FINANCING THAKSINOMICS

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Abstract

An innovation in the economic policy pursued by the Thai government led by Thaksin Shinawatra, has been the greater use of "quasi-fiscal" financing of government schemes through state financial institutions. The paper analyses the economic fundamentals of Thaksinomics, the expansion of quasi-fiscal activities, and their implications for the future.

1. INTRODUCTION

This paper focuses on one of the key features of the economic policies of the Thaksin Shinawatra government which entered office in early 2001. For shorthand, these policies will be called Thaksinomics.[2] The paper begins from a view that Thaksinomics is a new departure in Thai economic policy, which has evidently had some success and hence deserves to be understood. It also takes the view that Thaksinomics is still evolving in response to circumstances, and inevitably is a political product which is sometimes oversold, so it is necessary to examine the realities rather than the rhetoric. A key feature of this government has been a significant expansion of the government's role in promoting economic growth and managing its social consequences. However, this expansion has taken place at a time when the government is saddled with debts left over from the economic crisis, and is reluctant to risk its popularity by raising new taxes. The financing of this expansion thus demands study and scrutiny.

The paper is organised as follows. The first section suggests five key principles underlying Thaksinomics. The second examines the economic strategies pursued over three stages since the Thaksin government came to power in January 2001. The third looks at the expansion of "quasi-fiscal" financing of government projects, and the implications for the future.

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[1] This is a part of the research project funded by the Thailand Research Fund under the Medhi Wijai Awuso. The writer would also like to thank the Centre for Southeast Asian Studies for a grant under the JSPS Core University Project, which enabled the writer to spend time working on this paper in Kyoto. The writer wishes to thank Drs Suthiphand Chirathiwat, Chayodom Sapasri, Vorawait Suwanrada, Isra Santisart, Nualnoi Treerat for very useful comments on an earlier presentation of this paper; and to Dr Somchai Sujjapongse, Dr Nitinai Srismattakan, Mr.Tatchakorn Pongroj, Professor Shigeyuki Abe and Professor Yukio Ikemoto for help with materials. I would also like to thank Panya Lertsukprasert for his excellent work as a research assistant.

[2] The term was first used by journalists in Thailand in 2001. It gain wider coinage after President Arroyo of the Philippines used it in 2003

2. FUNDAMENTALS OF THAKSINOMICS

Thaksin and Somkid Jatusripitak (finance minister, later deputy prime minister) laid out their thinking on the economy in several speeches during 2001. Their aim was to move away from an "East Asian Economic Model that was export-oriented and relied heavily on foreign direct investment" by stimulating a mutually reinforcing process of rising internal demand, and expanding domestic entrepreneurship. This would make more productive use of local labour skills, capital reserves, and other assets (including cultural assets) and thus allow Thailand "to move further up the value chain and achieve the level of prosperity attained by the industrialised countries of the west".[3]

This ambition reflected the sentiment of economic nationalism among major local business groups which had been affected very adversely by the economic crisis of 1997, and had felt the threat of take-overs by foreign investors. It may also reflect the reality of the constraint of the export sector due to the decline in the rate of growth of world trade in the aftermath of the crisis of 1997/8.

In practice, the priorities of Thaksinomics appear to be: growth; free trade; maintenance of domestic capitalism; and inclusion of more of the society in the benefits of growth. These will briefly be considered in turn.

Growth of course has been the central objective of Thai policy-making for four decades. Inevitably, it increased in importance after the shock of –10.8 percent shrinkage of GDP at the height of the crisis in 1998, and the lingering effects of the crisis over the following two years. Moreover, Thaksin and his allies clearly have the ambition to raise Thailand into the ranks of the economically advanced countries, as noted in the quote above, and in Somkid's recent remarks that 2004 will be a "golden year for Thailand to step forward as part of the First World like Singapore, South Korea and Taiwan".[4] Besides, the popularity of Thaksin and TRT has risen in parallel with the GDP growth rate, and maintaining growth will be critical to maintaining stability and political dominance.[5]

Free trade ideology is nothing new. It is a continuation from the liberalisation policy along the line of neo-liberalism which the government under Anand Panyarachun had started in the early 1990's. However the Thaksin government's basic disposition towards free trade needs to be acknowledged to indicate that, despite the populism and nationalism, TRT has not seriously deviated from a free trade approach.

