

# **A System Of Local Exchange: A Case Study Of Thailand**

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## **Introduction**

The economic crisis in January 1997 was the most profound and had serious consequences Thailand ever has had since her modern economic history. At the same time, it is an opportunity for the Thai society to seriously reconsider and rethink about the directions of her economic, social, and political development. Both internal and external factors were explained as the major causes of the crisis.

The internal factors were the political system, including vulnerable political parties, corruption was rampant at all levels, managerial and administrative structures were rather inefficient. The liberalization of monetary sector while the exchange rate was fixed induced short-term investment such as real estate, stock market and direct speculation on the value of the baht currency itself. All of these factors finally led to the bubble economy its burst and its collapse. Moreover, Thai businessmen did not pay enough attention to consolidate the local economic base, but trying to make their quick monetary gain from international trade only.

As for external factors, the economic globalization has created no boundary for capital movement. Short term investment aiming for short term monetary gain resulted in enormous capital inflow into Thailand. As the crisis started, both Thai and foreign investors were worried about losing their money, they immediately withdrew and moved their money to where they considered to be safe places overseas. Consequently, it generated the continuous and incessantly outflows of capital. A rapid outflow of money aggravated the financial crisis all over the Asian region. Rapid movement of capital facilitated by economic globalization together with the liberation of financial sector normally result in weakening both monetary and fiscal policies of most nation states, whose main responsibility are to create stable economic environment nationally in the long run. As the nation state has become powerless to prevent its own economy to be affected by external economic fluctuations, the last line of defense is local currency or local exchange at a community level.

The objective of this paper is to describe briefly, the impacts of globalization, economic instability and crises and their impacts on currency systems as already discussed above, theoretical background of the Community Exchange System (CES), a brief description of the CES practiced in some countries, the introduction of the CES in Thailand, difficulties and lessons learned from implementing the CES, applicability to other communities in Asia, and the policy recommendations for further research.

## **Theoretical Background of Community Exchange System**

To understand community exchange, the basic knowledge of the functioning of money is a prerequisite. Community exchange can perform the key roles of any currency as a medium of exchange and a unit of account. If it is well designed, it can even play some roles that the "normal" national currency cannot.

After August of 1971, United States has abandoned its commitment to buy and sell gold in exchange of foreign currencies. Since that day, all of existing money has become pure fiat currency without any backup in gold, However, money can still fulfill its essential task, discussed below.

Firstly, the fiat money is still a medium of exchange. It facilitates economic activities. If money is not existing, most of economic activities will be slowed down or halted.

Secondly, money is a standard of measure or unit of value. It helps to determine various rate of exchanges among innumerable goods and services.

Thirdly, money can be used to store wealth (value). It is the origin of investment and capital. Capital can be accumulated through savings and credit creation of the whole banking system.

Fourthly, money by itself is also a durable commodity. Consequently, it can be subjected to speculation as well as most commodities. More than 95 percent of the total amount of money being circulated at any particular time in the world is being used for speculation, and less than 5 percent is used as the medium of exchanges to trade for goods and services.

There are flaws and conflicts among the tasks mentioned above. In the late 1980s, Paul Ekins (1989) has indicated such flaws in his well - known book "The Living Economy: A New Economics in Making". In chapter 8 of his work, he has interestingly criticized the role of money in the economy. Also, Bernard A, Lietaer has pointed out the flaws and conflicts among various functions of money. Such flaws and conflicts can be summarized as follows.

There is the contradiction between the tasks as the standard of value and that of speculation of money. Money used as a store of wealth has led to creation of money market. In that market, money has been treated as commodity that can be bought and sold in its own right, for profit, through the anticipation for the variation in exchange rates. Huge amount of money in this market and the electronically speed of transactions can lead to great instability of the exchange rates. Such great fluctuation in the exchange rates result in enormous difficulties for domestic economic management of most countries that depend greatly on international exchanges. The fluctuation has generated increasing risk. As a result, money is less effective as standard of value. This risk can also result in the reduction of international economic activities.

Money as a store of wealth is also subjected to inflation, which is amount to the decrease in amount of goods and services that can be exchanged for the same amount of money. This is the hidden conflict between money as a medium of exchange and a store of value. For example, people spend more during the booming while tradable goods are limited in the short run. This is the root cause of inflation. Since money can be viewed as "goods", its price will fall when there is more supply of money compared with others goods and services.

Moreover, national currencies are subjected to manipulation at the international, national and local levels. Capital cities can extract wealth from local communities through their relatively much more wealth. Rich countries can also do the same thing to poor countries. The benefits from such devious activities are limited to a conspicuously consuming minority only.

