ESSAYS

Understanding Globalization Through the Thai Economic Crisis

By Thomas J. Scott

Today high school students are truly participants in the process of globalization. Networks between my students in suburban Minneapolis and Asian societies are an unconscious part of their daily life, yet reflect important dimensions of the global economy. For example, the students who take my Asian Studies class wear designer clothes manufactured in Vietnam. Their sports shoes are assembled in Indonesian factories, and the CDs they listen to are played on a Discman designed in Japan. They log-on to the Internet using computer hard-drives manufactured in assembly plants in Bangkok. Although my American students are directly participating in the economic dimensions of globalization, they possess little knowledge of the social, political and cultural ramifications of the global age to which they are intimately connected. In a sense they are unwitting participants in one of the most dynamic transformational periods in human history.

DEFINING GLOBALIZATION

One of the first activities students complete in the class is a short reflective essay describing what Asia looks like through their eyes. Few of my students have visited Asia (although some are recent immigrants from Southeast Asia), and their responses often reflect exotic cultures, crowded cities, lots of bicycles, rice paddies and other stereotypes often associated with "orientalism."

I then provide an observation I made while conducting fieldwork in Thailand: "A young Thai teenager meets his friends at McDonalds. His hair is in a ponytail. He is wearing a 'Metallica' t-shirt, Levis jeans, and Nike tennis shoes. He orders a 'Big Mac,' fries, and a coke. He and his friends converse in 'Thailish' (a combination of English and Thai) and decide after lunch to go see the movie *Terminator Two*.[1]

This observation quickly makes a relatively unknown country like Thailand feel familiar to my students. It also generates two important questions which are fundamental to defining and understanding globalization: how could all these Western influences find their way to Thailand? What impact have they had on the Thai culture?

To answer these questions, I introduce students to four basic concepts that are necessary to understanding the multidimensional nature of globalization. The first concept, interdependence, relates to the rise of economic, political, and cultural networks that characterize contemporary globalization. These networks provide linkages through trade, financial markets, and the bilateral spread of cultural ideas. A related concept is one borrowed from Manuel Castells, informationalism, which views the interrelationship of knowledge and information as valuable components of a nation's productive capacity.[2] Informationalism has played an important role in the restructuring of many countries' economic and political systems so they reflect openness, bureaucratic flexibility, and the adaptability associated with Information Age technologies. The third concept, neoliberalism, has become the dominant economic trend of the early twenty-first century. Free markets, low tariffs, minimal government restriction of foreign investment, streamlining government bureaucracies, and various privatization schemes characterize the economic systems of those countries which have gained the most benefits from the integrated global economy. Finally, systemic analysis provides a method of analyzing the dramatic changes associated with globalization. The multidimensional nature of the globalization process suggests it can best be analyzed through a holistic analytic model which isolates the social, economic, political, and cultural aspects of the process (see figure 1). Only through analyzing these parts in relation to one another can students appreciate the transformational effect globalization has on a country.

