

## Globalization, Market Failures and Trilemma :

### Thailand Experience

Presented at

University of Southern California, USA

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## Basic Information on Thailand



- 61 Million People with average annual income of \$ 2,010
- Total Area as big as France
- Major Religion : Buddhism
- Main Export : Food, Textile, Rubber, Tourism, Jewelry, etc.
- Political System : similar to UK
- Head of State : King Bhumibol
- Prime Minister: Pol. Col. Dr. Thaksin Shinawatra, the richest man and telcom tycoon.

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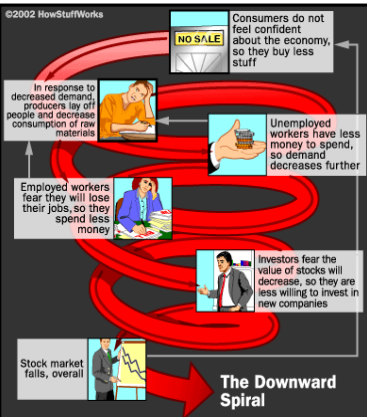
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Source: www.howstuffworks.com/recession3.htm

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At the onset of the 1997 financial crisis, Thailand experience

- Wealth Destruction by its massive devaluation,
- Lack of Confidence by high uncertainties and
- the downward spiral.

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### Thailand Experience Post Mortem (1)

- **After the 1997 Crisis, Chuan Govt**
  - \* Basically followed IMF's advise of 'Free Market', 'Free Democratic' process.
  - \* A Few General Results
    - 'Ideology Clashes' : 'Reform Fatigue'
    - Growing discontent with globalization
  - \* A Few Examples of Market Failures
    - Thai Credit Market Failures.
    - Lack of effective Demand Side.
    - **Discontinuity in Supply Side**

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### Thailand Experience (2)

- **From 2001 - now, Thaksin Govt**
  - \* Promises, Promises – Popularist Theme
    - \$ ¾ charge per hospital visit,
    - \$ 25,000 Fund for every village,
    - People Bank for the poor,
    - Debt Moratorium for Farmers,
    - No Tax Increase, No Gasoline Tax...
    - Pumping up Stock Exchange of Thailand
  - \* Land Slide Election Victory for Thaksin

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### Thailand Experience (3)

- **The current states of Thai economy :**
  - Total Public Debt in 2001 = 60 % GDP
  - Half industrial capacity is idle.
  - Over 1.5 million unemployed.
  - Inflation is about 2.0%.
  - GDP for 2002 is estimated = 3.0% << 1996.  
Need at least 5.0% to stop unemployment rate from raising and to serve national debt
- **Is it possible for another [fiscal] crisis ?**  
**Not likely in short run !!!**

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## Globalization as a Mega Trend

1. **Globalization** : a modern day fact of life.
  - is mega trends affecting all aspects [e.g. trade, production, financial, culture values, life-styles, etc.]
  - A process being driven mainly by proliferation of advanced technology.
  - In theory, everyone should greatly benefit from this.
  - In real world, a large number of people, namely the 'have-not' suffer painfully around the world.

### PUZZLING WHY?

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7

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## Market Failures from Economic Views

2. **Market Failures** : [ By definition in reverse ]
  - The market success is the ability of a collection of idealized competitive markets to achieve an equilibrium allocation of resources which is Pareto Optimal (i.e. efficiency in input, output and exchange).
  - The perfect or idealized market is characterized by
    - 1) Frictionless,
    - 2) Informationally efficient
    - 3) Perfect competition,
    - 4) Rational, Utility Max. People

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8

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## Why do Markets Fail ?

Four common reasons why markets fail :

1. **Market Power** : Monopoly, Oligopoly...  
Game Theory : First Movers, Nash Eq
2. **Incomplete Information** : Mkt. For Lemons, Principal-Agent problem, Moral Hazard...
3. **Externalities** : Indirect effects n pricing
4. **Public Goods** : Non-rival and non-exclusive

Examples of Imperfect Market : Telecom, Experience Goods [e.g. digital products, politics, etc.]...

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9

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## Perspectives on Markets Failures

- Market failures exist in both 'new' and 'old' economy, but it is most prevailing in emerging / SOE markets like Thailand, Mexico, Russia, Argentina...
- Different factor markets [e.g. goods, fin., labour, etc.] adjust differently at different pace.
- Each country is different in stages of economy with different cultures and social values.
- Often market failures are the justification for political intervention – locally and internationally.

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10

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## Trilemma from Political Econ. Views

- **Capitalism** : is a belief in 'In-equality', is a 'free' market oriented system and based on rational self-interest individuals.
- **Democracy** : is a belief in 'Equality', is a political process based on one man/woman, one vote with guaranteed 'Freedom of Speech'.
- **Social Welfare** max. should be a gov't main objective. State Social Welfare System is invented to make Capitalism and Democracy ideals Compatible.

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11

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## Capitalism : The Invisible Hand (a)

The main drawbacks of the Capitalism :

- Based on Ideal Perfect and Complete Market
- **Market Failures** are plain and plentiful.
- Game theory is applicable in impaired market
  - Monopsony, Monopoly, Oligapoly Mkt Power
  - Stackelberg leader and follower Equilibrium
  - Cournot or Bertrand Equilibria
  - Sequential **Nash** strategic payoff pertubation
- Any set of price in a game is the equilibria outcomes in which each individual rational self-interest player select strategically after learning the rules of game (e.g. player, action & outcome).