Maintenance of domestic capitalism is more novel and has risen as a priority due to the shock of the crisis, and the major changes in Thailand's structure of capital ownership over the whole cycle of boom and bust. Three major shifts need to be noted.

First, Thailand's industrial sector, and especially the segments responsible for the major

[3] 'Thailand looks to a global strategy', *Nation* 24 August 2001, excerpts from Thaksin's speech to ISEAS, Singapore; "Thaksin sees a new Asian Silk Road", *Nation* 10 May 2001, excerpts from Thaksin speech to Fortune Global Forum in Hong Kong.

[4] 'TRT will "lead the way"', *Nation* 27 December 2003. In one of his speeches in 2001, Thaksin said he wanted Thailand to apply for an OECD membership in is second term (Pran, 2004: 322)

[5] To keep the rate of unemployment at an acceptable level, the GDP growth rate has to be at least 6 percent per annum.

part of exports, is now dominated by transnational companies. This shift began with the industrial relocation during the boom, and was completed when many Thai entrepreneurial families were bankrupted by the crisis, and an unprecedentedly large inflow of FDI came in to buy them out. A large share of the financial and modern retail sectors also came under foreign control.

Second, the crisis saw the collapse of the commercial banks which had been the major mechanism for capital formation over the past four decades. By early 2004, the commercial banks are still effectively moribund and see no future in their old role. [6] Thailand's era of "bank capitalism" hence seems to be at an end and it is not yet clear what will follow. Third, the most dynamic segments of domestic capital are now in sub-sectors oriented to the domestic market, namely entertainment, communications and telecommunications, real estate, construction, mass media, and some consumer goods such as alcoholic drinks. These are industries which are very closely associated with the TRT government.[7] The business groups which dominate the government will play roles in influencing economic policies and rent-seeking and conflict of interest may also come into play.

Inclusion is also new, and is perhaps the most fascinating and innovative aspect of Thaksinomics. The TRT government, more than any predecessor, seems to have recognised the extent to which past growth has been concentrated in certain areas of the economy with the benefits unequally shared. For Thaksinomics, this seems to have a dual significance. First, it has created a divided society and a rising level of social protest which threatens to become a cost for business and an impediment on Thailand's road towards the First World. Hence TRT has come out with a string of social policies (often referred to as populist) which are genuine attempts to share the benefits wider, but also an attempt to make the formally excluded *feel* more a part of the process of economic growth. Second, lop-sided growth also amounts to lost opportunity. Much human potential and many physical assets are lying dormant, or hidden from the mainstream economy. Mobilising these resources can add to growth. Hence, many of the social schemes are explicitly attempts to "make people more entrepreneurial" and "turn assets

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[6] Between 1996 and 2003, the total volume of bank credit placed with government or overseas multiplied five times from 217 to 1,116 billion baht, or 4 to 19 percent of total lending (Bank of Thailand data).

[7] Among Thaksin's second cabinets of October 2002 were some ministers with families investing in 6 major industries as follows: (1) telecommunication industry groups of the PM family and his sister, a leader of the northern MPs faction within Thai Rak Thai Party; the Jasmin group of Adisai Potharamik, minister of commerce (2) automobile part industry groups of Suriya Jungrungruangkit, minister of transport and communication and secretary general of Thai Rak Thai; and of Sirikorn Maneerin, donator and treasurers of the Party and holding the position of deputy minister of education; (3) entertainment industry groups of Pracha Maleenont, deputy minister of interior (4) agro-business groups of Charoen Phokphand (CP) with Wathana Muangsuk, CP's son-in-law holding a position of deputy minister of commerce (5) construction contractor business groups, consisting of Snoh Tienthong, advisor to the TRT party, with Uraiwan Tienthong as minister of culture, Somsak Thepsuthin as minister of industry, Sora-at Klinprathum, minister of agriculture; Sonthaya Khunpluem, minister of tourism and sports, Anurak Jurimat, minister of social development and human security and Suwat Liptapallop, minister of labour and (6) real estate businesses comprising Sudarat Keyuraphan, minister of pubic health, Surakiat Sathienthai, minister of foreign affairs and Pinit Jarusombat, minister of science and technology (source: Krungthep Thurakit 2002; Ukrist, 2002, Matichon Raiwan, 2000).

into capital”. The inclusive strategy of Thaksinomics is thus an attempt to kill (at least) two birds with one stone.

