on them.

In this connection, my study can not cover all aspects of the relations among them, the study aims to focus on the outcome of domestic financial institutions. The aim is to present how the causes of crisis or the problems have been resolved or are being resolved by the domestic government in line with international institution for further improvement in the country.

Therefore, my analysis focuses on the following hypotheses:

1. The increased financial liberalization prior to 1997 led to excessive capital flows and the weaknesses of domestic institutional governance which resulted in the crisis.

2. The IMF is not the cause of the crisis and their intervention has improved Thailand for better economic recovery.

Based on the first hypotheses, I assumed that the over flow of capital in the financial market led to the excessiveness of investment and caused to the speculation especially in the stock market. It resulted to the problems' chain in many sectors. Finally, Thai currency was floated and economic crisis was started.

In formulating the second hypothesis, I want to present the actual cause of the crisis; and I must show that the crisis was caused by the other factors that were stated on the first hypothesis, not by the IMF intervention as many people incorrectly thought, and gave as the basis of criticisms of the IMF. I also assumed that institutions in Thailand financial sector after went along well with the IMF measure are helpful for the recovery path of Thailand economic crisis. I took into account finding performance of two domestic institutions before the IMF had arrived namely the Financial

Institution Development Fund (FIDF) and the Property Loan Management Organization (PLMO). After the crisis erupted , the IMFs' measures helped alleviate such a severe circumstance and the result of the three financial institutions namely Financial Sector Restructuring Authority (FRA), the Asset Management Cooperation (AMC) and the Radanasin Bank (RAB) can be enough evidences for supporting the study's hypotheses.

C. Sources for the Study

In embarking into the study. I used the sources which including books, published articles, magazines, annual reports, statistics and official documents to describe and analyze the relations between the IMF and Thailand and the outcome on what they did. I also used materials from the internet.

Though my study tends to focus on the discussion that took place in Thailand, exactly I used Thai references, I also took note of the comments , criticisms and point of views from concerned foreign scholars as well.

Chapter II

REVIEW OF RELATED LITERATURE

International regime theory is one of the traditional influence theories in the study of international relations theory. The concept of regime was described by Keohane as:-

> a set of mutual expectations, rules and regulations, plans, organizational energies and financial commitment, which has been accepted by a group of states [3]

In term of financial commitment , the IMF is the regime who design the commitment with the financial support. Since then, the international regime of the IMF become the important role for the financial support among members. As Keohane has persuasive argued that international regimes are instruments of statecraft and are created to facilitate cooperation. States comply with their dictates because of reputation considerations and because regimes provide a service which is of value and they are easier to maintain than to create. [4]

Meanwhile, Krasner defined international regime as follows:

> Regimes can be defined as sets of implicit and explicit principles, norms, rules and decision-making procedure around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation and rectitude. Norms are standards of behavior defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice. [5]

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[3] Robert O. Keohane, *After Hegemony : Cooperation and Discord in the World Political Economy* (Princeton : Princeton University press, 1984), p. 57
[4] Keohane as cited by David A. Lake, "British and American Hegemony Compared : Lessons for the Current Era of Decline" in *International political Economy : Perspective on Global Power and Wealth* (Boston : Douglas Bell, 2000), p.135
[5] Sthephen D. Kransner, *International Regime* (New York : Cornell University Press, 1983), p.2

However, some scholars said this definition was still confusing and the distinction between international system and international regimes was blurred. [6] Therefore, Keohane has narrowed down the definition of regimes as:-

> "Regimes are institutions with explicit rules, agreed upon by governments , which pertain to particular sets of issues in international relations" [7]

I take Keohane's definition and adopt it to be the fundamental theory for my study. I consider the IMF as the institution (or regime) who has its regulations and obligations to control or intervene the governance of domestic politics. In this study, the domestic's management of Thailand during the economic crisis since 1997 was intervened by the IMF with their explicit rules and control to follow institution procedure in the exchange for the financial assistance.

Then, with the clear and focused definition and with the intention to understand the meaning of regime, it is important to compare the concept of regime with the concept of institution and organization each of which has different characteristics. As the above argued that international institutions are regimes, however , Young described the difference terms among them that :-

> "international regime" and "international organization" are neither synonymous (have the same meaning) nor co-extensional (refer to the same entities) , even though in many cases, regimes will be accompanied by organizations designed or employed to support them in various way. [8]

Both regime and organization can be seen as representing a pattern of intention institution. Nevertheless, Keohane pointed out that the most fundamental difference between regime and organization lies in the fact that regime, being no more than sets of principle , norms, rules and procedures accepted by sates, does not possess the capacity

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[6] Gabriela Kutting, *Environment Society and International Relations : Towards more effective international environment agreement* (New York : Routledge,2000), p.17
[7] Keohane as cited by Andreas Hasenclever, Peter Mayer and Volker Rittberger, *Theories of International Regimes* (Cambridge : Cambridge University Press, 1997), p.12
[8] Young as cited by Anderas Hasenclever . Et.al (1997), p.10

to act, whereas organization can respond to events. [9] And the international regimes embodied in the organization like the IMF to facilitate the cooperation. [10]

In this regard, I take a slightly different view. I consider the institution exercise their capacity without any acting. Exactly, the IMF can be specified to be the organization, however the action of them are widely criticized more than the function of organization. They are full of regulations to define the domestic and assign the role of domestic social practice too. In addition, Young also specified the distinction between institution and organization with the vivid distinction. Whereas institutions are sets of rules of the game or codes of conduct defining social practices, organizations are material entities possessing offices, personal, budgets, equipment and more often than not, legal personality. Put into another way, organizations are actors in social practices and spelling out codes of conduct appropriate to them, but they are not actors in their own right. Institution assign roles to the participants in the social practice and guide the interactions among occupants of these roles. [11]

Therefore, the degree of "institutionalism" means the view of (international) institution matter. Such a view may be and actually is held in minimalist and maximalist versions. Institutions can be significant in the aspects of they may more or less effective and they may be more or less robust. [12] Hence , in the study, I generally assume that the institution are more effective than robust. The institution can be the assistance and guidance for the domestic politics. They support domestic for achieving better performance.