Also, there is another critic on money as a medium of exchange. When local communities and poor countries do not have adequate amount of money, their goods and services cannot be traded with outsiders or even among themselves. Large-scale of local unemployment will be the result. Local skills and local assets are left to be idle. At the same time, many local needs are unmet, because of the lack of a means of exchange to bring these needs and resources together. As a result, communities or countries will lose almost their entire sovereignty, if their currencies are subjected to manipulation in money market. Consequently, to correct these flaws and conflicts as well as to serve as the last line for self-defense, community exchanges must be introduced. At the same time, the above mentioned flaws and conflicts must also be restricted or eliminated.

### **Historical background of Community Exchange**

The origin of community exchange can be traced back to the age of Babylon and Sumer civilization, 6000 years ago. Communities issued, managed and circulated their own exchanges. In addition to ensuring that the needs of people in the community would be met, the use of these currencies was to protect the community from the possible economic instability.

As economic systems have developed to the current level, the community-based exchange system must also change to suit the new realities without losing its essence while being issued and managed by members of the community themselves. Most systems currently available simply adopt the "zero interest", concept. However, there is also a "demurrage (charged money)" idea inherited from Silvio Gesell, an Argentine businessman and economist. Such concept has considered that money as a medium of exchange should be also treated as a public service (such as public transportation, for instance) and, therefore, a small user fee should be levied on it. Instead of receiving interest for retaining such an exchange, the bearer must in fact pay the interest. The idea is to discourage hoarding of the exchange (money) in order to increase its velocity for transaction. In Gesell's time, stamps were the normal way to levy such a charge. Now, the generalized use of computers in payment and accounting systems, as well as the availability of electronic debit cards, will make this procedure much easier and convenient to be implemented.

In a more recent past, there was Guernsey experiment during 1815-36 when Guernsey State in Britain issued its own notes during the Napoleon War. The notes helped Guernsey State recover from recession. Such concept has been revitalized again in 1970s when many adverse consequences from conventional economic development such as poverty and environmental degradation appear to be evident to most communities concerned. There are many alternative thinkers of that age who has challenged conventional concept, The good examples of such challenge are arguments of Nicholas Goegescu-Roegen (1971) and E. F. Schumacher (1973). While most economists of that time focused on expanding economic activities, Nicholas Goegescu-Roegen in his work "The Entropy Law and the Economic Process" mentioned that "bigger and better" industry always produced "bigger and more" pollution. For E. F. Schumacher, his experience of Buddhism in Myanmar inspired him to write "Small is Beautiful: Economics as if People Mattered" which its name has already manifested the content inside. He argued that from a truly economic point of view, the most rational way to produce is "from local resources, for local needs."

Jane Jacobs, an expert in regional economics, emphasizes Schumacher's point through her analysis of a healthy region as one creating "import-replacing" industries on a continuing basis. A well-developed regional economy which produces for its own needs is possible only when the control of its resources and finances lies within the region itself. Currently, the ownership of land, natural resources, and industry and the determination of conditions for receiving credit have become increasingly centralized at the national level. Now all but a few large urban areas find that their economic resources are controlled by the people from outside.

Most academic works of Schumacher were designed for actual application. In 1974, E. F. Schumacher asked Robert Swann to start a sister organization to his own Intermediate Technology Development Group. In 1980, Swann established the E. F. Schumacher Society in Great Barrington,

### **The Community Exchange in Thailand**

Exchange of products or barter and labor exchange (long khack) has been practices in Thailand since the ancient time. The local exchanges used in the past were in many forms, Ancient Indian literatures mentioned the used of gold and silver as money for more than 3,000 years ago. In Southeast Asia, "bia " was used as money since the premodern - historic time. For Thailand, in "Srivichai Kingdom" in the South (857 - 1457) already had their own money to be used for transaction, known as "Na-Mo ". It was silver pellet melded in the formed of a coffee-seed shape and labeled with Sanskrit alphabet. It was brought into the Kingdom by Indian merchants. Lan-Na Kingdom in the North used bracelet-shaped money, Tok money and Chinese money. In the Northeast, the merchants from Lan-Chang Kingdom used a bar-shaped money made from various kinds of metals. They also had their own names such as Koo, Hoi, and Lad monies.

The local exchange system was reduced in its importance since the formation of the nation state through increasing centralization and the rapid process of trade with foreign nations, after the conclusion of the Bowring Treaty in 1855. Foreign coins and commodities began to flow into Siam in larger volume since then. Various foreign coins were widely used in Siam including those from Mexico, Peru, Holland, and India (Jeff Powell and others 1999, 5-6).