3. THE THREE STAGES OF THAKSINOMICS

From early 2001 to the end of 2003, the economic policies pursued and planned for the future by the Thaksin government may be divided into three stages: domestic market stimulus; ‘dual track policy’; and a planned infrastructure-led growth plus deepening of capitalism. This division is not exact. The stages represent more a shift of emphasis than complete changes of direction.

3.1 Stage 1: Policies for domestic market stimulus

Immediately after the crisis in 1997, the Thai government could not pursue consumption-led growth policy because of the conditionality imposed by the IMF. The government was asked to pursue the opposite policy, namely to reduce aggregate demand by raising interest rates, increasing the VAT rate (from 7 to 10 percent), and cutting government spending to deliver a budget surplus of 1 percent of GDP for 1998 and 1999. The IMF had expected the Thai economy to grow in 1998, not the unprecedented shrinkage which came about due to capital flight. GDP shrank by –10.8 percent in 1998, causing rapidly rising unemployment, social stress and serious political reactions. The government began agitating for a change of policy and from mid 1998 it was able to bring down interest rates and adopt a mild Keynesian stimulus to counter the economy’s rapid contraction. The expansionist policy together with the growth in exports was able to raise the GDP growth rate above 4 percent for 1999 and 2000.

When Thaksin came to power in 2001, he continued the expansionist policy based on the budget deficit planned by the previous government. However, continuation of this policy was constrained by the already high level of public debt (57.6 percent of GDP in 2001). Hence the level of the deficit was reduced with a balanced budget planned for 2005. Meanwhile the Thaksin government intensified the stimulus through two innovations. First, some of the social policies were designed to increase potential consumer spending by reducing households’ necessary expenditure on such items as health and debt servicing. Such measures included a 30 baht-per-visit health scheme and the three-year debt relief for farmers.

Second, the government began to finance various schemes by directing state financial institutions to provide the funds in the form of credit. In the first year a revolving fund of one million baht per village was provided by the Government Saving Bank. In the second year of the Thaksin government, the need to boost domestic demand was still there. The Government Saving Bank was assigned to provide loans for small businesses and retraining. Various state bodies were assigned to provide credit to small and medium scale industries (SMEs). Several state financial institutions were required to provide loans for local businesses launched under the “One Tambon One Product (OTOP)” scheme adapted from Japanese experience. The Bank of Agriculture and Agricultural Cooperatives had its scope extended to provide credits for village communities, local government bodies, and co-operatives. The Government Housing Bank and Government

Saving Bank become the credit sources for real estate companies and their clients in special government housing schemes.[8]

In the third year the Thaksin government introduced many welfare-type policies referred to as 'care' (*ua-athorn*) programmes aimed to improve the quality of life and to reduce social tensions.[9] These included a life insurance scheme for the poor; bicycle loans for 300,000 students living far from schools; scholarships for poor students; loans for the purchase of low-priced televisions and computers; loans for purchase of taxis; and cheap housing for middle income urban families.

The basic objectives of these policies are to boost consumption and to promote people's ability to earn income by becoming entrepreneurs through credit provisions. Hence they contributed both to the immediate need for income stimulus, and to the longer-term aim to generate intrinsic dynamism in the domestic economy to counterweight the dependence on exports and foreign investment.

The greater use of quasi-fiscal measures by making state financial institutions providing loans for government's initiated projects and schemes (sometimes called off-budget financing) than previous Thai government was shaped by three main factors. First, there was a constraint on the regular budget due to the low rate of GDP growth and the existing level of public debt. Second, there was the high liquidity in the banks because of the reluctance to extend new credit due to the hang-over of bad debts from the crisis. Third, the prevailing low rate of interest meant the loans were attractive, and hence the response to these schemes was good.

3.2 Stage 2: The 'dual track' policy

The Thaksin government was rapidly forced to qualify its focus on domestic stimulus. The stress on pump priming economic policies along Keynesian line and credit priming in the first two years of its rule were seen by international financial critics and writers as too inward-looking. Moreover, in an open economy, the impact of domestic stimulus policies is blunted. Increased consumption tends to leak into imports. Funds available for investment may be moved overseas (especially when interest rates are low and banks reluctant to lend). NESDB calculated that the stimulus policies contributed only 0.72 percent to the GDP growth of 5.4 percent in 2002 (Nation 21 June 2003). Furthermore, the reality was that over the boom and bust of the 1990s the Thai economy had become more externally exposed. Since 1995, foreign trade had grown from 85 to 125 percent of GDP. Since 1990 FDI has increased more than 10 times. Tourist arrivals, FDI inflows, and foreign participation in the stock market had increased sharply. The GDP growth rate depended more than ever on exports, tourism, and international financial flows, and hence these areas could not be ignored. Increased export performance and tourism in 2002/3 raised the GDP growth rates. Government has to come to terms with the

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[8] The real estate sector was further boosted by risk insurance and tax reduction for real estate businesses and their clients.

