

Thailand's prime minister from 1991-92 and again from '92-93, Anand Panyarachun was instrumental in initiating reforms in several key sectors of the Thai economy and to this day remains committed to building democratic institutions in Thailand.

In this interview, Anand discusses the development of Thailand's economy in the last half century, the Asian miracle, and the subsequent Asian financial crisis.

Thailand's State-led Development

INTERVIEWER: Our film is looking at the debate between free markets and state control and how it changed over the past 50 years. As a young man, did you believe in state intervention in the economy? How did your views over the role of the state versus free markets change over time?

ANAND PANYARACHUN: If you go back to my younger days you have to view the conditions then, in the development process of our country. To get a start, you need lots of capital, and in those days the private sector was still very young, very small, so it was inevitable that the state had to come in. So it was not the matter of choice; it was mostly a matter of need and necessity. Even though I personally would hold a very liberal view, I would go against any state intervention, per se, and I would be against state control, state enterprises. But in those days, I don't think that that kind of view would prevail, considering the circumstances that existed, so the state had to make a sort of kick-start. They had to be really involved in the early stage of industrialization process, because at that time, 50 [or] 60 years ago, Thailand was still an agrarian society. There was hardly any industry to be talked about, so everything was left to the state. In the old days, the Thai people who were in the so-called private sector were mostly the trading sector, and they were moving gradually with the encouragement of the government not away from trading, but as a supplement to trading they were moving towards industry. So at that time when you talk about industry [in] Thailand, it was very much interrelated with the trading. It was only in the last 20 years or so that there was a clear separation, that you would have people who were engaged in trade and people who were engaged in manufacturing. But when it came to sectors which needed more capital or more technological capability, and perhaps even more discipline, the state had to come in, be it in the infrastructure [or] be it in several other fields.

INTERVIEWER: And that state involvement—how did it change the country? Did it work?

ANAND PANYARACHUN: In the first 20, 30 years or so, yes, it did work, because at that time globalization had not come in, so there was very little that could be viewed as a downside. The people were optimistic and were upbeat about the economic growth, about the growth of per capita income, about the growth of export volume, about the growth of GDP. Everything was statistical, and people were mesmerized, I suppose, including the government. They were all mesmerized by all these targets being achieved, or targets being exceeded. And, human nature [being what it is], we were happy; we were euphoric that the past 20, 30 years we were moving, we were progressing at the rate of 6 [to] 7 percent on average per year, and you could see more highways, more buildings. You could see all these sorts of tangible things that could be seen by the eyes or touched by the hands, and the people felt that yes, that was progress.

But it was only in recent years, after the financial crisis, that we were all taken aback. In a way, we were forewarned by the leading economic indicators, and yet we did not pay heed to it, and we had to pay the price. Now, that doesn't mean that if we paid heed to the deteriorating leading economic indicators we would be able to prevent them. But at least I think that we would have a much softer landing, a much better cushion. So nowadays, of course, the debate is going on. I think globalization is here to stay; that's my personal view. Of course, some people in a minority group might say it had to be [gotten] rid of, for some justifiable reasons, but as far as I'm concerned, I think it's here to stay. It is something that we were not part of in the beginning, but it is something that we had to prepare ourselves with the collateral measures and policies which would reduce the negatives and side effects of globalization.

The Asian Economic Miracle and the Way Forward

INTERVIEWER: About that period of intense growth you were talking about, the 20 [to] 30 years, in the West, people would talk about the Asian miracle, the success of Asian values on this particular model. Was there such a thing as an Asian approach to development, or was that too much of a generalization?

ANAND PANYARACHUN: I think slogans are often made by Westerners after brief brushes with Easterners. I personally never subscribed to the Asian-miracles theory. Definitely some of the

values that existed in this part of the world, be they Asian or be they universal, they have contributed to the fast economic growth, be it industrious or learning process or disciplined or whatnot. I would not ascribe the so-called miracles to Asian values per se; I think values, be they originated from the West or the East, if they're good values, they're good values. But I think definitely that we in the Asian region, particularly in the East Asian region, have in a way mesmerized the Western observers and the Western analysts. We were all doing well—Korea, Taiwan, Hong Kong, Singapore, and at the head of the formation would be Japan, but then you have second-tier, third-tier developing countries that seem to be moving ahead with no end in sight. We were doing pretty well for 30, 40 years.

