The dark side of global markets

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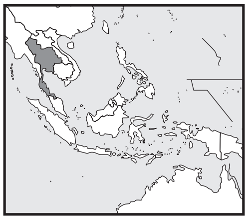

The 1997 economic crisis led to the privatisation of lucrative state enterprises as an IMF requirement to reduce the debt, which was largely incurred by the private sector. However, the multinational corporations have not benefited Thailand, but they have returned profits to their own countries. At present, it is vital to define, prioritise and achieve an equilibrium between democratic development and market mechanisms. In this process, civil society should play an active role in maintaining basic human values.

Financial liberalisation: killing all birds with one stone

Thailand's economic development strategies have always relied on foreign investment capital. Between 1986 and 1989, the average annual inflow of foreign capital was USD 1.2 billion. The amount rose to USD 2 billion during 1990-1996 when Thailand began to liberalise its financial sector. Even in 1997 when the economic bubble burst, USD 3.8 billion of foreign investment flowed into the country.[1] The majority of this capital was invested in property and land development, public utilities, private health care, telecommunications, financial services, trade and marketing promotion, large-scale industrial projects and other direct investment.

The 1997 financial crisis created greater opportunity for foreign direct investment (FDI). 1998 saw the highest growth in FDI in the banking and finance sector, while the investment growth in the industrial sector grew 53.4% higher than in 1997. FDI increased because many businesses on the verge of bankruptcy had no choice but to let overseas multinational corporations take over their operations. Thailand's Board of Investment (BOI) was set up primarily to promote foreign investment. The BOI provided investment incentives, such as tax exemption for a certain number of years. Complete ownership of companies has been the latest promotion the BOI offered to bring in greater foreign investment capital. Thammawit research revealed that since foreign corporations have been allowed to own either majority or 100% shares of BOI-promoted companies, 135 such companies had their majority shares bought up by multinational corporations between November 1997 and March 1999.[2]

Increased investment capital brought in by multinational corporations spurred Thailand's export figures and integrated the national economy more closely with the global market system. A 1997 statistical report showed that two-thirds of total export value came from export companies operated by foreign investment capital. These multinational corporations, excluding food and rubber industries, accounted for approximately 80% of the industrial sector's total export volume.

Since 1987, industrial development strategies have principally emphasised promoting large-scale industries operated by multinational corporations, which were provided with tax privileges, tariff protection, and infrastructure facilities. Not surprisingly, such policies have simultaneously destroyed most of the medium- and small-scale domestic industries. These internal entrepreneurs had to cope with labour shortages, lack of access to capital, and unfavourable tax and tariff systems that put them at a disadvantage relative to their large-scale overseas counterparts.[3]

Thailand has not substantially benefited from the operations of multinational corporations. They have used various means, including transfer pricing, to return profits to their own countries. At the same time, inadequate attention has been paid to domestic value-added production and technology transfer, while comparatively high expenses on royalty fees of technical expertise were welcome. While some high-tech goods, such as machinery, mechanical instruments, and electronic circuits, were exported, most of these products were merely assembled in the country before being exported. In computer products, Thailand's top-export, imported components constituted 44-46% of export value.

In addition, exports faced fierce competition in global markets. According to a 2002 survey by the Export Promotion Department, Thai exports in high value electronics dropped 18.5%, being negatively affected by competition from China. Domestic crisis and competition combined to cause serious increases in industrial unemployment and «flexible» employment: low-paid, informal sector jobs without any welfare benefits that are taken primarily by women.[4] Formal sector workers who kept their jobs found their bargaining power seriously weakened and labour rights eroded.[5]

Privatisation: purchased with natural resources as a premium

The 1997 economic meltdown also made the privatisation of lucrative state enterprises unavoidable. The government was obliged by the IMF to privatise State Owned Enterprises (SOEs) to reduce the debt, which was largely incurred by the private sector. For example, in Thailand's November 1997 Letter of Intent, the government stated that it had completed the preliminary work to increase the role of the private sector in energy, public utilities, communications, and transport sectors. The government intended to reduce its stake in the national airline (then 93%) and Bangchak petroleum company (then 80%) to well below 50%. It also submitted to Parliament the necessary legislation to facilitate the privatisation of the SOEs that were not yet corporatised.