[9] Thaksin insisted that he would never allowed Thailand to become a welfare state and made it clear that his government's role in the economy would be reduced once the gap between the rich and the poor was bridged. "I won't allow welfare state: PM", *Nation* 2 October 2003.

importance of the external sector in the Thai economy.

From late 2001, the government began to explain that its domestic measures were only one half of a ‘dual-track policy’, and that the other half was stimulus of the external economy (exports, tourism and FDI). As explained by one of the government economic advisors, domestic consumption would be boosted when the external conditions are unfavourable; but when the external prospects improved, the domestic consumption boost would be relaxed. As part of this dual-track Thaksin urged other governments in the crisis-hit countries to follow a similar strategy so as to create synergistic export growth across the region.

The plan to pass a law restricting the roles of foreign retailers–initially an important and highly symbolic part of plans to stimulate domestic enterprise–was abandoned with Thaksin explaining the bill would “send a wrong signal to foreign investors”, and “external trade is important to the Thai economy” (The Nation 17 November 2002). Plans to modify the IMF-imposed legislation which domestic business opposed (the “eleven bills”) were quietly dropped. The Minister of Finance and other agencies (BOI) went on several road shows to attract FDI into Thailand. The Ministry of Commerce embarked on plans to diversify Thai export markets to non-traditional markets such as India, China, the Middle East and Africa. More funds were allocated to promotion of tourism. The Ministry of Finance in the context of APEC organised a meeting urging APEC member countries to initiate their own dual track policy (domestic stimulus when the external sector is down) in order to help boost the exports of one another. In December 2003, Somkid urged the BOI to try to increase FDI into five targeted industries (automobile parts, food, fashion, tourism and logistics design).

In parallel, Thaksin and other ministers single-mindedly “talked up” the economy by predicting high growth, strengthening currency, rising stock prices, and recovery of asset prices. This tactic recognised the major role of “confidence” in financial markets, especially at the international level.

The policy was successful for the most part. In mid 2002, exports recovered very strongly. Partly this was a result of the low baht and strong growth in China, but clearly also owed a great deal to targeted marketing. Tourism remained flat because of terrorism and SARS, but might have declined in the absence of promotion.

3.3 Stage 3 : Infrastructure-led growth and deepening capitalism

A third stage emerged towards the end of 2003. Despite two years of stimulus and rising consumption, investment levels remained low. Domestic investment was hobbled by the debt overhang in the commercial banks. Bond issues and attempts to stimulate the stockmarket had only a minor impact. Meanwhile, foreign investment flows were at a low point in the cycle, and dominated by China. The government had to come to terms with the fact that new investment was unlikely to come either through the usual routes. As a result, government pursued two policies to boost investment.

The first was a major programme of government spending on infrastructure and a number of grand projects. The government announced at the end of 2003 that in the next 6 years it planned to spend over one trillion baht on infrastructure projects, including a new city project in Nakhon Nayok (100,000 million baht) and improving transport system for

Bangkok and vicinity (390,000 million baht) (see details in Table 1).

Table 1: Infrastructure projects

	Projects	**Period**	**Budget** (mil. Baht)
1	The new city project at Nakhon Nayok	2004–2012	100,000
2	Khlong Prapa elevated roadway	2005–	20,000
3	Laem Pak Bia Bridge across the Gulf of Thailand	2005–2008	56,000
4	Bangkok Transport master plan (skytrains, subways)	2004–2009	397,800
5	High speed railway expansion projects	2004–2009	400,000
6	Expressways, outer-ring roads and connecting roads	2004–2009	44,728
7	New canal and river routes (11 projects)	2004–2005	7,899
8	Chao Phraya River bridges (4 projects)	2004–2005	11,060
9	Motorways (10 projects)	2006-2010	118,553
	Total		**1,156,040**

Source: Project 1, Nation Breaking News, 20 November 2003, http://www.pantip.com; Project 2, Bangkok Post, 3 December 2003; Project 3-8, Manager Online, 25 November 2003, http://www.manager.co.th; Project 9: Manager, 16 February 2004.