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[9] Keohane as cited by Andreas Hasenclever . Et.al (1997), p.10 - 11
[10] Joseph M. Grieco, "Understanding the Problem of International Cooperation : the limits of Neoliberal Institutionalism and the future of Realist Theory", in *Neorealism and Neoliberalism : The Contemporary Debate*,(New York : Columbia University Press, 1993), p.304
[11] Oran R. Young, *International Governance : Protecting the Environment in a Stateless Society* (New York : Cornell University Press, 1994), p.3-4
[12] Andreas Hasenclever. Et.al (1997), p.2

Then it is important the study on how international institutions affect and contribute to the domestic politics. Regarding those views, Hasenclever, also wanted to find out "how do international institution (such as regimes) affect the behavior of state and non-state actors in the issue areas for which they have been created? And which factors, be they located within or without the institution, determine the success and the stability of international regimes?" [13] Meanwhile Young said that "this is because institutions can and frequently do vary along many dimensions, including numbers and types of members, functional scope, geographical domain , degree of formalization and stage of development." [14]

Mercado agreed that institutions have a major effect on the process of domestic politics.[15] Keohane also concedes a need "to examine more closely how domestic politics are linked to international institutions."[16] Mercado also need to show that "Much of the domestic determinants of foreign policy literature (mostly powerfully of the broadly institutionalist variant) treats the political power of ideas as an important part of the policy process. As competitive ideology or values in the policy-making, as encased or embedded in domestic institutional structure, and/or as an innovative force at times of institutional change or crisis ; ideas and values are seen to count." [17]

In times of crisis, the impact of institution may disrupt domestic politics; however, I take a view on the IMF effect on the domestic policies as the helpful impacts for the direction of Thailand economic reviving. I argue that the intervention of institutionalism can lead to the significant improvement in the domestic approach. I also contend that the various pressures from institution contribute to the development of

[13] Anderas Hasenclever. Et.al (1997), p.1
[14] Oran R. Young (1994), p.5
[15] Simon Mercado, "Towards a new understanding of international trade policies : ideas, institutions and the political economy of foreign economic policy" in *Boundaries in Question : New Directions in International Relations* (London : Cassell Publishers Limited, 1995), p.114
[16] Robert O. Keohane, " Instituionalist Theory, Realist Challenge after the Cold War", in *Neorealism and Neoliberalism : The Contemporary Debate*,(New York : Columbia University Press, 1993), p.295
[17] Simon Mercado (1995), p.117-118

domestic politic as well. In my study, I take the consideration on the domestic, what are they doing and what they have gained or created from the pressure of institution for their better approach.

Institution can be seen as the interference to domestic's decision and as a source of full disruption to country's management. Institution and rules affect the distribution of the power of political actors and help to mould political preferences and interests. Institutions thus have structural characteristic which establish them as more than simple reflections of social force and as more than mere conduits for the transferences of societal or international forces into policy. [18]

The literature contains various perspectives on how international institutions or regimes affect the relations among states and how they play their role with the domestic politics. These studies provide the extensive and very useful insight on the international institutions. However, my concern here is to find out how an institution or regime applies to domestic politics, particularly during the period of hardship, how domestic politics respond and what they have gained from institution for the recovery and better development. Considering the real hardship by the IMF intervention, Thailand gained good lesson from them during the economic crisis experience.

[18] Simon Mercado (1995),p.116

Chapter III

BACKGROUND OF THE CAUSES OF THAILAND'S ECONOMIC CRISIS

The economic crisis which started in Thailand prior the middle of 1997 spread rapidly across the East Asian region and appeared without any early warning. Just before the crisis, Thailand seemed to be success in the economic development. For several years, the institutions like the World Bank, The IMF and United National Development Program (UNDP) had been praising Thailand's stable macroeconomic management. The central bank , the Bank of Thailand (BoT) was regarded as a financial soundness. By mid of 1997, there had been changed. Thai economy was in disorder. As a result of this, the country had to seek financial assistance from the IMF. Thai people were experiencing economic hardship.

In this section, the study focuses on the causes of economic crisis period prior 1997 before asking for the assistance from the IMF. The study look at the causes of crisis raised from domestic level not by the international level. There is much to learn from the crisis which has been rooted in a complex set of problems: not only the collapse of financial systems but also other fundamental weaknesses of economic institution. In this connection, my study finds that the rapid of financial liberalization and the inadequate attention to problems of corporate governance and institution failures of domestic are common factors underlining the cause of economic crisis in Thailand. Too rapid the financial liberalization and the weakness of institutional governance in fact were the main causes of the crisis.

Table 1. Thailand Economic Growth Rate

Year	Economic Growth Rate (Percent)
1990	11. 20
1991	8. 60
1992	8. 10
1993	8. 40
1994	9. 00
1995	8. 90
1996	5. 90
1997	-1. 80

Source : National Identity Board, Thailand

The Thai economy experienced high annual growth rate averaging 8.60 percent for many years. The economy then faced with the economic crisis which led to a contradiction of the growth rate by 5.90 and –1.80 percent in 1996 and 1997 respectively.

A. Financial Liberalization

Keohane and Milner argue that financial liberalization tends to transmit international shocks to domestic economies:-

> Internationalization means that economic shocks from aboard will be more fully and quickly translated into domestic economy. [19]

The Thai financial liberalization of early 1990s is usually blamed as the major cause of the financial trouble during 1996-1997 which built into the crisis. With the finance liberalization, the capital can flow very freely in large amounts. Prior to the crisis since the late 1980s, many of economies, particularly in the four ASEAN member

[19] Robert O. Keohane and Helen V. Milner, ed. *Internationalization and Domestic Politics* (Cambridge : Cambridge University Press, 1996), p.16

countries, Thailand, Malaysia, the Philippines and Indonesia had been enjoying a boom in foreign capital inflows which mainly resulting from the currency appreciation in Japan and the Newly Industrialized Countries (NICs) and the domestic financial liberalization in the early 1990s. In case of Thailand, high profit margins in stocks, high interest rates and relatively low risk due largely to a US dollar pegged currency, attracted foreign capital into the country. Some of these flows occurred when the currency was floated with massive amounts of capital flying the country in the second half of 1997, as a result of national economic crisis. [20]

The study focuses on the capital can flow free very largely which was supported by the functional causes of the establishment of Bangkok International Banking Facility (BIBF), Speculation on the stock market and over investment in property sector.

1. The Establishment of Bangkok International Banking Facility (BIBF)

The important step of financial liberalization in Thailand was the establishment of BIBF in 1993 to make the domestic financial system and banking business better able to compete for international lending and borrowing especially in private sector. The Bank of Thailand (BoT) has pointed out the purpose of the establishment of BIBF.