But at the same time, the development process that we adopted was not strictly Asian. It was something that was tried out in England 200 years ago, or in America 100 years ago. It's the very same development model: You're moving away from an agrarian society into the industrialized world. England had the Industrial Revolution. They started off with textile industry. So did we. So did Korea; so did Taiwan. And we moved from textile into footwear, and we moved from footwear to electronics, and we would become a little more sophisticated, but the big hurdle is the financial world, the money market world. That is much more sophisticated, more difficult to handle. So I would say that while I like the compliments about the Asian miracles, I think that every country has gone through that process before. We were perhaps 100 years or 50 years behind time. But at that time, that development process was not really questioned. It was in the last 20 years or so that people began to think that, after all, we only achieved economic growth targets. We only achieved statistically [a rise in] the quality of life of the people.

We never stopped to think that unrestrained, perhaps even unregulated, economic growth would bring along with it a lot of social problems, would involve very large budgetary figures to handle. When you talk about industrialization, we started off with labor-intensive industries. Since Bangkok could not provide [a] sufficient number of workers in the textile industry or footwear or assembly, you had to encourage people from the rural areas to come to Bangkok, and as a result the population of Bangkok rose [by approximately] three times. There was no housing facility, so they created slums, and slums created unhygienic living conditions. They don't have schools. They don't have nurseries. They get involved in their spare time in some

of the activities that prove to be very, very disastrous, be it child labor, be it prostitution, be it drug trafficking [or] drug taking.

We just have to take a pause and say that all right, yes, the country is going to remain open to the outside world. It's got to remain open to external influences including globalization. Yes, we are going to remain [a] fairly liberal and open society, perhaps relying basically on market mechanism, and at the same time improving our competitiveness in the world market. But at the same time we need to strengthen a number of our inner strengths, strengths that have been with us for 800 years, strengths that have kept us the only independent country in Asia apart from Japan, strengths which have kept Thailand basically as a homogenous, coherent society with no racial hatred, with no religious intolerance, with no bigotry, and with no excessive prejudices based on color or race or religion. We just have to search for our soul and look at our inner strengths, strengths which were traditional, which we adapted to enhance our capability of reducing the negative and the outside effects of globalization, because globalization, after all, is not virtuous, per se. It is a vehicle which does strengthen the clever, the rich, and the knowledge-based people, but as far as an economic theory is concerned, it has widened up the gap between the rich and the poor within one society, and it has widened up the rich and the poor among nations. It doesn't solve the basic economic problems about equitable distribution, about social justice, about social equality. You've got to try to devise measures nationally, and perhaps [work] with our friends within the region to minimize these negative things.

INTERVIEWER: Let me ask about the financial markets, which you mentioned was one of the most difficult hurdles to deal properly with the international financial markets. When you first became prime minister, the emerging-markets boom was really taking off. What was driving that at the time? What did you think of what was happening?

ANAND PANYARACHUN: I came in the first time knowing full well that the tenure of my government would not be more than a year and a half. In fact, we stayed for a year and four months. Once the constitution was completed, it was incumbent on me to go to the people to organize elections. At that time, if you recall, when I came in, the basic economic conditions were still relatively good. There were some warning signs because I think it was a few months after the Gulf War, but the Gulf War was something that did not happen every day, so you

could say that it was an outside event. But when I came in, the warning signs were the inflation rates in the real estate, the property-sector boom. There was a very large credit expansion—that was in 1991—and we came in and within a year managed to curb inflation. And also we managed to control the other negative indicators, so I think we left the country in a state of health, as far as the economics are concerned.

At that time, Professor Ogata, the famous Japanese economist [who] was a former minister of trade and industry, was envisaging East Asia as a leading region in the world in terms of economic prerogatives. He often compared the East Asian countries to the formation of geese, with Japan heading the formation, followed by the four tigers—Taiwan, Hong Kong, Korea, Singapore—to be followed by tiger cubs, like Thailand, Malaysia, and Indonesia. Those were the good old days. People would dream; people would rationalize the stories of their success. We were quite convinced that was to be the case for the next two or three decades.

So we in Thailand, in 1991, have graduated from the early phase of industrialization. We started off with assembly, then textiles and then footwear and electronics, and we were becoming a little more sophisticated in the industrialized world. The authorities were thinking, whether we like it or not, we had to get involved in the financial world. We look at the location, the size of the country. We look at Singapore. Singapore had proved to be a rather effective financial center in Asia. It's one of the leading financial centers in the world. We did not have that ambition, but we thought that we could bring ourselves to the level of being a regional financial sector, a notch or two below Singapore or Hong Kong. The thinking was that it was inevitable. We would have to reach that stage of sophistication, because we talk about industrialization, [and] no industrialized country is weak on the financial field. You look at England with London and its financial center, Germany with Frankfurt, and America with New York and Chicago, so they had to go hand in hand. So we were preparing ourselves, and my government did make out a blueprint that our aim, within five years, was to become a regional or subregional financial center that would also bring about the baht [Thai currency] more or less as a subregional currency. But we did not have time. Fortunately for me and my government, it was merely a blueprint. We had not yet even begun to implement it. In theoretical terms we opened up capital accounts, and we allowed free movement of capital, but then it was up to the successive governments to bring or to refine that blueprint and put it into operation.

