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THE UNITED STATES AND THAILAND: HELPING A FRIEND IN NEED

RICHARD D. FISHER, JR., AND ROBERT P. O'QUINN

Thailand seeks support from the United States as it tries to recover from a serious economic crisis. The March 12, 1998, visit of Thailand's Prime Minister, Chuan Leekpai, offers the United States the opportunity to affirm its support for an important U.S. ally. In addition to their long-standing military alliance, Thailand and the United States share a concern about China's intentions in Southeast Asia and cooperate in fighting drugs. To affirm the U.S. alliance with Thailand, the Clinton Administration should:

- **Tell Prime Minister Chuan that the United States remains committed to its alliance with Thailand.** Senator William Roth (R–DE) has offered a congressional resolution of support for Thailand.
- **Continue military exercises with Thailand.** These exercises will become more valuable as the economic crisis forces cutbacks in Thailand's military spending.
- **Ask Thailand to reconsider allowing U.S. supply ships to use Thai ports.** A previous request was denied in 1994. The United States should request that Thailand reconsider its decision; these supplies need to be close to U.S. servicemen in Korea and the Persian Gulf in the event hostilities flare up in either region.
- **Offer modest assistance to help Thailand fight drugs.** Budget cuts are reducing Thailand's ability to destroy drug crops; the United States should offer a one-time assistance package to help destroy drugs that might end up on the streets of the United States.

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ECONOMIC ADVICE

Thailand now needs help from the United States to recover from its devastating economic crisis and to prevent future crises. The crisis began in early 1997 when the value of Thailand's currency, the baht, fell in international markets. The fall of the baht exposed serious flaws in Thailand's financial sector, its corporate laws, and in its statistical reporting. After seeing economic growth rates over 8 percent most of this decade, Thailand's economy may contract by 3 percent in 1998. The crisis has seen a 50-percent fall in the value of the baht and a collapse of Thailand's financial sector. Thailand has turned to the International Monetary Fund, which in August 1997 extended $17.2 billion in credits. Thais are angry that the United States did not contribute special credits to this package. But the United States can offer something more valuable: sound advice to prevent future crises.

The first step is to restore confidence in Thailand's financial sector. Banks need to resume normal business before the economy can begin to recover. To strengthen Thailand's financial sector, the Clinton Administration can urge Thailand to:

- **Create an international creditors committee to restructure bank debts.** Such a committee can help to extend the terms of repayment or can help to excuse some debts.
- **Sell bad assets from failed and troubled banks.** Thailand created a government agency, the Asset Management Corporation, to acquire and liquidate bad assets (those not generating revenue). The United States could offer this agency much practical advice from its experience with Resolution Trust Corporation, which helped failed U.S. savings and loan institutions sell their assets.
- **Create a currency board regime.** A currency board regime would fix the value of the baht to the U.S. dollar and allow the interaction of U.S. Federal Reserve policy and market forces to determine the domestic money supply, and therefore the inflation rate, in Thailand.

A currency board, however, can succeed only in conjunction with other economic reforms that build greater transparency and accountability in Thailand's economy. The Clinton Administration can help Thailand to do so by urging that it:

- **Strengthen the prudential supervision of financial services firms.** This would include rules to prevent reckless investments by managers that put their companies at risk.
- **Adopt international standard accounting rules.** Financial disclosure requirements similar to those followed in the United States are needed to provide investors with truthful information.
- **Increase corporate accountability.** Thailand should adopt rules to allow outsiders to change the leadership of poorly run corporations. Such rules will make directors and managers more accountable to shareholders.

AN ENDURING ALLIANCE

Since World War II, the United States and Thailand have developed a strong strategic and economic partnership, building on a friendship that dates back to 1833. The United States benefited from access to bases in Thailand during the Vietnam conflict and during the Persian Gulf War. With Thailand facing significant military cutbacks, this alliance currently is more valuable to Thailand. The United States can help Thailand by finding an alternate buyer for expensive fighter aircraft that Thailand recently purchased but now cannot afford. The United States also should ask Thailand to allow it to preposition military supply ships in Thai ports. These supplies can help deter conflict in Korea and the Persian Gulf—which also benefits Thai security interests.