> The establishment of BIBF was aimed to serve the increasingly sophisticated needs of international trade and investment and enhance the capacity of domestic banking business in preparation for intensified competition. In financing the capital needs of both the country and the region, the country could exploit the geographical advantage of the country which can act as gateway to former centrally planned economics in Southeast Asia and promote the intermediation of international capital to meet the long-term needs of these countries in the reconstruction of their economies.[21]

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[20] Suwalak Kittiprapas, *Cause of the Recent Asian Economic Crisis : The case of Thailand* (Bangkok : Thailand Development Research Institute, 2000), p.2

[21] Bank of Thailand, "Focus on the Thai Crisis", *Bank of Thailand Economic Focus,* April –June 1998, p.4

The BoT believed that Thai financial system should be developed and became a financial center in this region. They also believed that BIBF could contribute a stable economic conditions as well as liberal exchange.

There were huge loans from outside to invest in projects which did not offer any advantages to economy. The BIBF was popular among Thai private investors because the interest rate on dollar loan was lower than domestic rates.

Table 2. External Debt (billion of US dollars)

Year	Public External Debt	Private External Debt	Total
1990	11.50	17.60	29.10
1991	12.80	24.90	37.70
1992	13.10	30.50	43.60
1993	14.20	37.90	52.10
1994	15.70	49.20	64.90
1995	16.40	84.40	100.80
1996	16.80	91.90	108.70
1997	24.10	85.20	109.30

Source : National Identity Board, Bangkok, Thailand

After Thailand liberalized its financial sector, private debt rose considerably, especially through the BIBF operations. In 1996, the private debt peaked at US $ 91.90 billion. In contrast, the public debt remained low, averaging US $15 billion. However, the composition of external debt changed when the economic crisis broke out in 1997. The private debt started to decline while the public debt increased significantly.

2. Stock market speculation

The financial liberalization led to large free flow of capital which largely created a dangerous situation by permitting high speculative sectors particularly in the stock exchange market. The speculation on the stock market started very clearly after 1993-1995. Family controlled companies could easily exploit minority shareholders. The regulatory regime of the stock exchange was strengthened by new comprehensive legislative since 1992. However this strengthening was insufficient to limit the speculative fever from 1993-1995 that resulted from various factors. Among these factors was a poor corporate governance among the companies. This mistake was not remedied by reforms after 1992. Essentially, the families controlling the enterprises found it very easy to exploit minority shareholders, mostly punters who entered the stock exchange for speculative purposes. This system encouraged the bubble to grow much larger that it would have.[22] The reason was the Thai capitalism is based largely on family businesses, even companies listed on the stock exchange. As the Thai economy grew very fast in the late 1980s and early 1990s, these businesses sometimes grew even faster. They borrowed heavily to meet their need for capital. This caused their dept dependence grew steadily.

3. Property over investment

The financial liberalization allowed the expansion of speculation in stock market as well as permitting over-investment in the property sector considerably. There had been an over investment early as the capital inflow continued to increase due to large loans from banks. Thailand was growing rapidly and had huge capital requirements on property investment boom. It then was a part of bubble economy.

During the year boom years between 1988-1995, land prices were rising rapidly. A high growth period was a major reason, but the underlying real appreciation was another. One characteristic of bubble economy is that real estate prices continue to rise well beyond levels justified by the productivity of the assets. So long as the price

[22] Ammar Siamwalla and Orapin Sobchokchai, *Responding to the Thai Economic Crisis* (Bangkok : United Nations Development Programme,1998) p.4

continue to rise, investors are rewarded and collateral is created for new loans to finance further investment and until the inevitable crash. This actually happened in Thailand. As the land prices increasing, the investment in land and real estate paid off additionally in term of the ability to float more debt. The increased debt was partly used to buy even more land. This drove the land prices further up and so on while certainly a debt of pyramid, which could last as long as the economic growth and land prices were kept up.[23] In mid 1990s , the real estate sector which over expand in the preceding period came to face excess supply conditions in the housing and condominium markets. Under this situation, some real estate companies were confronted with a liquidity problem which in turn, impacted on the operation of those financial institutions which large real estate exposure.[24] Thus when the economy and land prices steadily slow down in 1996, the system was then crashing down. Much of investment subsequently proved to be financially non-performing in which destroying many companies that had undertaken it and others which had provided the finance. As a result leading to economic collapse.

The property sector has a special place in the Thai financial system. The majority of Thai bank loans are based on collateral, with property as the assets to guarantee to loan. With rapidly rising prices of property, it was used as collateral that can be used to raise more loans in which whose proceeds can in turn be used to purchase more property. It caused stimulated asset price rising up and thus, the bubble was born. The endeavor that Thai banks and financial companies were going through in small measure due to the closeness between property and bank loans caused an over investment and became part of crisis. [25]

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[23] Ammar Siamwalla, *Can a Developing Democracy Manage its Macroeconomy? The Case of Thailand,* (Bangkok : Thailand Development Research Institute ,1997) p.63-74
[24] Bank of Thailand, Annual Report, 1996. p.5
[25] Ibid p.5

Liberalization of the financial system may seem to be a good measure for the globalization. However, if domestic regulators still lack necessary skills, personal and capital to complete with global liberalization, the domestic needs to become mature before opening to the outside. In Thailand's economic crisis, it then disclose not only the impact of financial liberalization, but also the weakness of institutional governance.

B. Weakness of Institutional Governance

There were other causes of the crisis, which reveal weaknesses and failures of domestic policies of institutional governance. The weaknesses of institutional governance as well as a lack of transparency were a major root of the crisis. Cheating and corruption in the financial sector and unstable government were that factor which led the problem out of control. The financial mismanagement and inefficiency and delay solving problems of bankruptcy of Thai banks also allowed the problems to spread to other finance companies. Non-performing loans accumulated by banks and financial companies are the evidence which clearly supports the weaknesses of institutional governance.

1. Non Performing Loans (NPL)

There were huge loans which were unpaid for 6 months overdue from banks and finance companies caused by the offering huge loan to investors in the projects which does not offer any advantages to economy. The private sector is very much to blame for the crisis since it was lack of discipline among private investors in foreign borrowing and unproductive spending that burdened the country with huge foreign debts when the currency depreciated. With the cheaper interest rate for off-shore loans and the perceived fixed exchange rate, there was excessive borrowing and spending in speculative sector, which built up huge amounts of short term foreign debt. [26]

In the bank sector, non-performing loans at the end of 1995 were 7.2 percent of total loans and it increased to 11.60 percent in May 1997. In finance companies sector, non-performing loan also increased sharply over the first few months of 1997 from 6 percent at the end of 1996 to 12 percent in May 1997. Most finance companies' assets were related to real estate.