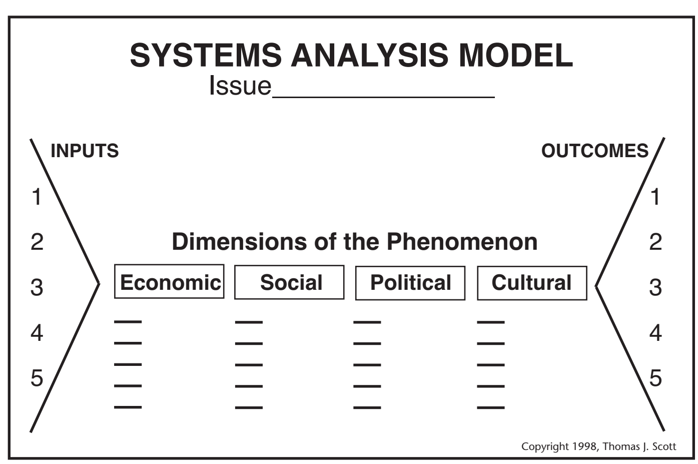

Figure 1

Once a conceptual foundation has been provided, I move toward developing a formal definition of globalization. I have chosen two distinct yet complementary definitions which, taken together, provide students with an appreciation of the multidimensional nature of the globalization process. The first, by Ian Clark, sees globalization as diverse processes of political, social, economic, technological, and cultural change. It involves the uniformity of political ideas and practices; the geographic scope of social interaction and interconnection, the integration of economic activities, the diffusion of technology and the spreading of cultural symbols and ideas.[3] The second, by Brigette Levy, emphasizes the economic nature of globalization, suggesting it involves the increasing internationalization of the production, distribution, and marketing of goods and services. Levy also identifies the important role of supranational institutions such as the International Monetary Fund, the World Bank and The World Trade Organization in monitoring global economic activities.[4]

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In my classes I present Globalization as the struggle between two contending forces over defining the components of national wealth. In this view, the national sphere (the nation-state and its citizens) struggles with the transnational sphere (Global Financial Institutions, Nongovernmental Organizations, and Multinational Corporations) over the availability of financial markets, the rights of labor, the control and distribution of technology, the creation and dissemination of knowledge, the rights of cultural expression, and the appropriation of capital, all of which are highly mobile and fluid in an integrated global economy. The interplay of the national and the transnational spheres is critical to defining the globalization process, differentiating it from past eras of international relations.

In many respects defining the national as opposed to the transnational is rife in complexity. The flows of global capital, investment, labor, and finance often occur in a nonlinear fashion. Truly globalized multinational corporations like Sony or Intel defy national identity. They seek markets anywhere and everywhere in the world. They search the globe for the most talented and highly skilled workers they can find. Through the use of information technology, their markets are intricately networked and driven by instantaneous business decisions. They have become extremely powerful economic players in the globalization process, and the assets of a number of multinationals are greater than many nation-states.[5] Political instability, inflationary pressures on local currencies, deflated skills among a country's workforce, or corruption in business practices will lead to the relocation of multinational operations to more profitable locales so quickly that national governments may not have sufficient time to adjust.

Likewise, supranational institutions like the International Monetary Fund and the World Trade Organization play an important role in maintaining the current neoliberal economic framework. Free trade, privatization, low tariffs, export orientation schemes, minimal government regulation of national economies, inflation reduction, and direct foreign investment have become a mantra among those who promote the globalization of the economy. Corruption, crony capitalism, business decisions based on nepotism, and lack of transparency must be avoided at all costs. Such practices undermine capital liberalization schemes and threaten the efficient operation of the globalization system. Thus, supranational institutions have a unique role in persuading financially stricken nation states to get their economic house in order. Finally, nongovernmental organizations (NGOs) have begun to emerge as a counterbalance to the influences of multinational corporations and the power of supranational organizations. In particular, NGOs have gained a place at the table in high-level negotiations undertaken by supranational institutions like the IMF and the World Bank. Their primary demands are focused on the social needs of societies throughout the developing world. One of their primary objectives is to ensure that the needs of the poorest of the poor are being factored into the decision-making processes of supranational institutions.[6]

The current phase of globalization is closely related to the global diffusion and reliance upon technological advancement and innovation. Information technology has created a unique dynamic which allows greater integration of economic activity and accelerates the impact of cross-cultural networks upon existing social and cultural practices in a society. For example, technological innovations such as the Internet, e-commerce, the fusion of computer mediated communication and television, and the importance of expanding bandwidth are enabling many developing countries to take gigantic leaps from agrarian-based economies to those which are best described as post-industrial. On the one hand, this is creating immense economic opportunities and an expanding Gross Domestic Product. On the other it is creating a sense of anxiety on the part of economic and political elites about how emerging information technologies can be efficiently utilized. In addition, globalization has accelerated the penetration of Western value structures and norms. In Thailand, for example, upper and middle-class Thais now have access to cable TV, Western films and music, the Internet and travel abroad. Through

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increasing exposure to Information Age technologies and Western values, they are developing a psychological outlook that seeks to integrate global culture into Thai cultural constructs.[7]

In many respects, then, globalization must be viewed as a transformative force which changes the existing norms, values, and institutional structures of a given society. As Thailand has painfully discovered, countries which do not develop the institutional mechanisms needed to adapt to the globalized economy face the risk of being shut off from the networks which drive globalization. The result is economic and political marginalization.