As an ally, the United States has the obligation to help Thailand recover from this crisis. The best assistance the United States can offer is advice on how to strengthen confidence in Thailand's financial sector and how to prevent similar crises in the future. Thailand deserves serious attention from U.S. policymakers, and Prime Minister Chuan Leekpai's visit to Washington, D.C., offers the opportunity to affirm support for this long-time ally of the United States.

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The visit of Prime Minister Chuan Leekpai to Washington, D.C., on March 12 offers the opportunity to reaffirm U.S. support for Thailand. Once considered an economic "tiger," Thailand is seeking to recover from an economic crisis that has ravaged economies across Asia. The Thai economy, which had expanded at an average real gross domestic product (GDP) growth rate of 8.6 percent from 1990 through 1996, slowed to 0.6 percent growth in 1997 and is projected to contract by 3 percent in 1998. This crisis also has seen the value of Thailand's currency, the baht, fall from 25 per U.S. dollar to 50 per U.S. dollar, raising the price of all foreign goods—such as the education of over 13,000 Thai students in the United States.

Thailand is the 17th largest trading partner of the United States, with nearly $20 billion in two-way goods and services trade in 1997. Nevertheless, the Clinton Administration has been slow to respond to Thailand's plight. Helping Thailand emerge from this slump is a test for U.S. leadership in Asia. Absent a recovery, U.S. exports to Asia are bound to decline, meaning fewer jobs for Americans. In 1997, exports to Thailand generated over 147,000 U.S. jobs. To solve its economic crisis, Thailand has sought international help. Last August, Bangkok secured $17.2 billion in International Monetary Fund (IMF) aid commitments to support the baht. IMF bailouts have a poor record of success, and the results of this bailout remain to be seen. It is essential now for the United States to focus on future steps that should be taken to aid Thailand's recovery. The United States can help Thailand with sound advice on how to dispose of the bad assets of its failed banks and finance companies, how to increase transparency in its financial sector, how to increase the accountability of corporate managers, and how to produce more reliable economic statistics.

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Prime Minister Chuan's visit offers the opportunity to review other important issues in U.S.–Thai relations. Thailand and the United States share concerns about the growing power of the People's Republic of China in the region as well as the destruction of democracy in Cambodia. The U.S. military alliance with Thailand is part of the network of the U.S.-led security structure that has deterred conflict in Asia. The economic crisis, however, will force Thailand to reduce military spending considerably, increasing the value of bilateral military exercises to Thailand.

Both countries have made progress in the fight against Southeast Asia's drug trade. The United States should consider modest additional aid in this area to make up for the shortfall in indigenous drug-fighting funds caused by Thailand's economic crisis.

THAILAND'S IMPORTANCE TO THE UNITED STATES

Thailand is one of two treaty allies of the United States in Southeast Asia (the Philippines is the other) and a key political and economic partner in that region. Thailand is the third largest U.S. trading partner in Southeast Asia after Singapore and Malaysia. In 1996, U.S. companies invested $5.2 billion in Thailand; in 1997, General Motors decided to build a major Asian auto manufacturing plant there. Thailand was a key promoter in the formation of the ASEAN Free Trade Area (AFTA), which promises to lower trade barriers within this nine-country group.[1] Bangkok also is an important ally in efforts to advance free trade within the Asia Pacific Economic Cooperation (APEC) forum.[2] At the same time, Thailand has strengthened its civil democracy in the 1990s as popular pressure has caused Thailand's armed forces to reduce their role in politics.