Thailand's Boom and Bust

INTERVIEWER: When subsequent governments adopted this blueprint, opening up the capital accounts, a lot of money started flowing in here. In a way it was a different kind of money than previous investment. What was your sense of what was going on, and what was your instinct about big investment funds coming in and putting so much money in here?

ANAND PANYARACHUN: I don't want to be viewed as being critical of the governments that came after me and put that blueprint with revisions into operation, but I think that, with hindsight, it turned out that we were not well prepared. For a number of years after the opening of the capital accounts we did not go through with the Thai profits—we still remained pegged to the dollar. So during those times the internal interest rates were about 9 [or] 10 percent. Once people were free to borrow dollars offshore or even onshore at the interest rate of 4 to 5 percent, immediately we would make a gain of 5 percent difference. So it was obvious that people would rush out to buy dollars, to borrow dollars, and not make use of the local currencies. There's nothing wrong with that. It's pure economics, pure and simple, [that] people would go for the low interest rate source of funds. But at the same time, by gaining easy access to the cheap funds in the process, the borrowers also exhibited lack of discipline. As a result there was already a property boom. People were building up golf courses, office buildings, and condominiums without even referring to the projected demands in the next years and the future years. People were just buying apartments and condominiums like they were gambling. I know families who would pick up apartments and condominiums, relaunch them, and then hopefully sell them off three months or six months [later] at 20 percent profit. That was done for a number of years, but with the cheaper funds people were tempted.

Then you had amateurs moving in, and people who should have known better, people who were in regular industries, be they sugar or be they steel. They were tempted by this easy money, tempted by this easy profit. They rushed out and bought dollars and invested in projects that proved to be not productive instead of focusing on their core business. They moved outside their own fields. They got burned when the baht was devalued. What we did wrong was that when you have the capital accounts, the liberalization of the financial regime and the monetary market, when you open up the capital accounts we should have opened up the monetary policy as well. People were assured repeatedly by the governments that the Thai baht would remain pegged to the dollar, so when we people rushed out to borrow dollars

offshore, they didn't feel they were taking any risks. There was no way that the government was going to change the exchange rate or to devalue it. So they felt safe, and all the time they thought that they were making gains, 5 percent difference in the interest rates. But if you had allowed the exchange rate to float according to market mechanism, market forces, then there would be borrowers [who] would have second thoughts. In having a short-term gain on the interest rate of 4 or 5 percent, they would still run the risk in the medium-term or in the long-term of exchange loss.

INTERVIEWER: Was there also a problem with transparency?

ANAND PANYARACHUN: Oh, definitely. Companies borrow money and they don't use it for the purposes that were intended. Definitely there was a clear sense of non-transparency. Or when the banks lent out—and when I talk about the banks I don't refer only to the local banks; I refer to the foreign banks as well. I'm in the private sector, and five [or] six years ago people would come and knock on your door and plead with you to borrow, be they European banks or Japanese banks. So when you talk about the non-transparency, I'd like to remind you that it's not only the Thai banks or the Thai industrialists who were non-transparent, but I think that the Western financial world, the banks or the finance companies, also were non-transparent. They came and begged us to borrow from them, and then, when the crisis hit us, we were the only ones to be blamed. Nobody talked about the non-transparency or the accountability of the other side.

The U.S. Push to Open Up Asian Markets: Unselfish or Unilateralist?

INTERVIEWER: We interviewed Robert Rubin and asked him about the Clinton administration's encouragement of developing countries to open up their capital accounts. He said they did encourage, but they always told [these countries] they had to have proper regulations and proper transparency, and so it was basically the country's fault. But other people said that the Clinton administration pushed very hard for developing countries like Thailand to open up and allow all this money in. What's your sense of what was going on?

ANAND PANYARACHUN: Well, my job preceded that of Clinton, so on that score, anyway, he would be exonerated. But later on, I don't know whether it is Clinton or the U.S. administration, directly or indirectly through the International Monetary Fund, that had to be

asked to be allowed in the Thai economy, the Asian economy. I'm not privy to the conversations or the negotiations of it, but definitely it appears that the IMF were the large stakeholder of the United States, pushing the Thai government and the Indonesian government to undertake certain reforms, a number of things that perhaps were basically right but some of [which] turned out to be incorrect—[for example,] the raising of the interest rates. But as far as the opening up of the capital accounts, I'm not privy to it, so I would rather not comment.