A number of grand projects were also announced to create new regional centres of economic activity. A 28 billion baht plan was designed to make the northern city of Chiang Mai an international aviation hub and hence an alternative site to Bangkok for foreign trade and investment. A 100 billion baht project to make Phuket into a science park was planned. There was also a plan to revive the old proposal to cut the canal through the Kra Isthmus in the south in order to shorten the shipping routes between Europe and East Asia. The proposed project includes construction of two harbours, a monorail and a highway across the Kra Isthmus would cost around US$35 billion.[10] In early 2004, Thaksin also announced “unlimited” investment in ports, airports and roads to make Thailand a regional transport hub for the Mekong sub-region (Bangkok Post 4 March 2004).

Partly these investments were needed in view of the very low capital expenditure in the regular budget since the crisis. Partly the hope was that improved infrastructure would induce more productive investment from domestic and foreign sources. The big question was how to finance these projects. This issue will be discussed below.

The second policy is heightened emphasis on attempts to deepen domestic capitalism and to extend the coverage of legitimate capitalism further. To deepen capitalism, government enlarged the One Tambon One Product scheme; launched a policy of

[10] Looney (2003).

"turning assets into capital" mainly by distributing land titles;[11] and mobilised "CEO Governors" to plan provincial growth schemes (mostly in tourism and infrastructure). To extend the boundaries of legitimate capitalism and bring underground businesses into the light of day, government launched its own competition to the underground lottery, contemplated legalising casinos, contemplated (more remotely) decriminalisation of the sex trade, and drew up threatening blacklists of local influential persons suspected of operating businesses outside the law.

4. QUASI-FISCAL FINANCING

In sum, the policies which began as a concerted effort to recover from the aftermath of the 1997 crisis have evolved into something more innovative and ambitious. At base, the Thaksin government is continuing the Thai government's traditional commitment to prioritise economic growth with a high degree of external orientation. The major innovation lies in the business-like approach to economic management by a government dominated by businessmen. Before becoming prime minister, Thaksin stated his approach to government very clearly:

> A company is a country. A country is a company. They are the same. The management is the same. It is management by economics. From now onwards this is the era of management by economics, not management by any other means. Economics is the deciding factor.[12]

The policy-makers of the TRT government appear not to address economic policy-making through the old lens of growth or development economics with its emphasis on savings and investment. Rather they treat the national economy like a business, and look for ways to mobilise any dormant, hidden or underexploited assets in order to raise the rate of national "profit". In so doing, they take the same sort of risks associated with any entrepreneurship, and they also pay attention to marketing their products, and winning the confidence of other stake-holders including local and international investors.

In this final section, I wish to examine one key part of this new approach, namely the use of quasi-fiscal measures, i.e. financing government schemes through state financial institutions. This method has been common in other countries which faced budget constraint and a high public debt burden. Japan for example has used this approach in a big way since the aftermath of the Second World War (and this Japanese experience was probably the inspiration for this innovation in Thailand).

Apart from fiscal flexibility, this quasi-fiscal financing of government-promoted development schemes has offer other advantages. It recycles excess liquidity in the banking sector back into the economy. It can be targeted to specific groups which face problems, such as the poor, SMEs, or the real estate sectors. It may incur less leakage (corruption) than using the regular budget. The Ministry of Finance estimates leakage of

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[11] This policy is inspired by Hernando de Soto's analysis in his book, The Mystery of Capital. It is basically about enabling the informal sector to gain property rights at an acceptable cost, so that they can borrow from formal financial institutions, to become entrepreneurs],

[12] Thaksin Shinawatra, 'The problems of managing Thailand in the current era', speech at a political seminar, Nakhon Ratchasima, 8 November 1997 in Chumporn (2002:105).

only 1 percent as against 15-20 percent in the case of the regular budget (Somjai, 2003; Pasuk and Sungsidh , 1994).

Yet the approach also has risks. First, credits may be granted on grounds other than the creditor's expected ability to repay. Second, credits may be granted at the rate of interest lower than the cost of funds. Third, credits may be granted without secure collateral. In all these cases, the loss incurred will be born by the government, i.e. by the public as taxpayers. Such risks are low as long as the economic growth rate is high, but will increase in an economic downturn.