Critical Security Ties

U.S.–Thai security cooperation stems from a 1962 communiqué signed by then U.S. Secretary of State Dean Rusk and Thai Foreign Minister Thanat Khoman. The arrangement obligates the United States to come to Thailand's aid if it is attacked. During the Vietnam conflict, Thailand allowed the United States to stage air attacks from Thai bases. Later, during the 1990–1991 Persian Gulf War, Bangkok quietly made Thai bases available for refueling U.S. cargo aircraft. Political disputes with the Clinton Administration over trade access and the extradition of a Thai official accused of helping the drug trade, however, prompted Thailand to refuse a U.S. request in late 1994 to station military supply ships in Thai ports. These ships would be used to speed supplies to Korea or the Persian Gulf in the event of conflict.

U.S.–Thai military relations nevertheless remain close. Peacetime military relations are focused on annual Cobra Gold military exercises, which are among the most sophisticated in Southeast Asia. A reduction in military spending caused by the economic crisis will make these exercises even more valuable for Thailand. Underscoring its commitment to regional security, Thailand recently purchased many U.S. weapons to modernize its forces, including F–16 fighter aircraft, A–7 attack aircraft, P–3 antisubmarine aircraft, and *Knox*-class frigates. Defense budget reductions are forcing Thailand to delay payment or find an alternate buyer for eight F/A–18 fighters, costing $390 million, that it had contracted to purchase from the United States.

Concern About China

Although wary of China's intentions in Asia, Thailand also recognizes the need to cooperate with its neighbor. During the 1980s, Thailand allowed China to funnel supplies to Khmer Rouge guerrillas and to non-communist factions opposing the Cambodia People's Party (CPP) regime installed by Vietnam in 1979. Thailand's large ethnic Chinese community is economically powerful and helps to generate increasing business with China. Thailand has purchased Chinese-made army equipment and some Chinese-made frigates.

Thailand, however, has joined its other

1. The Association of Southeast Asian Nations consists of Brunei, Burma, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

2. The Asia Pacific Economic Cooperation forum consists of Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan (as "Chinese Taipei"), Thailand, the United States, and Vietnam.

neighbors to protest China's encroachments on disputed territories in the South China Sea. China claims almost the entire South China Sea, but Indonesia, Malaysia, the Philippines, and Vietnam also claim portions of this area. Thailand protested China's occupation of Mischief Reef, claimed by the Philippines, in early 1995, as well as China's encroachment upon Vietnamese-claimed areas in early 1997. Thailand depends on free sea lanes for its commerce, which might be threatened if China were to control the South China Sea.

Fighting Narcotics

At one time a major source of opium, Thailand today produces only about 1 percent of the opium in the Golden Triangle, which also includes Burma and Laos. Although the United States had to press Thailand for help in 1995 to fight drugs, two years later the Clinton Administration praised Thailand's anti-drug efforts as an "example to the region in resoluteness in carrying out drug control policies."[3] Cooperation by Thai authorities enabled the June 1997 extradition of Li Yung Chung, a major Burmese drug lord. Li was indicted in the United States in May 1996 in connection with the seizure of 1,000 pounds of heroin in 1991, valued between $87 million and $122 million. In spite of local popular opposition, moreover, Thailand has cooperated with the United States to prosecute corrupt Thai officials linked with the drug trade. For example, Thailand has extradited a former member of parliament accused of helping to smuggle 50 tons of marijuana to the United States.

Because the economic crisis has halved the funds for drug eradication, Thailand is seeking U.S. aid to continue its anti-drug efforts.[4] In 1997, the United States offered to set up a regional law enforcement institute in Bangkok that in part would help Southeast Asian officials to combat the drug trade. One result of Thailand's success in fighting drugs has been the shifting of this trade to Burma, Laos, and, increasingly, Cambodia.

Helping Cambodia

Over the past decade, Thailand has played a key role in events in Cambodia. During the 1980s, Thailand was a front-line state opposing the Vietnamese-installed CPP regime in Phnom Penh. Thailand hosted thousands of Cambodian refugees and joined the United States in supporting non-communist resistance groups to keep alive a possible democratic alternative for Cambodia. This was almost realized under a United Nations (U.N.) administration of Cambodia, which lasted from 1991 until democratic elections in May 1993. The U.N. failed, however, to wrest control of the government from the CPP or to disarm the competing factions. This allowed the CPP regime of Hun Sen to keep its political power after the elections. Hun Sen was able to force a coalition with the non-communist winner, Prince Norodom Ranariddh. This government became increasingly corrupt as Hun Sen's power grew, and his quest for total power led him to depose Ranariddh in a July 1997 coup. In this coup, Hun Sen killed scores of democratic opponents, forced many other political opponents to flee, and pursued military forces loyal to Ranariddh to the Thai border.