I think that the United States, directly or indirectly through the IMF, at least both during the Clinton years to perhaps now with the beginning of the Bush years, was perceived as searching for [a] new role. There was a time, 20, 30 years ago, when it was viewed as being a world policeman—and it was not such a good policeman at that. Now they were pushing for democracy; they were pushing for financial reforms; they were pushing for liberalization of trade regimes. I'm prepared to give America the benefit of the doubt that they were doing it unselfishly. But more and more people are beginning to perceive America, the United States, as being a little too pushy, a little unilateralist.

INTERVIEWER: Why?

ANAND PANYARACHUN: I suppose that is the price one always has to pay for being large and powerful and the only superpower in the world.

Thailand's Slowdown: Failing to Grasp the Warning Signs

INTERVIEWER: Let me ask you about the Asian crisis, which became a global crisis. In the early days, as a businessman and former prime minister, when did you first get the feeling that something was seriously wrong, and do you remember what you felt at the time?

ANAND PANYARACHUN: I spent 23 years in the diplomatic service and the following 13 [or] 14 years in the private sector, and I would say two years as a prime minister twice. Then, 10 years ago, I rejoined the private sector, but I am now doing more and more on the non-business side. Being not in a sector of power, not being there regularly, responsible without full information, it's easy for me to say that with hindsight, yes, I should have detected that, we should have paid heed to it. But if you were in power at that time, people have a way of

believing things that they see, and in any government service you do not have time to take stock of what you did. In a way it's ad hoc management, but definitely I would say that we should have seen the warning signals. A number of people did see it, but perhaps underestimated the significance of those warning signals.

One was the fast declining export sector. In 1995, 1996 there was practically zero growth of our exports, and there was beginning to accumulate the current account deficit. To me, those two were the most significant warning signals, but in 1996, the governments failed to grasp the full meanings of those warning signals.

The U.S. Bailout: Why Mexico but Not Thailand

INTERVIEWER: A couple of years before the [Asian] crisis, the U.S. had intervened heavily in Mexico, [where] there was a crisis with the peso. Do you think that, just as here in Thailand people thought the government will protect the exchange rate, there was a general perception in the region that the U.S. government would intervene if there was some crisis, like they had done in Mexico, [and] whether that intervention in Mexico created an impression?

ANAND PANYARACHUN: I personally did not share that perception, and I doubt if many Thais would have that perception. In Thailand, we know full well that we're not Mexico. I'm sure an average Mexican knows that [he] lives next door to the great American state, and there was already this intertwining historical relationship and economic relationship. There were wars between the two countries; there were some very good times. So I think that sentimentally and psychologically Mexicans would have that kind of perception of America. But we in Thailand, we know that we're thousands of miles away, and even though at the time of the Cold War, the Vietnam War, we were a significant factor or player in this region, as far as a very intimate relationship, a sense of a two-way dialogue or two-way relationship, I don't think that we're that close.

Currency Speculation and the Asian Crisis

INTERVIEWER: When the crisis started really having an effect and you saw all the money that had flowed in here flowing out so quickly, what did you think?

ANAND PANYARACHUN: Some people tend to accuse the managers of hedge funds and [the fact that] people took full advantage of the volatility of the exchange rate. I wouldn't go that far. I think they're to blame, but I think that the picture is much more complicated. There are a number of factors which contributed to this fiasco, and those who were in a position to take advantage did take advantage irresponsibly.

INTERVIEWER: What impact did that sudden outflow have on your country?

ANAND PANYARACHUN: This is the moral of the case. You practically destroy a nation—at least you destroy the wealth that [the] country had been accumulating for 30 [to] 40 years—so that's why quite a number of people find the hedge fund owners and the hedge fund managers completely guilty both on technical terms as well as on moral terms. The country has been trying to accumulate wealth. It has been trying to behave [responsibly]. Some people feel that one man or group of people, the whiz kids, don't even know where Thailand is or what Thailand is all about, and within a few seconds, pull the rug out down [from] under and it caused a total collapse. That's the unfortunate part of so-called globalization: Such negative effects can be totally irresponsible and can come very fast. It takes years, it takes decades for a country to grow up to a certain level, and all of a sudden it disappears.

INTERVIEWER: You talked before about the euphoria during those years of rapid growth. That changed very quickly during the crisis. What was the mood of the country?