The most important risk is that associated with lax lending policy and control due to political reasons. Since it is the government which appoints the heads of state financial institutions, and since it is the government which decides the projects and programmes which these institutions are directed to fund, there may not be careful supervision and control. The choice of projects and beneficiaries may be highly susceptible to political lobbying and cronyism.

Since any losses from this form of funding become part of the government's debt obligations, there are strong reasons for conceptualising these activities as part of government spending, and conceptualising the funds involved as one form of public debt. In that case, this financing should then be subject to the same sort of public accountability required of conventional budgeting.

In Japan, for example, the procedure for managing quasi-fiscal financing is more transparent. For many years, Japan has financed infrastructure and other capital expenditure projects using the quasi-fiscal approach under the so-called Fiscal Investment Loan Programme (FILP). The size of the annual FILP may be equivalent to or sometimes larger than the regular annual budget. In Japan, all FILP activities are assembled under the special account budget and the budgets of government-affiliated agencies. These are then presented to the National Diet, together with the regular budget known as the general account budget (Tsuji 1984: ch.11); Ito (1994: 111,146, 163-5).

FILP was initially used in the post second world war era to finance industrial and development policies. The funding came largely from Japan's large postal saving systems. The FILP is managed by the Ministry of Finance, which in turn allocates credit (often at subsidised rates of interests) to various government agencies, which in turn invest them in industries, infrastructure projects and housing. Over time, the FILP budget became the target of political attention, with politicians competing to direct credits to their own constituencies or pet projects. Inevitably, some such lending was not so productive. As long as the Japanese economy continued to grow rapidly, such unproductive project created no major problems. But once Japan confronted a major economic downturn since around 1990, problems mounted very rapidly. Government agencies have been saddled with non-performing loans which became part of a drag on the Japanese economy. Reform of the FILP system is now a major issue.[13]

[13] See for example Tetsushi Kajimoto, 'New expressways to cost taxpayers 2.4 trillion yen' in http://www.japantimes.co.jp/cgi-bingetarticle.p15?nn20031226a3.htm; and Sir Hugh Cortazzi, 'Is the Japanese economy in terminal decline ' in http://www.genron-npo.nrt/en/debate/contents003_119.html

In Thailand so far the amount involved in quasi-fiscal financing is not so high and hence the fiscal risk is moderate. But one major difficulty already arises: the current size of quasi-fiscal financing is not transparent, and various agencies are struggling to make their own estimates. The IMF estimated that the amount of credit provided by state financial institutions for fiscal 2001/2 was 1.8 percent of GDP or 95.9 billion baht. According to the preliminary estimates from the Fiscal Risk Management Group at the Ministry of Finance, quasi-fiscal activities for 2002 amounted to 183 billion baht or 3.3 percent of GDP, while the amount planned for the first half of 2003 was 155 billion baht or 2.7 percent of the (full-year) GDP (see details in Table 2). Thus quasi-fiscal financing was about 10 per cent of the regular budget in 2002, and 17 per cent in 2003. According to officials of the Ministry of Finance, state financial institutions which are providing credit for various social policies of the Thaksin government have had low bad loans and made good high profit rates. The Ministry report concludes that this financing will not cause undue burden to the government budget

Table 2 Quasi-Fiscal Activities 2002–3

(million baht)

Project	Financial Institutions	2002	2003 (June)
1. SME Loan		57,098.2	58,012.0
	BOT	4,130.0	26,986.5
	SME	15,410.0	9,552.6
	IFCT	15,078.6	8,601.9
	EXIM	7,283.2	3,379.4
	GSB	2,144.9	1,498.0
	BAAC	8,935.0	6,053.7
	SICGC	4,116.6	1,939.9
2. Graduated Payment Mortgage Loan	GHB	26,748.3	0.0
3. People's Bank	GSB	10,294.7	1,861.3
4. National Village Fund	GSB	80,000.0	0.0
5. Community Enterprise Loan	BAAC	8,319.0	6,725
6. Matching Fund		1,208.7	86.5
Thailand Equity Fund	GSB + IFCT	8.7	86.5
Thailand Opportunity Fund	KTB	1,200.0	0.0
Total (1-6)		*183,668.9*	*66,684.8*
7. Homes for the Poor 1,2 & 3	GSB + GHB	0.0	57,704.00
8. Vayupak Fund 1		0.0	30,000.0
Total (7-9)		*0.0*	*87,704.0*
Grand Total		***183,668.9***	***154,388.8***