Today, Thailand has a keen interest in Cambodia's peaceful evolution. Hun Sen's coup produced new fighting along the border, over 40,000 civilian refugees, and many political refugees. Thailand allowed newly exiled politicians to form a coalition called United Cambodians for Democracy, a group supported by the U.S. National Republican and National Democratic Institutes for International Affairs. Thailand has joined the United States, Japan, Malaysia, and the Philippines in urging Hun Sen to hold new elections, which he has scheduled for June 1998. Even though some opposition politicians, like Sam Rainsy of the Khmer Nation Party, have returned to Cambodia, Hun Sen has done little to indicate whether he will allow a truly fair election. Thailand's support will be essential if the United

3. Noted in the 1997 International Narcotics Control Strategy Report, cited in "Thailand praised in US report…," *Bangkok Post,* March 2, 1997, p. 1.

4. Associated Press, "Cash-strapped Thailand Seeking U.S. Money to Destroy Opium Crops," February 16, 1998.

States and others are to sustain pressure on Hun Sen to undertake democratic reforms.

THAILAND'S ECONOMIC DEPRESSION

Unlike most developing countries during 1970s and 1980s, Thailand sought economic growth through market-friendly policies rather than heavy-handed state intervention. Thailand held down growth in government spending, kept income tax rates moderate, ran fiscal surpluses in most years, and avoided an unmanageable accumulation of sovereign debt. Thailand also was more open to world trade than other developing countries. This macroeconomic stability fostered an average GDP growth rate of 8.6 percent from 1990 through 1996.

Underneath this outstanding performance, however, problems were brewing. Thailand ran substantial current account deficits because its domestic investment rate exceeded its domestic savings rate. In 1996, for example, Thailand's high savings rate of 33.1 percent was exceeded by its even higher investment rate of 40.8 percent. This imbalance made Thailand's economy highly dependent on foreign capital.

Such dependence is not necessarily harmful if the foreign capital is funding such stable, long-term investments as acquiring Thai companies and building manufacturing plants. Only a small fraction of the foreign money pouring into Thailand was funding such investment, however. Instead, most foreign money was in the form of short-term commercial bank loans—principally from European and Japanese banks—and portfolio investments. In Thailand, short-term flows from 1994 to 1996 ranged from 7 percent to 10 percent of GDP compared with 1 percent of GDP for long-term foreign direct investment.

Meanwhile, the Bank of Thailand (the country's central bank) was pursuing a monetary policy known as a pegged exchange rate regime that gave the appearance of stability while ultimately undermining Thailand's economy.[5] Under this system, a central bank attempts to manage domestic money supply growth to maintain a fixed exchange rate with another currency (the U.S. dollar in Thailand's case) and simultaneously to control domestic inflation. As the value of the U.S. dollar declined in the early 1990s, the pegged exchange rate regime improved the price competitiveness of Thailand's labor-intensive industries, including apparel, footwear, and toys. The value of the U.S. dollar has appreciated, however, since the 1994 congressional elections; in addition to the dollar's new strength, China devalued its currency, the yuan, in 1994. As a result, many of Thailand's exports became less price-competitive. Because Thailand's exports contracted slightly in 1996, foreign confidence was undermined in Thailand's ability to maintain the peg and encouraged currency speculators to sell baht.