THE ASIAN ECONOMIC CRISIS AND THAILAND

The dichotomous nature of globalization has been very apparent in Thailand. In the process of its transformation from an agriculturally dependent developing nation in the 1970s to one of Asia's emerging dragons in the early 1990s, Thailand experienced a period of economic growth which has been unmatched in modern history. Chris Dixon claims that during the 1990s Thailand's GDP grew by an annual average of 9.2 percent and its society became increasingly integrated into the global economy.[8] Kevin Hewison has called this period of economic expansion "an extensive capitalist revolution that irreversibly changed the face of Thai society."[9]

Increasing integration in the global economy became a double-edged sword for Thailand. Thailand's low wage production sector and a civil society increasingly characterized by democratic institutions became a magnet for large amounts of foreign investment. The Thai government's confidence in the stability of the baht was such that it was pegged at parity with the U.S. dollar. However, an economic downturn in other parts of Asia, most noticeably Japan, coupled with the strengthening of the U.S. dollar in the mid 1990s had a deleterious effect on the Thai economy. Most noticeable was the sudden lack of competitiveness of the Thai export sector. Asian competitors such as the People's Republic of China and Vietnam began to undercut Thailand's export markets. In response, the Thai government devalued the baht in early July of 1997 as a means of stimulating economic growth.

Fearing the devaluation of the baht would stimulate Thailand's export sector, other Asian countries instituted similar policies with the expectation of remaining competitive with Thailand. The resultant "contagion" led to economic decline throughout Asia. In many respects, Thailand's economy had become overdependent on its export sector. The devaluation of the baht crippled one of the primary engines of economic growth. The Thai government also engaged in a variety of protective measures designed to keep afloat unprofitable businesses, many of which had been established through cozy personal relationships between the heads of government agencies and disreputable businessmen or members of the military. The impact of this government-private sector collusion based on personal relationships and the granting of favors became a drain on the country's financial system, undermining the ability of more competitive firms to acquire the necessary capital to expand their businesses. The specter of "crony capitalism" was endemic in the banking and finance structure of the Thai economy. Corrupt business dealings and the lack of transparency in financial undertakings distorted the economy, wasted public money, and nurtured inefficient conglomerates.[10]

In addition to currency instability, other structural deficiencies were apparent in the Thai economy. Real estate speculation, particularly in Bangkok, was characterized by the lack of regulatory mechanisms in the dispensing of bank loans to finance construction of office complexes, expensive housing and upscale hotels. The bulk of these loans were connected to international lending markets, loaned on a short-term basis, and were unsecured.

The decade of economic growth also created a consumer culture among middle-class Thais. With the availability of easy credit, many Thais bought cars. The tremendous influx of cars in conjunction with a building boom in Bangkok put strains on the city's infrastructure. Bangkok's infamous traffic jams curtailed the capital's economic productivity. The lack of an efficient urban infrastructure and dislocations in the financial system became symbolic of Thailand's difficulties in achieving full integration into the global economy. The economic meltdown of 1997 could be explained in terms of a psychological frenzy by Thai elites to globalize Thai society before the institutional mechanisms required for full participation in the global economy were put into place.

Two other structural problems contributed to Thailand's economic difficulties. Both were related to the increasing global reliance on information technology. First, a discontinuity existed between Thailand's export sector, direct foreign investment and the ability of the Thai government to coordinate technology transfer. The lack of coordination between government agencies and foreign firms, combined with few incentives for foreign firms to transfer technology to local firms contributed to an inertia in technological innovation.[11] In the long term this lack of government investment in technology generation could only spell trouble for Thailand's effective integration into the global economy. A complicating factor related to indigenous technology creation was the Thai educational system which was not producing sufficient amounts of software engineers, skilled workers, or the requisite number of high school graduates to effectively compete in the Information Age.