Source : Preliminary estimates by the Fiscal Risk Management Group, Ministry of Finance, as of December, 2003. The figures here include loans by the IFCT

BOT=Bank of Thailand; SME=SME Development Bank; IFCT=Industrial Finance Corporation of Thailand; EXIM=Export-Import Bank; BAAC=Bank for Agriculture and Agricultural Cooperatives; SICGC=Small Industry Credit Guarantee Corporation; GSB=Government Savings Bank; GHB=Government Housing Bank; KTB=Krung Thai Bank.

However, this is the current situation, while the government has ambitious plans for the future. It is still expanding its social schemes[14], while the new infrastructure and other big projects require large amounts of capital. Because of growing debt servicing costs and inflexible current expenditure (mainly salaries), the capital budget's share of the total budget declined from 40 per cent in 1997 to 20 per cent in 2003. Although the economic recovery and aggressive tax collection by the finance ministry raised tax returns by 13.7 percent in 2003 (118.1 billion baht)[15], but this way of augmenting revenue will face diminishing returns as existing tax structures are unchanged. The government (like its predecessors) has talked of new methods to tax wealth, but is unlikely to act on them (like its predecessors). The regular budget will only have limited capacity to support these new schemes. Meanwhile the level of external public debt is still high, and Thaksin has instructed government agencies not to borrow abroad on nationalistic grounds. It thus seems likely that quasi-fiscal financing will be expanded for this new phase of public investment.

The current low levels of default on loans under quasi-fiscal schemes are unsurprising given the fact that a) the economy is on an upturn; b) interest rates are low; and c) loans are largely to small borrowers who traditionally have a low rate of default. However, all three of these conditions will change. The upturn will not continue indefinitely, especially as the Thai economy is still becoming more rather than less vulnerable to external shocks. Current interest rates are exceptionally low in the context of Thai interest rate history, and unlikely to remain so for long. Thai interest rates are no longer locally determined in the new world of liberalised financial markets. This low rate is a gift of international conditions, and is liable to change, particularly if economic growth rates accelerate in the advanced economies. Levels of household debt have increased under the government's schemes. The levels of household debt are not exceptionally high by international standards, but they are high in the Thai historical context. International comparisons may not be a good guide to the way Thai household debtors will react in the event of rising interest rates, or external economic shocks.

The "third stage" programme of high infrastructure spending over the next 6 years makes sense in view of both needs and prospects. But the success of this strategy as a means to sustain the growth begun in 2004 will depend on (1) whether the investment is productive and provides large linkages to other sectors of the economy; (2) to what extent cronyism becomes a major determinant in the choice of project and beneficiary, rather than sound

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[14] The health scheme is still requiring additional finance; government is committed to expand OTOP; several new 'care' (*ua-athon*) schemes have been launched, and more are likely to follow; etc., etc.

[15] Ministry of Finance (2004: 22)

economic considerations for efficiency and growth; (3) how well the government debt burden (including the contingency which may arise from the quasi-fiscal element) can be kept within limits which do not affect foreign financial confidence.

In sum, in view of the prospects of increasing risk from quasi-fiscal methods of financing, at some point, government must make this process more transparent and subject to scrutiny or else it will become a source of concern and potential loss of confidence.[16]

5. CONCLUSION

In terms of its own priorities — namely growth — Thaksinomics can claim significant success. The Thai economy grew 2.1 percent in 2001, 5.4 percent in 2002, and 6.7 percent in 2004. The premier has predicted a continuance of this trend to 8 and 10 percent over the next two years. How much this growth is due to government policies and how much to external conditions remains an issue for analysis and debate. But the figures speak for themselves.

It is by now obvious that several aspects of this government's economic policies have some Japanese inspiration. The village fund and OTOP scheme are obvious examples, but so also is the quasi-fiscal approach to financing development. As such, it is important to learn from the experience of Japan (and other countries) with this approach. The two main lessons from the Japanese experience are first, that its risks only become truly apparent in an economic downturn, and second, that it is at least as much, if not more, susceptible to political manipulation as other forms of public budgeting. These two facts alone indicate the need for greater transparency in the government's use of the technique, and greater public scrutiny by the political opposition, independent economists, and others.

[16] See also IMF (2004).

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