2. The problem chains

These problems caused a chain of collapses in stock and property markets when the weaknesses of the financial sector were revealed. This led to the eventual closure of a large number of financial companies and concerned business firms.[27] All these problems existed in 1996, and they became serious in early 1997 when the Thai baht was heavily attacked. The Bank of Thailand (BoT) had wasted huge amounts of forward commitment to sell foreign currency in order to defend the baht against speculative attacks started in February 1997. [28] The country was quickly running out of foreign currencies to meet its obligations. Even though most of the short term debt was due to borrowing by the private sector, there was not enough foreign currency in the country to repay the loans even if the private sector had enough baht for conversion to foreign currencies at the old exchange rate. By the mid of 1997, Thailand had run out of foreign reserves due to the BoT defense of the baht currency.

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[26] Sauwalak Kittprapas (2000) p.5-6
[27] Sauwalak Kittiprapas, (2000), p.5
[28] Bank of Thailand, (1998)

Table 3. International Official Reserves (billion of US dollars)

Year	International Official Reserves
1990	14.30
1991	18.40
1992	21.20
1993	25.40
1994	30.30
1995	37.00
1996	38.70
1997	27.00

Source : National Identity Board, Thailand

Thailand's international reserves had accumulated earlier and peaked at US$ 38.70 billion in 1996. The international reserves depleted sharply in 1997. As a result, this led to the final consequence of floating the baht on July 2, 1997. Seeking assistance from the IMF for the first time on August 14, 1997 was unavoidable afterward. Hence, it is difficult to escape the conclusion that the international financial system itself constituted the main ingredient in the meltdown process. It certainly played an active role in every country, although the other ingredients varied from country to country. [29]

In 1997 Thailand's financial institutions and economy as a whole was hit hard by the regional financial liberalization and institutional weaknesses. The crisis was revealed by the weakening of Thai currency, a result of an excessive debt burden and a liquidity problem resulting in high level of non-performing loans which led to the chain of collapses. Among the various measure adopted by the government to deal with the

[29] George Soros, *The crisis of global capitalism : open society endangered.* (New York : Public Affairs, 1998), p.136

crisis was the request for assistance from the IMF. That requested started the debate over the relations between international institutions and the domestic policy.

Chapter IV

THE IMF ADJUSTMENT PROGRAM AND THAILAND IMPLEMENTATION

The economic crisis in Thailand with the assistance from the IMF including bilateral and multilateral assistance from other donors requested the admission of Thailand to comply with the framework conditions of the IMF assistant program. The comprehensive policy package is expressed under Letter of Intend (LOI) which the IMF has settled the measures adjustment for crisis recovering and Thailand had to express the policies intention in implementing for solving the problems and to recover from the crisis in order to attract the confidence from both domestic and international investors. However, the IMF measures has been criticized for setting too many conditions and interfering too much in the domestic affairs of the countries that turn for assistance. What business is it of the IMF, it is asked by George Soros, if a regime is corrupt or the banking and industrial structure over leveraged? All that matter is that a country should be able to meet its obligations? George pointed that the task of the IMF is to help contain a liquidity crisis, then the structural adjustment problems are best left to the country concerned. [30]

Generally, the assistance of the IMF is similar to a patient taking medicine, in which there are many measures and economic conditions that country must implement into the plan of economic restructuring in order to get the approval for the loan from the IMF. Despite there are lot of controversies surrounding the IMF measures and not everyone agree on its role, but in this study, I agree with Feffery on the view that some global institutions need to be in the center of the crisis and that it is better to ask the IMF as the starting point rather than to craft something altogether new. [31]

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[30] George Soros, *The crisis of global capitalism : open society endangered* (New York : Public Affairs, 1998) p.147
[31] Feffery E. Garten, *Lessons for the Financial Crisis* (Lexis-Nexis Academic Universe, 1999) available at http://web.lexis-nexis.com/universe/document

A. Basic Element of the IMF Adjustment Program

Therefore, the measures for guiding the direction of problem solving and adjusting the economic structure is called "Structural Adjustment Programs : SAPs". Usually, the IMF adjustment program mandate severely cutting government spending to balance budgets, eliminating trade barriers and social subsidies, encouraging exports, tightening money policies, devaluing currencies and dismantling nationalist barriers to foreign investment. [32]

In this connection, during the IMF assistance for Thailand economic recovering, there were four measures under SAPs which the IMF offered for Thailand to adjust national policies implementation for recovering from the crisis. Those four measures compose of:-

1. **Stabilization**: The measure for keeping the economic stabilize by the implementation of restricted monetary and fiscal policies. The financial restructuring and social safety net also implemented under this measure for strengthening the country stabilization.
2. **Privatization**: The measure to open the opportunity for private sector to participate in trading and investment activities. The measure also support the joint venture and competition among private sectors.
3. **Deregulation**: The measure for deregulate the conditions to facilitate trading and investment.
4. **Liberalization**: The measure emphasize on the liberalization of trade, investment, production and financial sectors.

[32] Robin Broad, John Cavanagh and Walden Bello, "Development : The Market Is Not Enough" in *International political Economy : Perspective on Global Power and Wealth* (Boston : Douglas Bell, 2000), p.395

The assistance of the IMF and the acceptation of Thailand to follow and implement with the conditions under those measures in financial and academic assistance effected the positive result in term of build up the confident for attracting both inbound and outbound investors to strengthen the economic stabilization. Nevertheless, the drawback of the IMF adjustment program are widely criticized as the interference to domestic's own decision and as a source of full disruption to the economic and social management to domestic policies. The IMF conditions were criticized as the multiplication of reform measures and rely on structural benchmarks for making it difficult for borrows to comply with their conditionality. They increase the uncertainty to the borrows to face in a crisis situation. [33] It reflected that the domestic has to follow under the international institution without any unavoidable and might face the hardness however, under these hardship circumstances, it reflected what domestic has learned and gained from international institution. Are there any implications under the hardship that international institution offer to domestic or just only the pressure that international institution offered to domestic? The study intend to examine from this point. In the connection to Thailand program , the IMF emphasized on demand strategy for issuing the measure policy concern such as restricted monetary policy by reducing the credit of central bank, increasing of interest loan, limitation on credit of commercial bank. On the fiscal policy, the IMF measure emphasized on increasing taxes, controlling wages and expenditure and reducing investment of government. All of these measures need the recovery in short period. Nevertheless, these measures are not enough to sustain the recovery in Thailand economic crisis, as a result the social measure and structural adjustment were offered in the stabilization measure after the revision from the IMF mission.