Compounding macroeconomic policy errors, Thailand began in 1993 to liberalize its financial services sector, but it failed to adopt rules to

5. Because there has been so much confusion in the popular press, it is important to distinguish between a pegged exchange rate regime as had existed in Thailand and a currency board regime as exists in Argentina, Estonia, and Hong Kong. Under a pegged exchange rate regime, a central bank must attempt to manage money supply growth to maintain a fixed exchange rate with another currency or basket of currency and target domestic price stability simultaneously. A country retains full decision-making authority over monetary policy in a pegged exchange rate regime. In contrast, a currency board regime is a de facto unification between the currency of the territory establishing the currency board and currency of the reserve country—the United States in the case of Argentina and Hong Kong, but Germany in the case of Estonia—that transfers decision-making authority over monetary policy from the territory to the reserve currency country. Under a currency board regime, a territory replaces its central bank with a board that holds foreign currency reserves and agrees to exchange the domestic currency for the reserve currency freely at a fixed exchange rate. Unlike an independently managed central bank, the currency board is passive, allowing the interaction between the monetary policy of the central bank in the reserve currency country and market forces in the territory to determine its money supply. Thus, because of their currency board regimes, the Board of Governors of the Federal Reserve System in Washington, D.C., effectively sets monetary policy for both Argentina and Hong Kong.

REVISED IMF PROGRAM FOR THAILAND
February 1998

Fiscal Policy

- The fiscal policy goal for fiscal year 1997–1998 was reduced from achieving a budget surplus of 1 percent of GDP to achieving a budget deficit of 2 percent of GDP due to the recession. Previously, Thailand's government chopped expenditures by 13.5 percent from 18.7 percent of GDP in fiscal year 1996–1997 and by 14.9 percent of GDP in fiscal year 1997–1998 and raised the value-added tax from 7 percent to 10 percent. Additional revenue amounting to 0.25 percent of GDP now will be gained by raising tariffs on certain luxury goods.

Monetary Policy

- The Bank of Thailand will maintain a tight monetary policy to restore foreign confidence in the baht.

Financial Services Sector

- On December 8, 1997, Thailand's government permanently closed 56 of the 58 suspended finance companies (non-bank depository institutions) in accordance with its original agreement with the IMF. The state-owned Radhanasin Bank assumed control of the higher-quality assets and will be privatized subsequently; the Asset Management Corporation assumed control of the lower-quality assets for liquidation.
- The plans submitted by all undercapitalized banks for recapitalization have been reviewed. Two failing banks that did not submit acceptable recapitalization plans—First Bangkok City Bank and Siam City Bank—were nationalized on February 6, 1998. The capital at the previously nationalized Bangkok Bank of Commerce and Metropolitan Bank was written off on the same date. Thailand's government has replaced the management of these nationalized banks and actively is seeking foreign investors to acquire them.
- Thailand's government will strengthen loan classification rules in line with international standards in 1998, and all banks will implement them fully by 2000.
- Thailand's government will revise its bankruptcy law by March 31, 1998, and its foreclosure law by October 31, 1998. Implementing legislation currently is before parliament.

Privatization

- Thailand's government will privatize Thai Airlines (currently 93 percent state-owned) and Bangchak Petroleum (currently 80 percent state-owned) and will sell its 16 percent minority share in Esso Standard Thailand, a petroleum distribution company.
- State-owned Electricity Generating Authority of Thailand (EGAT) will sell its stake in Electricity Generating (Public) Company Limited and Power Gen 2 in 1998. EGAT then will be divided into separate generating and transmission companies; the resulting companies will be privatized in 1999.
- The Telephone Organization of Thailand and the Communications Authority of Thailand will be corporatized in 1998 and privatized in 1999.
- Thailand's government will prepare plans to privatize its railway and port facilities.
- Privatization proceeds will be used to repay funds borrowed for financial restructuring.

control fraud and questionable loans to insiders, known as self-dealing.

By increasing consumer choice, promoting product innovation, reducing loan interest rates and fees, and ensuring that the market allocates financial resources, financial services deregulation can benefit the economy. Deriving the full benefits of deregulation, however, also requires adopting an adequate system of prudential supervision before deregulation takes place. Without it, financial services deregulation can increase the opportunities for fraud and self-dealing by a bank's officials.