ANAND PANYARACHUN: Three years ago [the mood of the country] was very, very down, pessimistic, but now, while we're still critical, while we're still complaining, while we still remain unhappy in certain areas, the mood is not totally pessimistic.

The Western Take on "Asian Values": The Pendulum Swings

INTERVIEWER: During the crisis, the Western press referred to the boom of Southeast Asia and the success of Asian values—that cliché—and there was almost a sense of triumph or gloating about [that model's failure]. Did you ever pick that up from your Western friends or the Western press, that in a way the crisis was seen as a proof that the model that had been practiced out here was flawed?

ANAND PANYARACHUN: This euphoric mood and the complimentary comments and observations, they were all made by Western journalists. You have to understand that the Asian people do not gloat about their success or about their achievements. If you look throughout history, all these words were coined by the Westerners, particularly the Americans, [words such as] the "domino effect." I still remember when I lived in the States, 30 years ago there was a book about Japan being the largest economy in the year 2000, written by Herman Kahn of the Hudson Institute. At that time, whatever the Japanese did was just impeccable, perfect. The Americans had a lot to learn, but then 30 years later, or 25 years later, whatever the Japanese did was all wrong. Now, you could not be all right 35 years ago and then [be] totally all wrong 25 years later, but it was all conjured up by the American analysts and all those commentators. And now you don't believe the way in the late '60s, early '70s, Japan was "Japan Inc."—I don't know who invented the term, [but] I'm sure it was Americans, too—and the Japanese could do no wrong. You had to learn their manufacturing style, the total quality control. Now whatever the Japanese did in the past eight years is all wrong. They had no courage; they had no guts; it's their culture. But before it was their culture which was their main strength. So the pendulum swings.

This is the mood of the American people. You always judge people by black and white; there's nothing in between. Now you talk about the euphoric mood in complimentary terms. I'm not one who would be vulnerable to these terms, be they positive or negative. They're all exaggerated, and it is better not to go high up or way down, just keep the middle path. When you're successful, you're happy but not overly happy; when you have a failure, you can be unhappy, but not overly unhappy.

Recovery and Reform

INTERVIEWER: Some critiques of the recovery, which has been significant here in Thailand and elsewhere in the region, say that some of the fundamental long-term problems of the economy still have to do with transparency. You see some people who lost their good connections, who should be bankrupt after the crisis, [who] in fact [may] be bankrupt on paper, but [who] still have very close ties with the government. What kind of lessons have you taken from the crisis? To what extent has the Thai economy changed fundamentally as a result of what it went through? And how will those changes lead it towards the future?

ANAND PANYARACHUN: The consensus is that what we had been doing in the past 20 [to] 30 years had to be changed. I think that is a fair consensus. Perhaps people reach that conclusion for different reasons—some may reach that conclusion with the right reasons, some may reach the conclusions for the wrong reasons—but to me that's irrelevant so long as they share that conclusion. But when it comes to how do we reform, or how do we change, then you can see the difference. More and more people believe, or are inclined to believe, that in addition to having democratic rule, in addition to the reform process, you also need to strengthen the civil society. What it boils down [to] is that you need a functional democracy. A democratic rule on paper is not sufficient to take your country over this hurdle. What you need is a functional democracy and good governing system. To have good governance, you need to strengthen your civil society. To have good governance you must have transparency; you must have access to information; you must have accountability; you must have freedom of the press; you must have [a] free and independent judiciary, all the Thai judicial system, including the police and the attorney general's office.

So in the old days, it was very simple, very simplistic: It was communism versus democracy, and anybody who was anticommunist would be viewed as a friend and ally of the Americans. The world's not that simple anymore. Nowadays we talk about [how] every country advocates democracy, be it Russia, be it Thailand, be it many other countries. But when it comes to what kind of functional democracy do you want to be, then in order to strengthen that functional democracy [you have to ask] what else do you need. You have to look at the totality of the picture, but [at] the same time, this involves a national reform process. I would say that would be the mainstream, but the other minority view is, "Let's take a pause, let's take stock, let's see where we've gone wrong, [and] perhaps we should look into ourselves."

We should reexamine the traditional values. We should perhaps reexamine the local wisdom. Perhaps we became too westernized; perhaps we became too reform-minded. Perhaps we were trying to reach a goal that we should not be aiming at. Should we revise our national goals? Are we sure that we were moving in the right direction? Not only that, we tend now to disregard the past development process in terms of target growth. Should we not also adjust our goals? The reform process of the reformed people would not change the goals; they would merely change the way it's leading to their goals. The goals remain the same—greater wealth,

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more equitable distribution of income, more social justice. But the other side of the coin is that [we should] leave aside economic indicators for a while. Let's focus on the social aspects.