Recently, it has been reported that many of the biggest privatisations were conducted without transparency. In the case of Petroleum Thailand, the top three institutional shareholders are affiliated with Merrill Lynch, while the largest individual shareholders had personal connections to the political party in power.

1 Anuch Abhabhirom *et al., Thailand Trends*, No. 13 «Thailand's Society, Knowledge and Stance in the Global Forum», Thailand Research Fund, 15 May 2002, p. 55.

2 Thammawit Therd-udomtham *et al.*, «Thailand's Industrial and Technological Development Over the Past Five Decades», seminar on *Five Decades of Thailand's National Economic and Social Development Plan*, Faculty of Economics, Thammasat University, 12 June 2002, pp. 7-20.

3 Niphon Phuaphongsakorn, 1999, «Thailand's Industrial Development and the Idea of Self-sufficient Economy», an article presented to the *1999 Annual Conference of Thailand Development Research Institute on Self-sufficient Economy*, 18-19 December 1999.

4 Worawit Charoenlert and Bandit Thanachai-setthawut, «Economic and Social Crisis and the Future of Thai Labour», *1997 Thailand's Turning Point*, the Political Economy Centre, November 2001.

5 Work Report, Women Workers Section, Friends of Women Foundation, September 2002.

The government has announced the privatisation of Thai Thanakhan Bank, THAI (Plc), Telephone Organisation, Airport Authority and the Krung Thai Bank (Plc). The 2003 privatisation list includes the Port Authority, Communication Authority, and the Metropolitan Waterworks Authority, while in 2004 the Electricity Generating Authority, Metropolitan Electricity Authority, Provincial Waterworks Authority, and Provincial Electricity Authority will follow suit.[6]

Radical changes: uprooting the majority's livelihood and resources

Privatisation of «public goods», such as water, has already occurred to a certain extent. According to one of the principal conditions of the ADB's USD 600 million Agricultural Sector Programme Loan, the government is obliged to end agricultural subsidies, charge farmers current market interest rates, restructure the water resource management system, speed up the passage of the National Water Resource Act, and establish market-based water pricing. Another USD 200 million loan from the World Bank was also granted to the Natural Resource Management Project, aiming at improving water management in the Chao Phraya River Basin. The World Bank has indicated that more efficient water management includes tradable user rights.[7]

The government granted a concession to the East Water Co. Ltd. (Plc), which was set up by the Provincial Waterworks Authority and co-invested by a private company from Singapore, to provide and sell water resources to urban and industrial sectors of Thailand's eastern region. It also awarded a concession to a joint venture between a Thai private firm and a British counterpart to produce untreated water for the Provincial Waterworks Authority office in Pathum Thani, an important industrial area adjacent to Bangkok. Still more concessions were granted to private companies to produce water supplies to be sold to Provincial Waterworks Authority offices in several provinces.

The State Enterprise Policy Committee met on 29 December 1999 and approved an urgent study on privatisation by a private consulting firm. Such privatisation procedures included full water supply concessions that allowed the private sector to operate all systems of production, sale and services, as well as maintenance, metering, invoicing, and bill collecting. The concessions, to be granted in five river basins, would last for 25 years and have direct impacts on farmers all over the country. For example, under a framework that privileges «maximum returns» when water is scarce, farmers could find their user rights transferred to users in other sectors.

Local voices of wisdom

A study on public participation in water privatisation by Chulalongkorn University's Social Research Institute provided insight into local attitudes on the management of resources. It revealed that in many areas the majority of the population felt they needed to participate in the management of water at the river-basin levels. Many of these people were well informed and already involved in river-basin management because they have had to deal with serious problems related to natural resources: water pollution by industrial factories and urban communities, conflicts over water between the farm and industrial sectors, soil salinity, deforestation of watershed areas, and overproduction of sand deposited along the river banks.