In Thailand, the lack of prudential supervision encouraged bad lending. The freedom to move funds in and out of Thailand, combined with higher interest rates in Thailand than in the United States, and a baht exchange rate pegged to the U.S. dollar, encouraged Thais to profit from the difference in interest rates by borrowing in dollars to acquire assets yielding baht. Thais did this without protecting themselves from the possibility of a decline in the baht's value that would make it more difficult to repay the dollar-denominated loans. In Thailand, short-term, dollar-denominated foreign loans were used mainly to build speculative real estate projects in the Bangkok region. Oversupply in the real estate market, combined with the baht's fall, were major contributing factors to Thailand's financial crisis. The real estate projects, furthermore, usually did not produce needed dollars to repay the loans.

At the same time, other microeconomic problems were mounting. These included:

1. **Lack of financial transparency.** The quality and timeliness of economic statistics provided by Thailand's government proved insufficient. Market economies depend on accurate, complete, and timely disclosure of economic and financial data to make wise investment decisions. If the market participants doubt the accuracy of government economic statistics or corporate financial statements, potential investors will demand a higher real rate of return for their capital, slowing economic growth.
2. **Lack of an active market for corporate control.** Thailand lacks an adequate legal infrastructure to support an active market for corporate control. Shareholders do not have adequate legal power to check corrupt or incompetent corporate managers through hostile takeovers.
3. **Unbalanced bankruptcy and foreclosure laws that favor debtors over creditors.** Unlike Hong Kong and Singapore, Thailand has bankruptcy and foreclosure laws that favor debtors over creditors. These laws make it difficult and time-consuming for creditors to seize collateral. In Thailand, creditors lose their right to recovery if they knowingly lend to financially troubled borrowers. Foreclosure is administered by regulators, not the courts, and it can take up to seven years for a creditor to take possession of the mortgaged property. These imbalances allow financially troubled corporations to keep their assets indefinitely and prevent creditors from recovering even a portion of borrowed funds.

Early in 1997, the baht's value fell in international markets as doubts grew over Thailand's ability to maintain the dollar peg. These doubts stemmed from Thailand's large current account deficit, high short-term foreign debt, the collapse of inflated real estate prices, and the declining competitiveness of such traditional, labor-intensive Thai exports as apparel, footwear, and toys. To support the baht, the Bank of Thailand actively intervened in foreign exchange markets and imposed capital controls in May 1997. On July 2, after nearly exhausting its dollar reserves, the Bank of Thailand agreed to let the baht float. The baht fell immediately by 10 percent and then continued to weaken. At the same time, depositors were withdrawing their money from Thai banks. On July 28, Thailand formally sought IMF assistance, and on August 20, an IMF assistance package totaling $17.2 billion was announced.[6] The agreement between Thailand's government and the IMF focused on closing insolvent banks and finance companies and strengthening prudential supervision. On December 8, 1997, Thailand's government closed 56 of the 58 troubled finance companies. In 1998, it nationalized four insolvent banks as well. On February 24, 1998, Thailand's government and the IMF signed a revised agreement reflecting the worsening economic situation. Economic performance targets were relaxed for 1998, but, in return, Thailand's government committed to new structural reforms including sweeping privatization of state-owned enterprises.

AFFIRMING THE U.S. ALLIANCE WITH THAILAND

Many Thais believe the Clinton Administration responded slowly to Thailand's economic crisis. The United States did not contribute bilateral assistance to the August IMF package as did Japan, China, Singapore, and others. In part, the Clinton Administration felt Thailand's needs were being met by other countries. Assistance from the United States, however, need not be equated with the IMF package.

The United States has much advice to offer in helping Thailand recover from its economic crisis and to prevent similar crises in the future. This advice should include steps Thailand can take to (1) revive its financial sector and (2) institute a new monetary regime and undertake other economic reforms to restore Thai competitiveness in the mid-term so that recovery may begin.