[33] Park,Yung Chul and Wang,Yunjong, *Reform of the International Financial System and Institutions in Light of the Asian Financial Crisis*, (Seoul : Korea Institute for International Economic Policies, 2000), p.19

Since Thailand requested the assistance from the IMF, there were 8 letters of intend during the period of August 1997 to September, 1999 expressed and reveled the conditions that Thailand was pressured under the IMF measures.

B. Implementation

To cope with the crisis, the government placed priorities on policies to restore confidence and to revive the economy according to the IMF program on four measures policies.

1 . Stabilization

To begin with the stabilization measure which is the core measure for adjusting national policy in order to recover from the crisis. Under the stabilization measure, the study will focus on four mains program restructuring, Financial sector restructuring, Fiscal and Wage policy, Monetary and Exchange Rate Policy and Social Safety Net on the contribution of the IMF on Thailand.

1. 1 Financial Sector Restructuring

The program started with isolating the failed financial companies from the rest of the financial system and after that giving the confidence to public that the remainders of financial system were sounded. The main task of the program was restructuring the failed 58 financial companies that broke the financial system. Then the program developed institutional framework for the systematic restructuring as well as comprehensive reform aimed at strengthening the efficiency , profitability and solvency of the system and made it more prepared to stand with the international competition.

1. 2 Fiscal and Wage Policy

The program aimed at strengthening of the fiscal position by substantial measures on the expenditure and revenue side. The expenditure was implemented with control the limitation of government expenditure including investment projects. Only the most important element of program that would upgrade the infrastructure would be considered. The infrastructure spending was to be increased to support priority area in rural and urban sectors in order to broaden agricultural production and industrial restructuring. Besides, the expanded government spending through the central government and public enterprises was being carefully designed to maximized the impact on the real economy and on the social safety net.

On the revenue side, it was including the structural reform to broaden the effective tax base and improving tax administration. The increase of value add tax (vat) from 7 to 10% was implemented.

1. 3 Exchange Rate and Monetary Policy

The program allowed the currency rate adjust the flexibility and did not seek to defend any particular rate in the face of sustained market pressures. The policy increased loan interest rate with the objective for helping stabilize the exchange rate and restore confidence in domestic financial assets. The program also gave the symmetric flexibility to interest rate policy as well. At the end of the program, the program improved the liquidity condition by reduction in interest rate and raising long term funds to substitute short term borrowing.

1. 4 Social Safety Net

The social safety net program became a more emphasized policy from the middle period of the crisis, as the society became more severely affected by the crisis.

The social safety net program is the additional measure underline to stabilize the fiscal discipline for providing the resources to finance a strengthened social safety net and increase well-targeted public works programs. The main target was those who have became unemployed in the urban area, particularly due to rapid employment reduction in the construction and manufacturing sectors as well as sharply increasing underemployment. The rural area also experienced growing unemployment , particularly in agricultural sector. [34] The measure aimed at boosting domestic demand through labor intensive investment projects. Thus, the main task of social safety net was the poverty reduction. The program provided some relief to the urban and rural poor through the targeted provision of social services. Then ensuring long term financial strengthen of the social security system and maintaining the adequacy of its coverage. The social safety net measure still went ahead with the developing training programs or retrenched workers affected by public enterprise reform and narrowing skill gap in the workforce through expanding enrollment in the secondary education. Additional measure was extended later on, hoping that the extension of a social safety net and the investment in human capital would helping to preserve social stability through targeted subsidies, education and health programs and employment creation. [35] Therefore, the measure was putting the improvement in the targeting of social safety net program by the extension of scholarship program for education especially for secondary and vocational school. The program also provided the extension of employment generating public works programs and established the workshop for training in various fields in order to facilitate employment creation. Besides , the program also provided of the free medical treatment and improvement of rural health care facilities by extension the social security plan for workers.

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[34] Chalongphop Sussangkarn, Flatters Frank and Sauwlak Kittiprapas, "Comparative Social Impacts of the Asian Economic Crisis in Thailand, Indonesia, Malaysia and the Philippines : A preliminary Report", *TDRI Qurterly Review*, March 1999, p.3-9

[35] International Monetary Fund, *Recovery from the Asia n Crisis and the Role of the IMF,* Available at http://www.imf.org/external/np/exrlib/2000.htm

Even though the programs aimed at strengthening for recovering from the crisis, however, some were very critical of the IMF stabilization measures. The IMF was too focussed on defending fixed exchange rates. To illustrate, after floating of Thai baht (around 25 baht per US dollar) in July 1997, the Thai currency kept on depreciating against US dollars unit it reached at 55 baht per US dollar in January 1998. In doing, it let speculation build up too much. The IMF failed to see that the crisis was primarily about excessive leverage in the private sector. At the end of 1997 through to 1998. In this connection, Garten pointed that in facing tighter fiscal and monetary policy, the IMF precipitated widespread bankruptcies where there were not effective bankruptcy laws and killed the growth that would have been essential for private sector restructuring and recovery.[36]

2 . Privatization

The IMF program required an important component of privatization of state enterprises to achieve the target of fiscal discipline needed to sustain the stabilization. At the beginning of the program, there were measures increasing private participation in infrastructure development especially in transportation and energy sector. There were the corporation and privatization programs in state enterprises operating in energy, transportation, public services and communication sectors. [37] The master plan for state enterprise reform was set up and allowed the private sector to participate in those above sectors. The master plan set out the framework for privatization of key sectors, principles of regulations and sequencing of reforms. This plan became the basic guideline for reforming and a reference for government agencies as well as public sectors. The program also allowed the government to develop privatization strategies for the financial sector with the considerable progress to facilitate the cooperation

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[36] Garten,(1999)
[37] Sirilaksana Khoman, "The Crisis and Prospects for Thailand", in *The Cause and Impact of the Asian Financial Crisis* (Wiltshire :Antony Rowe, 2000), p.51

between domestic and foreign private investors. The program generated resources that would be used to protect the situation of workers while contributing to reducing the public debt.

The way to improve the environment for private investment, especially to attract new foreign direct investment and enlarge productivity growth was supported by the continuation of the market opening process and deregulation, including further trade liberalization and simplification of business licensing requirement.[38] The privatization program was set up to support the liberal policy in which it connect to other measures This was related to the deregulation and liberalization measures under the 4 keys measures of the IMF program.