However, the participation envisioned by the people is different from that suggested by the State. The State's top-down approach will involve an organisation of water user groups and a river basin sub-committee that will oversee the local water resource management and lay down strict rules for all water users, whose management methods are different owing to their communal cultures. Moreover, each river basin is ecologically different and features different irrigation systems that require varying management and maintenance techniques.

Charging irrigation fees to reduce water demand and encourage users to save water is an inequitable solution. There would be no guarantee that with the irrigation-fee system in place, low-income water users would not be deprived of their access to water.[8]

In an April 2002 seminar co-organised by the Popular Midnight University, the Assembly of the Poor and the Assembly of Academics for the Poor, many alternatives to water management were proposed. Prof. Nidhi Iawsriwong identified the following outstanding «knowledge» or wisdom employed by the grassroots people's management of water:

- Water «knowledge» combines technology, ecology and sociology.
- Natural changes are normal phenomena.
- Sustainability requires moderation.

Nidhi asked, «Can this three-dimensional water management method, including its inherent mindset, be called knowledge?» He believes that while it is too undocumented and unorganised to be called a «body of knowledge» that can be transferred through modern learning processes, such as classroom instruction or textbooks, for the villagers this knowledge is easily learnt through their way of living. However, these practices are hard to learn for those with different lifestyles. As the saying goes, knowledge is power. The creation of alternative knowledge threatens to dismantle powerful social structures. It is not going to be achieved easily.[9]

A way out for Thailand

A report by Pranee Tinnakorn reveals that the richest 20% owned 49.2% of national income in 1975-76. This figure went up to 57.8% in 2000. In other words, only one-fifth of the population owned more than half of the country's income. The fact that the prosperity of national development has continued to be concentrated on those already rich has widened the income gap between the rich and poor even further. During 1975-76, the richest 20% earned eight times more than the poorest people. However, the ratio was 15 times in 2000. Today, Thailand's rich and the poor live a life as starkly different as day and night.[10]

Analysing the current situation, political scientist Chai-anan Samudavanija made the following conclusion: «A vital problem we are encountering now is how to prioritise and achieve an equilibrium between democratic development direction and market mechanism approach. Development direction and market mechanism approach are related to each other. In a unilateral development direction by which an emphasis is favourably given to export-led industrial capitalist development at the expense of agricultural and small and medium enterprise sectors, market mechanisms will play a more powerful role in ruining communal way of life.

«We need popular politics whereby the community and popular sectors are society's core groups. Civil society should have a participatory role to play in a political space… Civic society governance means that society's mainstream culture plays an active role in maintaining basic human values—cooperation, interdependence, sharing, and moderation—instead of promoting competition, accumulation, destruction, usurpation, and extravagance... [W]e need a future government that is conscious of their political obligation to equilibrate the power balance between the private and the people sectors. If the government evades this obligation, its inaction will practically strengthen the destructive power of the private sector over the civil society. As a result, the civil society sector will become weakened and incapacitated under the clutches of the state and the private sector.»[11] ■

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6 *Prachachat Thurakij* newspaper, 8-11 August 2002, p. 11.

7 Srisuwan Khuankachorn, «Will there be no resources for the people?: Privatisation of resources ownership by foreign capital in Thailand's economic recovery age and for whom», *Political Economy Journal (for Community)*, No. 13, p. 158.

8 A research report on «Public Participation in Water Allocation and Privatisation», Social Research Institute, Chulalongkorn University, 2001.

9 Nidhi Iawsriwong, «Alternatives to Water Management», *Matichon Weekly* magazine, 13-19 May 2002, p. 41.

10 Pranee Tinnakorn, «The Inequality of Income Distribution over the Four Decades of National Development: 1961-2001», seminar on *Five Decades of Thailand's National Economic and Social Development Plan*, Faculty of Economics, Thammasat University, 12 June 2002, pp. 4-27.

11 Chai-anan Samudavanija, *From a Nation State to a Market State: Ideologies on the State and Societies in a Globalisation Age*, Ban Phra Arthit Press, December 2001.