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12

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## Capitalism : The Invisible Hand (b)

### 5. Evidences of 'Market Failures'

**Opting Out : Malaysia – 'Retreat for Recoup'  
and the current Thai Govt ?**

- IMF program and US policy are essentially based on the belief that 'market' driven economy is the best kind of economic structure.

This may be truly in theoretical sense.

But in reality, the 'hot' pursuit in this belief in each and every market is very powerful wealth destroyer in imperfect market (s).

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## Democracy : The Grabbing Hand (a)

1. No democratic nation in history has suffered from massive famine as per by Prof. Sen [1999].
2. But Democratic nation often fails in 'Subtler Failures' on the part of the government to
  - To improve Literacy,
  - To reduce gender income inequality,
  - To narrow income disparity between rural and urban population.

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## Democracy : The Grabbing Hand (b)

### 3 . Shleifer & Vishny [1999] - 'The Grabbing Hand'

- Politicians are rational and self interested
- Politicians concerned about reelection, exercise of power and prestige.
- Political Campaigns needs a lot of money.  
-'Money Politics', 'Patronage Sys.'
- Democratic purity is sadly and inevitably distorted by the big, rich and powerful in domestic and now frequently across nations.

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## Democracy : The Grabbing Hand (c)

### 4. Food for Thought :

- **Check and Balance System**
  - Public hearing, judicial independence and prudent regulation.
- **Demand and Supply of 'Money Politics'**
  - Limited supply of money politics are nearly impossible by enormous vested parties.
- **Electronic, Interactive Mass Media**
  - One of the primary thrust for globalization
  - Can not be suspended
  - Can it be tamed ?

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## Welfare : The Helping Hand (a)

### 1. Max. Social Welfare as a primary objective.

- Ex : Public School, Unemployment benefits,...
- Market oriented capitalism may be efficient economically, but inequitable.
- Public-choice theory is the helping hand to correct the market failures and to closer realign public and private interest. ???

**But, any pure form of social welfare have proven to doom**

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## Welfare : The Helping Hand (b)

**2. The end of purely equity oriented society in state socialism signifies the need to face the challenge of difficult balancing act of the trilemma.**

### 3. Tax and Social Welfare

- All social welfare are prohibitively expensive.
- Tax system used to be basically a social accept-able approach to redistribute income and goods from the 'have' and the 'have not'.
- Excess, Deflation and Social Dumping
- Lack of Knowledge and Survival

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### Lessons to be learned (1)

At Household and Firm Level, we need ‘a beautiful mind’ to understand :

- \* how market can fail.
- \* how to adapt and to learn constantly from our experience and any ‘outside of the box’ thinking.

This may make or break your useful life.

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### Lessons to be learned (2)

At national level, one should learn that

- Sequential prioritized Development in capitalism, democracy and welfare does not work. >> Need a balance approach
- Solution or Illusion
- Symptoms or Issues : of the problem
- Virtuous vs Viscous [Political Economic] Cycle

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### Lessons to be learned (3)

At the international level, we need to understand

3. Each country is different in

- political economic development, culture ...
- needs in different adjustment speed to globality.

4. Each Factors Market is different

- FX and Fin. Market : inherently very volatile.
- Goods Market : Sticky Price & Consol. overtime
- Services Market : ‘Low Tech’ vs ‘High Tech’
- Labour Market : ‘Blue’ or ‘White’ Collars

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## Lessons to be learned (4)

At the international level, the implications are as following Globality with :

1. **Humanity** : 'Creative Destruction'
2. **Incentive** : 'Growth' – More Market, More Demand
3. **Classes** : Three Leagues of Nations
4. **Sensibility** :  
Promoting externality solving agencies like WTO  
\* Preventing countries from exerting negative externalities onto each other: wars, trade barriers...

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22

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## For Further Reading

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23

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Stiglitz, J. [2000] 'The Contribution of the Economics of Information to Twentieth Century Economics,' Quarterly J. of Economics, Sept.

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24

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**END**

see you next time  
 [ I love emails.  
 Please, send me comments or advises at  
 pongsak@hoontrakul.com ]

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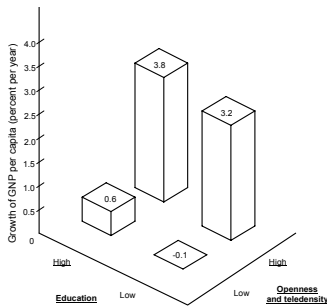
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**Figure 1 :Impact of education,openness to trade, and elephone density on economic growth**




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**Table 1 Preferred Financial System as a Function of Contractability and Capital/Investment Opportunity Ratio**

<b>High Contractability</b>	<b>BOTH</b> 4	<b>ARM'S LENGTH</b> 3
<b>Low Contractability</b>	<b>RELATIONSHIP</b> 1	<b>NEITHER</b> 2
	<b>Low Capital Supply/ Investment Opportunities</b>	<b>High Capital Supply/ Investment Opportunities</b>

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