3 . Deregulation

The program started by easing the restrictions on foreign equity participation in failed financial institutions in order to increase the efficiency and competition in financial sector. With that goal, related acts and regulations were amended. The Currency Act was changed to modernize the regulatory framework to in line with the central bank operation. The Bankruptcy Law, Civil and Commercial Code and Foreclosure law were amended to facilitate the implementation of the financial restructuring framework and permit corporate reorganization. Most important was amending the Alien Business Law to enhance competitiveness and promote transparency. The aim was to increase liquidity in key sectors and to comply with international obligations. This law was converted into the new and more liberal Foreign Investment Law. The Ownership Law was substantially liberalized as well.

[38] International Monetary Fund, *Recovery from the Asia n Crisis and the Role of the IMF,* Available at http://www.imf.org/external/np/exrlib/2000.htm

4 . Liberalization

Even though liberalization was one major cause for the crisis, further liberalization with the prudent oversight and regulations was still needed for reviving the country. It was thought that the domestic economy alone was to weak to revive the country, and also the large domestic businesses were involved abuses that caused the crisis. The country needed more cooperation with outside partners. In order to do that, the government initially announced the full liberalization of foreign equity investment in financial sector for a period of ten years. The liberalization also relied on foreign direct investment (from reduced restrictions) in order to increase resources for restructuring. In line with the liberalization and deregulation the program encouraged new inflow of foreign direct investment by amending Alien Business Law to support foreign direct investment. Furthermore, the program amended Foreign Ownership procedure and Land Code and Condominium Act to allow individual foreign investors to own land and allowed Thai citizens married to foreigners to own land. In addition to liberalization for trading , the tariffs continued to rationalize the tariff structure to take more advantage of the ASEAN Free Trade Area (AFTA) and be more consistent with obligation to World Trade Organization (WTO).

The request for financial assistance and advice and technical support from the IMF during economic crisis was unavoidable; it was needed to build confidence and to help Thailand realize how difficult the circumstances they faced were. And even after the recovery, the lesson and experience learned from the intervention of the IMF institution will be valued for strengthening and improving the direction of the country’s development in the long run. The domestic economy, then, needs to continue to build up a strong foundation for economic and social development in all sectors and to build up a warning system which gives the signals to all concerned sectors to perceive and prevent a reoccurrence of the crisis. For of course the measures in the IMF program gives no guarantee that the Thai economy will recover. The attention to solving problems and prevent crisis from concerned sectors can be important for leading the country achieve the recovery and sustainable growth. It is particularly important to focus on this as signs of recovery signs start to appear. As Chalongphob said, there is a danger that optimism over recovery will simply lead country back to old habits which will eventually lead to the next crisis.[39]

The intervention of international institution in Thailand economy and laws has now been studied, giving a general idea on the IMF interaction with Thailand. What the country has gained from the pressure of international institution will be presented in the next section of the study.

[39] Chalongphob Sussangkarn, *Thailand : Toward a Sustainable Recovery*, (Bangkok : Thailand Development Research Institute, 2000), p.5

Chapter V

THE ORGANIZING FINANACIAL INSTITUTIONS

The economic crisis that started in 1997 made the Thai people from both the public and private sectors aware of the vulnerability of the country's economic foundation and the problems of heavy reliance on financial liberalization as well as the weaknesses of institutional governance. The awareness of the hardships under the control of international institution like the IMF encourage the domestic realize on what are the lessons and experiences that domestic gain for strengthening its country development. Then, the adjustment under the IMF program during the crisis was necessary for Thailand’s sustainable recovery from the crisis. Particularly, more attention needs to be paid to reform measures that will prevent and avoid a similar crisis in the future rather than just to crisis management measures necessary to lift the country from the recession. For a sustainable recovery from the crisis, the establishment of better domestic financial institutions is the most important implication of the experience with the IMF adjustment program. Before the crisis, the adjustments that might have restored balance could have been made by implementing the Financial Institution Development Fund (FIDF) and the Property Loan Management Organization (PLMO). After the crisis had erupted , the IMFs’ measure alleviated such a severe circumstance and the result of the Financial Sector Restructuring Authority (FRA) , the Asset Management Cooperation (AMC) and the Radanasin Bank (RAB). Discussions of what Thailand would get beyond the IMF program and how to avoid the repetition of the crisis will be taken afterward.

A. Pre the IMF Experience

Some bold decisive actions reform and restructuring of the financial system in Thailand were undertaken by the role of Bank of Thailand (BoT) prior to the adoption of the IMF implementation.

1. The Financial Institutions Development Fund (FIDF)

To restore foreign investors' confidence in the underlying fundamentals of the financial system, the authorities suspended the operation of total 58 finance companies 16 on June 2, 1997 and 42 on August 5, 1997 respectively. At that time, there was no formal deposit insurance scheme in Thailand. Therefore, the FIDF was entrusted to provide a guarantee of the deposits and liabilities of the financial institutions to prevent bank runs and systemic risk as well as to quickly restore public confidence.

Originally, FIDF was established in 1985 through a Royal Decree Regulation along the Affairs of the Bank of Thailand (BoT) 1942. The Fund was set up as a separate legal entity managed by BoT to ensure proper cooperation in policy implementation, in particular during the crisis. The establishment of the FIDF was a combined effort of the private sector and the government and was created within BoT to rehabilitate the financial institutions as well as to develop the financial system and restore solvency and stability. [40] In this regard, the BoT stated that "the role and duties of the Fund have evolved over the years and the Fund is now entrusted to provide liquidity assistance to financial institutions, provide guarantee to depositors and creditors and to act on behalf of the authorities in exchanging for the note exchange scheme." [41]

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[40] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde, *Central Bank Regulation and Coping with the Asian Financial Crisis : Lesson from the Bank of Thailand*, (Birmingham : University of Birmingham, 2000), p.26

[41] Bank of Thailand, (1998), p.30

The BoT continue stated that "the Fund provides liquidity assistance to financial institutions experiencing liquidity problem by acting as a lender of last resort. The result from the limitation on the role of the BoT which can legally lend only to financial institutions that meet a specified collateral requirement. The BoT can not lend to borrowers that use real estate or any other assets as collateral. In Thailand, the market for liquid assets that can readily be exchanged for currency is not yet well developed, while financial institutions experiencing liquidity problem can not borrow from one another during a crisis due to the loss in confidence and credibility. Therefore, they are limited to the repurchase market, where they are required to use government or state enterprises bonds as collateral. Resolution of liquidity problems were therefore not undertaken in a timely and efficient manner which could potentially lead to systemic risk to the country's payments system." [42]