In the face of mounting economic problems the Thai government turned to the International Monetary Fund for emergency financial assistance. From the IMF's perspective, many of the causes of the financial difficulties in Thailand were the result of fiscal mismanagement and the lack of transparency between the government, banking and financial lending institutions, and private industry. In addition, the IMF noted government "controls and threat of controls on market activity" also played a role in stifling economic growth.[12] The IMF's Managing Director at the time, Michael Camdessus, suggested the Thai political and financial authorities were in a "denial syndrome" caused by years of successful macroeconomic growth which blinded them from taking immediate action to solve the financial difficulties.[13]

The IMF's economic adjustment program included more than $17 billion in financial assistance, focused on closing "non-viable institutions," and opened the country's financial institutions to internationally accepted accounting practices and disclosure rules. In addition, supervision and regulation of the financial sector was instituted, mechanisms to promote transparency in the corporate and government sectors emerged, action was taken to "create a more level playing field" for private sector activity, and markets were opened to foreign competition.[14] IMF officials noted that two significant lessons could be drawn from the Thai experience: countries must take early action to correct macreconomic imbalances and strengthen the domestic financial sector before the onset of crisis; and countries must realize that with globalization they are more vulnerable to shifts in market sentiment which could lead to the spread of financial crises among several countries.[15]

Critics of the IMF restructuring plan suggested the IMF had miscalculated the severity of the crisis, hastened the pace of the structural reforms without an observable recovery, and abruptly changed policies from fiscal tightening to fiscal deficit a year into the crisis. These decisions were viewed as errors in judgment which adversely affected many Thai citizens and deepened the crisis.[16] Especially hard hit were the urban and rural poor, unskilled workers and production workers, while professional and technical occupations actually experienced a substantial increase in employment rates during the crisis.[17]

Recent economic analysis suggests Thailand is on the road to recovery. Although the annual economic growth rate in Thailand is predicted to reach 4 percent, other economic indicators suggest the recovery is fragile at best.[18] Thailand's economy is still functioning below its pre-crisis levels, private consumption is down, the Thai baht continues to depreciate as a result of ineffectual economic reforms instituted by the Thai government, the banking sector remains weak, commercial bank loans are short of government projections, and the Thai stock market has been unable to rebound since the crisis. Corruption and a bureaucracy resistant to change are interfering with sustained economic growth.[19] The lack of appropriate infrastructure, shortages of software engineers, bureaucratic inertia and turf-battles over which government agencies will regulate Internet providers, and educational systems which do not provide computer access to students in primary and secondary schools continue to hamper the transition to an information-based economy.[20]

As a final activity for the study of the crisis, I have students engage in a role-play exercise where they represent the various forces involved in the Thai crisis: Thai political elites, peasant farmers, CEOs of multinational corporations, and representatives of the International Monetary Fund, to name a few. Because secondary textbooks typically do not analyze the Thai economic crisis, the Internet has become an important source of current information, providing students with important contextual knowledge about the crisis.[21] Through this exercise students come to an understanding of the inherent complexity of globalization and develop an appreciation for the interrelated nature of the global economy. As Brigette Levy has observed, the increasing role international finance and supranational institutions play in the global economy forces a rethinking of the role of the nation-state and the way international institutions function, requiring nation-states to adjust to rapid changes in the world economy.[22]

As the Thai example illustrates, globalization acts like a magnifying glass on the domestic economy by not only multiplying the benefits of good policies and institutions, but also by increasing the costs of bad policies and weak institutions.[23] As secondary students examine the multidimensional nature of economic crises like those which occurred in Thailand, they will come to a deeper understanding of the role international economic relations play in shaping domestic policies of countries throughout the world.

NOTES

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