The U.S. private sector, for example, can play a role in advancing Thailand's return to competitiveness. The American Corporations for Thailand campaign is being launched on March 12, 1998. The initiative brings together U.S. companies to donate funds for human resource development in Thailand, focusing in particular on vocational education and Thailand's community colleges. Co-chairmen of the campaign are Anand Panyarachun, two-time Prime Minister of Thailand, and Henry Kissinger, former U.S. Secretary of State.

Thailand's recovery is important to the United States. Thailand is a valuable strategic ally in Southeast Asia and a strong supporter of liberalizing trade in AFTA and APEC. To help this U.S. friend in need, the Clinton Administration should:

- **Reaffirm the U.S.–Thai alliance as a vital element of the U.S. strategic network in Asia.** During his visit to Washington, D.C., Prime Minister Chuan should be assured that the United States is concerned deeply with Thailand's economic plight and remains committed to its alliance with Thailand. Congress has the opportunity to reaffirm the U.S. alliance with Thailand in the form of S. Res. 174, introduced by Senator William Roth (R–DE). This non-binding resolution recalls the long-standing U.S.–Thai friendship dating back to 1833 and reaffirms U.S. support for Thailand.
- **Continue military exercises with Thailand.** The United States should continue to send U.S. forces to conduct annual Cobra Gold multi-service military exercises with Thailand. Where possible, the United States should offer to ease the expense of these exercises by offering some fuel and spare parts to facilitate Thailand's participation. The U.S. Department of Defense also should cooperate with Thailand to work out deferred payments or help to find alternate buyers for U.S.-made military equipment, like the F/A–18 fighter-bomber, that Thailand has contracted to purchase.
- **Ask Thailand to reconsider hosting U.S. military supply ships.** The United States still needs to station military supply ships in Southeast Asia to assist the rapid supply of

6. The International Monetary Fund (IMF) assistance package for Thailand contains loan commitments totaling $17.2 billion. Of this, the IMF has pledged $4.0 billion; the World Bank, $1.5 billion; the Asian Development Bank, $1.2 billion; Japan, $4.0 billion; Australia, $1.0 billion; People's Republic of China, $1.0 billion; Hong Kong, $1.0 billion; Malaysia, $1.0 billion; Singapore, $1.0 billion; Indonesia, $500 million; South Korea, $500 million; and Brunei, $500 million. To date, Thailand has borrowed $9.0 billion.

U.S. forces that may have to be deployed to Korea or the Persian Gulf in times of crisis. A continued U.S. ability to deter conflict in both regions also promotes security beneficial to Thailand. The United States should ask Thailand to reconsider its refusal to host U.S. supply ships.

- **Increase assistance for Thailand's anti-drug programs.** Budget cutbacks in Thailand have reduced funds for eradicating opium planted by poor Thai farmers. Because some of this opium could end up in the United States in the form of heroin, it is in the interest of the United States to consider a one-time assistance package to support Thailand's anti-drug efforts.

- **Urge Thailand to close insolvent banks, but give cash-short banks time to recapitalize.** The first requirement for Thailand's recovery is for banks to be able to resume normal business. This may require allowing insolvent banks to close. On December 7, 1997, in order to take control of the finance sector, Thailand shut down 56 insolvent finance companies and placed the good (that is, revenue-producing) assets of the closed finance companies inside the state-owned Radhanasin Bank. In 1998, Thailand nationalized four insolvent banks and stripped them of bad assets; the government is seeking foreign investors to privatize these banks later this year. Thailand is giving two finance companies and ten banks that are solvent, but cash-short, time to recapitalize. Banks that cannot meet the internationally accepted Basle capital standards by the end of 1998 should be closed.

- **Urge Thailand to establish an international creditors' committee to restructure the foreign debts of Thai banks and corporations.** Such a committee should be composed of representatives from foreign commercial banks to negotiate directly with Thai domestic banks and corporations to restructure their existing debts. Restructuring would involve extending the repayment periods or excusing portions of debts that cannot be repaid. In South Korea, such a committee agreed on January 28, 1998, to extend the maturities of $24 billion of short-term loans from overseas banks in order to allow time for a more complete restructuring of debt. Thailand can benefit from this approach as well.