Following the announcement on August 5, 1997 to suspend the operation of 42 finance companies so as to allow the public to differentiate the weak institutions from the rest of the system. The Bot pointed that "the Fund was entrusted to another role that of providing liquidity for a general government guarantee to the creditors and depositors of the operating financial institutions. Besides, The role of the Fund has been enlarged from that of solvency guarantee of liquidity guarantee, as practiced in a number of countries where the government provides full liquidity support to the financial system." [43]

In addition, " the Fund sold 4 nationalized bank through the privatization measure. "The first sale on September 10, 1999 of Nakornthon Bank which is wholly owned by the Fund to Standard Chartered Bank was a major success in privatizing the nationalized bank. Furthermore, on October 6, 1999 the United Oversea Bank of

[42] Bank of Thailand, (1998) p.30
[43] Ibid, p.30

Singapore acquireed of RAB. There were two more nationalized banks which were privatized under the scheme , Siam City Bank and Bangkok Metropolitan Bank."[44]

Since the Fund had to issue a general letter of guarantee to all depositors and creditors in order to restore public confidence in the financial system in 1997, the burden directly impacted on the government, which was responsible for the loss baht through Fund. Therefore, the BoT Act was amended to reaffirm the government's commitment to underwrite the FIDF guarantee for depositors and creditors. In this connection, the Fund has played a complementary role to the traditional role of financial stability played by the BoT. In views of the IMF , " the Fund has been instrumental in revitalizing failed finance institutions throughout the economic crisis such that the burden of supporting financial restructuring has fallen on the FIDF rather than BoT. Some of the FIDF's exposure have been converted into equity as part of the recapitalization of the restructured financial institutions,. The government has promised to take full responsibility for the losses of the FIDF, by converting them into government debt. This has been a key component of Thailand overall economic problem which is supported by the IMF program." [45]

2. The Property Loan Management Organization (PLMO)

The PLMO was established on April 10, 1997 in accordance with the Royal Decree on the Property Loan Management Organization 1997 in order to deal with the property market bubble that had burst prior 1997. As mentioned in the cause of the crisis, the oversupply of property was caused by a lack of reliable and comprehensive information on real estate projects, together with high competition among the

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[44] Ibid p.27

[45] International Monetary Fund, *Internatioanl Financial Statistics*, (Washington DC : International Monetary Fund, 2000).

developers. In order to resolve the problem, the Bot stepped into remedy the property loans in the financial institutions that extended credits to the property sector.

The PLMO was established to purchase property loans with collateral from financial institution for purpose of managing and enhancing their value. The aim was to enable the financial institutions to improve the quality of assets while continuing to look after their borrowers through additional credit and loan monitoring process. The PLMO was not intended to directly extend credit to borrowers but was expected to arrange for a restructuring of debt so that property developers had flexibility to complete their project[46]

The initial capital 1 million baht was from government budget and admission fee contribution from 35 participating financial institutions. The capital rose to 100,000 million baht and was mobilized through the sale of government guaranteed bonds. The bonds were sold to general investors. The main objectives were to provide facilities for financial institutions to manage their property loans more flexibly as well as to assist property developers to continue with their projects through a debt restructuring program. As of December 1998, the total assets of PLMO amounted to 660 million baht and from the beginning of its operation, the PLMO purchased only 3 property projects worth around 500 million baht. Since its members were mostly 58 closed finance companies, therefore ,the business was no longer growing. The government, then revoked the operation of the PLMO. [47] However, the PLMO provided a short term alleviating measure for restoring stability in the pledge finance market with a supporting role of the BoT in reversing the adverse effects of the crisis.

[46] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde,p.28
[47] Ibid, p.29

B. Post the IMF Experience

The purpose of financial sector reforms is to improve the efficiency of financial intermediation and reduce financial sector failure to minimize the future crisis. The allocation of financial sector is a basic for a competitive economy. Chalongphop pointed that "a stable and robust of financial sector reduces the risk of a systematic financial crisis in the future. It is therefore important to enhance the overall incentive framework for the financial sector in order to encourage the financial system to play as a prudent and efficient role. The government must lay structure , legal, regulation, supervision and information improvement to be inline with the IMF measure as the direction for recovering Thailand." [48] In response to the economic crisis and under the implementation of the IMF measure, new organizations have been set up as part of the financial sector restructuring effort, namely, the Financial Restructuring Authority (FRA), the Asset Management Corporation (AMC) and the Radanasin Bank (RAB). These three institutions were established to undertake the restructuring of the most negatively impacted components of Thailand's financial sector.

1. The Financial Restructuring Authority (FRA)

The FRA was established on October 24, 1997 in accordance with the Emergency Decree on Financial Sector Restructuring 1997. The FRA was created as an independent body to review the rehabilitation of 58 failed finance companies and provided a support role to the BoT in restoring financial stability to Thailand.

Initially, the FRA focussed on sorting the good assets from the bad assets of the banking sector. Then the FRA sold most of the good assets to Radanasin Bank in order to continue the operation of businesses. The bad assets were sold to the AMC in order

[48] Chalongphop, (2000), p.5

to improve the value of the assets. However, as the government changed, the policy to deal with the assets of the 58 closed finance companies also altered. In order to attract more foreign currency and allow foreign investors to manage the assets, the government adopted a new policy to allow foreign investors to bid for the assets. As of December 1997, the decision of final management on the 58 failed finance companies was announced. Two rehabilitation plans were approved meanwhile 56 companies were to be permanently closed. [49]

After two years of operation, the FRA has auctioned assets of the 56 closed companies in amount of 648 billion baht of total 924 billion baht principle value of assets with 583 billion baht as core assets and 65 billion as non core assets. With the 6 past auctions of FRA, the value of the sold assets raised around 181 billion baht about 27% of the total principle value of 648 billion baht. Sale of core assets 25% of the principle value while the sale of non core assets 53% of the principle value. There were 229 billion baht of assets unsold , 219 billion baht were core and 10 billion baht were non core. [50] When the crisis turned to recover, the FRA was expected to close its operations after paying creditors the money earned from the actions of 56 closed companies.