- **Urge Thailand to sell the bad assets from failed and troubled banks rapidly.** The large overhang of bad assets—those not generating revenue—must be sold before an economic recovery can commence. Under direction of the IMF, Thailand has created a specialized government agency, the Asset Management Agency, to acquire and liquidate bad assets. Considering its recent experience in liquidating bad assets arising from the savings and loan debacle through the Resolution Trust Corporation, the United States could provide technical assistance and personnel training to the Asset Management Agency.

- **Urge Thailand to institute a currency board regime.** A central bank with a pegged exchange rate is an inherently unstable regime. The collapse of the baht has undermined the credibility of Bank of Thailand. One way for Thailand to stabilize the baht is to unify it with the U.S. dollar through the establishment of a currency board with the U.S. dollar as the reserve currency. A currency board regime is a de facto unification between Thailand's baht and the U.S. dollar. Under a currency board regime, Thailand would replace the Bank of Thailand with a board that holds U.S. dollars and dollar-denominated assets and agrees to exchange the baht freely for the U.S. dollar at a fixed exchange rate. The currency board would be passive, allowing market forces and Federal Reserve Board policy decisions to determine Thailand's money supply. A currency board cannot succeed, however, in the absence of broader microeconomic reforms. Argentina, Estonia, and Hong Kong are successful examples of currency board regimes.

- **Urge Thailand to open its banking system to fuller disclosure.** Quarterly disclosure will help the public to discriminate between solvent and insolvent banks, thereby minimizing the likelihood of debilitating system-wide runs.
- **Urge Thailand to strengthen the prudential supervision of financial services firms.** Thailand should establish a single prudential supervision agency for all types of financial services firms. The agency and its director should be independent from both the Ministry of Finance and the central bank. Prudential supervisors must examine the books of banks and other financial services firms regularly to identify fraud, self-dealing, and risk management problems before they grow so large as to cause insolvency.
- **Urge Thailand to increase transparency.** The United States should urge Thailand to adopt Generally Accepted Accounting Principles (GAAP) and financial disclosure statements comparable to U.S. standards. While the International Accounting Standards Committee is working on a new, high-standard global GAAP, Thailand should adopt U.S. GAAP as the highest standard for accounting accuracy and complete disclosure currently in use.
- **Urge Thailand to establish a legal framework to increase corporate accountability.** The ability of shareholders to minimize the bad decisions of corporate managers depends on laws that allow rival managers to challenge and replace incumbent managers easily with the consent of the majority of shareholders. Share ownership restrictions, unequal voting rights, and regulations discouraging the financing of hostile takeovers undermine the market for corporate control, foster management misbehavior, and create economic inefficiencies. New corporation laws should mandate that at least three-fourths of all directors in large companies be outsiders with no links to company managers or to their controlling families, and that at least one-third foreigners.
- **Urge Thailand to reform bankruptcy and foreclosure laws.** Thailand's current laws favor debtors, which makes it difficult to seize collateral from people or companies that have defaulted on their debts. Instead of favoring debtors, Thailand must fulfill its IMF commitment to make its bankruptcy and foreclosure laws more even-handed in 1998.

CONCLUSION

Since World War II, the United States and Thailand have developed a strong strategic and economic partnership, building on a friendship that dates back to 1833. The United States benefited from access to bases in Thailand during the Vietnam conflict and during the Persian Gulf War. It also has benefited from Thailand's support of free trade in Asia. Although it is true that Thais are mainly responsible for their current economic crisis, it also is true that the United States has an obligation to help its ally recover from this crisis. The best aid the United States can offer is advice on how to strengthen confidence in Thailand's financial sector and how to prevent similar crises in the future. The United States should continue to help Thailand by participating in military exercises with Thailand's armed forces and should consider modest assistance to help Thailand's anti-drug efforts.

Thailand deserves serious attention from U.S. policymakers, and Prime Minister Chuan Leekpai's visit to Washington, D.C., offers the opportunity for a new look at this long-time ally of the United States.

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