2. The Asset Management Corporation (AMC)

The AMC was established on October 22, 1997 in accordance with the Emergency Degree on Asset Management Corporations 1997. The AMC is entrusted with the responsibility of biding for the lowest quality assets as a buyer of last resort to prevent fire sale of assets of the 56 closed finance companies. [51] In other word, " the

[49] Masahiro Kawai and Kenichi Takayasu,"The Economic Crisis and Banking Sector Restructuring in Thailand", *A Study of Financial Market*, (Tokyo : Sakura Institute of Research, 2000) p.99
[50] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde,p.28

[51] Bank of Thailand, p.29

corporation was established to ensure the orderly sale and take over as well as manage all the assets of the 56 closed finance companies leftover from the FRA auction or from the PLMO as well as to purchase or receive non performing assets from the FIFD.” [52] In order to help improve the quality of loans, it could also lend to debtors to enable them to continue in business,. Initially, the capital fund of 1,000 million baht came from the Ministry of Finance, which was given permission to issue bonds worth 12,000 million baht to finance the purchase of assets from the FRA. In March 1999, the AMC purchased assets from the FRA with a principle outstanding value of 185 billion for 31.20 billion baht, which was a steep discount. The AMC issued promissory notes of 5 years maturity in exchange for the assets purchased from the FRA. The AMC had a limited number of options in managing the assets, including debt restructuring and debt to equity conversion. It had to follow prescribed steps in order to help liquidate the assets purchased. First, it focused on debt restructuring deals of about 5-10 billion baht with real estate developers. Secondly, it sold non core assets such as vehicles, yachts and resort houses. Thirdly, it sold factories, developed land plots and assets which could produce cash as soon as possible. Then it sold low demanded assets. For all the sales, the AMC made sure that all assets were sold to buyers on condition that the debtors could buy them back later. Lastly, the AMC calculated the value of non collateral assets in order to estimate the proportion of loans which would be converted to equity. Until about 2004, the AMC will manage the debts, given that some of the promissory notes to repay loans by 2004. [53] Thus, the benefit of establishing the AMC is that “it allows financial management to focus on the financial institution, perform the specialized task of resolving NPL. This scheme enable NPL to be valued at the market.” [54]

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[52] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde, p.22
[53] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde, p.22-23
[54] Masahiro Kawai and Kenichi Takayasu, p.55

3. The Radanasin Bank (RAB)

The RAB was established under the Commercial Banking Act on February 23, 1998. The initial registered capital of 4,000 million baht was fully paid by the Ministry of Finance. The core duty of the RAB was "mandated to purchase the good assets of 56 closed finance companies from FRA as well as managing the good assets from the closed 56 finance companies. It could also lend to debtors to enable them to continue their businesses."[55]

In order to restore international confidence in the Thai financial system, the government initiated the sales process for the intervened banks by providing public resources which including the RAB in order to efficiently manage and rearrange shareholding in the financial institutions. In this regards, " the United Overseas Bank of Singapore (UOB) agreed in November 1999 to purchase the RAB. UOB would pay for 75 percents acquisition stake in the RAB. The transaction structure was designed to postpone the sizing and recognition of losses in the institution by the FIDF in order to attract the interest from investors." [56]

[55] Andy Mullineux, Adisorn Pinijkulviwat and Victor Murinde, p.24
[56] Masahiro Kawai and Kenichi Takayasu, p.56

Chapter VI

CONCLUSION

The liberalization of the financial systems without adequate and proper safeguard, ineffective management of resources, lack of adequate supervisory and financial infrastructure as well as underestimation of the scale of the crisis, have undoubtedly been responsible for the country's problem. This supports the first hypothesis on the study. The liberalization of financial institution like the BIBF had led the country to the overflow of the capital in domestic as well as global market. It led to several factors for the cause of the crisis. The speculation on stock market, the over investment on property sector are the main factors to be blamed for the crisis. In addition, the weaknesses of institutional governance also led the country fall into the crisis. The non-performing loans that resulted caused the a chain of problem prior to the time the currency was floated. Then, the implication of the relation between domestic and international institution was declared.

From Thailand 's economic crisis, it should not be blamed as being a country's problem or a regional problem. It was clear that the crisis has expanded to overwhelm the emerging markets in other regions and brought in a new threat of global recessions. Then, the damages which had spread to other parts of the world confirmed the need for international cooperation to dam the global crisis, assist in affected economies and revive growth and stability in the world economy. Thus, a sound financial sector in each country is essential to the stability of the international financial system as a whole. It is indispensable that the IMF play vital roles in the global financial system more closely together to ensure that macroeconomic management of finance and development policies.

As the country began to escape from the most severe circumstances of the crisis, and the recovery appeared in sight, and with the stimulus package in accordance with the IMF measure as well as the improved economic conditions, the Thai economy regained market confidence and recovery was on its way. Notably, positive growth was recorded for the first time in 1999 and GDP growth in 1999 turned positive to 4.20 percent after declined of 10.40 percent in 1997.

Table 4. Thailand Economic Growth Rate after 1997

Year	Economic Growth Rate (Percent)
1997	-1. 80
1998	-10. 40
1999	4. 20

Source : National Identity Board, Thailand

To support the second hypothesis, the government, to be in line with the IMF approach, has taken a systematic but flexible approach to resolve the economic crisis so as to allow the economy to recover quickly and in a sustainable manner. In addition to that, the four measures of stabilization, privatization, deregulation and liberalization have been applied with the direction of the IMF. These measures would bring the country reviving on the recovery path. The way that newly organized financial institutions were used, as shown above, is strong evidences to support this view. At the first period, prior adoption of the IMF program, the study shows the two institutions set up by the domestic initiative – by the BoT – were not strong enough to manage to resolve operations in response to the pervasive crisis. After adopting measures in line with IMF guidance, the three institutions set up showed that they could support and assist the operation of the previous institutions in their specialized task. All the measures taken resulted in improvement of several economic indicators. This confirms that the Thai economy is on the recovery path, with strong economic and financial fundamentals laid down by major reforms of the government in line with the flexible measure of the IMF.

Despite the hardship which the country was facing, there are many lessons to learn from it as well. It was shown that the country has no mechanism required to pursue financial discipline. So, the lessons Thailand has learned are valuable and provide the impetus for Thailand to emerge ever more economically stronger. The economic crisis has been a blessing in disguise. It has created a beneficial support for reform in Thailand country's economic institutions.

The lessons of the economic crisis coupled with the fundamental economic strengths that Thailand still possesses, is pointed to meet the challenge of a new regime with the confident sense of realization of its hard-earned past success. The greatest challenge to Thailand was once its very survival as a country. Today Thailand faces the challenge of adjusting itself to global economy where finance has no boundaries. The institutions and processes that have involved in the wake of the crisis suggest that Thailand is on the right path.

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