The new era of currency system in Thailand began after the World War II after the Bretton Woods Agreement met in Bretton Woods, Newshamshire, the United States, Although Thailand did not participate in the signing of the Brettonwoods Agreement right after the War, she agreed to join the gold standard in January 1946. Finally, she also joined the International Monetary Fund (IMF) and World Bank in May 1949. One major purpose of the Bretton Woods Agreement was to peg various currencies with the gold standard in order to facilitate the international trade and protect the creditors from the possible devaluation of currencies of the debtor nations.

Under such arrangement, if any country imported more than the value of their exports

its central bank must intervene by buying back its own currency in order to stabilize the value. If the central bank did not have enough foreign exchange reserve to maintain the value of the national currency, then it should borrow money from the IMF as a temporary measure. The government then must try to solve the problem by raising taxes and interest rate together with its attempt at reducing the expenditure. This way the creditor nations will be fully protected.

### **New Era of the Thai Currency**

At the end of the Pacific War in 1945, Thailand's reserved fund consisted mostly with the Japanese Yen and its value was drastically declined. At the same time, Thailand needed to use large amount of the foreign exchanges to rehabilitate the country from the War. The government ordered the people who hold the pound sterling or the U.S. dollars to sell them to the Bank of Thailand at the official exchange rates. Exporters of basic merchandise such as rice, rubber, and teak must also sell their foreign currency to the Bank of Thailand at the specified rates. This system of exchange is known as the multiple exchange rates. By the so doing the government was able to generate the new foreign exchange reserves. At the same

time, prices of farm products were suppressed for the benefit of urban population, whereas transactions of other commodities still followed the market price. Thai Farmers were the net losers from such policy by the Thai Government.

In 1955, the foreign reserve fund had increased adequately for the Thai government to adopt the system of a single exchange rate instead of the multiple exchange rates introduced by the government since after the War. The Exchange-Rate Reserve Fund was established in order to help stabilize the exchange rate in the short-term. This fund had functioned effectively and was responsible for the stability of the baht since then. In 1953, the parities between the baht to its gold equivalent of 0.0427245 gram and 20.8 baht per one U.S. dollar were established. This exchange rate was maintained until 1972 (Bank of Thailand 1993, 139).

An attempt to set the international standard for various world currencies according to a Bretton Woods Agreement had failed since 1972. The failure was due mainly to rapid increase in economic strength of both Japan and Germany, while the United States was in heavy debt due to her full involvement in Vietnam War.

For 25 years after the World War II, Thailand's foreign exchange reserve was mainly the U.S. dollar for the reasons that were considered to be for the advantage of the Thai economy. In the 1980's, Thailand was planning to liberalize her monetary system to encourage more free flow of foreign exchanges with the hope that country would gain by being a financial hub for Southeast Asia. The establishment of Bangkok International Bank Facility (BIBF) was created for the said purpose. Commercial banks were allowed to borrow foreign exchanges and loan them to businesses in Thailand for lucrative profits. By so doing, the whole economy was over spending continuously. Eventually, the economic crisis hit the country in 1997. The baht was seriously devalued to 55 baht per dollar in January 1998.

In 1996, the total amount of foreign fund that flew into Indonesia, South Korea, Malaysia, Philippines and Thailand was as high as 95 billion US dollars. In 1998, this amount was reduced by almost a half-, that was 40 billion US dollars (Jeffery Sachs 1998, 53). This rapid flight of foreign exchanges resulted into the so-called, "melt" down of many economies in the Asian regions especially those who financed their investment through foreign loans. The problem of non-performing loan (NPL) became quite common among the said economies. It was estimated then that one fourth of Thai population would be impoverished in 2000 ("World Bank says 23% of Thais will be poor by 2000." The Nation, Oct 30, 1998)

### **Revival of the Community Exchange System in Thailand**

Because of the economic crisis caused in part by the liberalization of the financial sector in Thailand, it is envisaged that the only way to shield the local economy from such adverse effect of globalization is through the development of the local exchange system. The implementation must be adopted by local people whose lives were affected by such bad experience as well as to learn from the experience from the foreign countries simultaneously.

The Thai Community Exchange System that was the product of the cooperation among the Thai NGOs, Canadian University Service Overseas (CUSO), and Volunteer Service Overseas Thailand (VSO) with the support from Japan Foundation was established to explore the alternative economic system in both Thai and foreign contexts, with the emphasis on the community's self-reliance. The main purpose was to exchange information of local exchange systems in Thailand and overseas and use it as an instrument for enhancing and empowerment of the community strength. International experiences can be used as some endowed knowledge in order to move further to gain more practical experiences among some local

communities in Thailand. The Northeast and the South have been designed as the testing ground for such valuable experience. Workshops and seminars among many Thai academics provided significant issues to be investigated further. The conventional banking system was viewed as a powerful instrument to transfer resources from local communities to the outside world as money has been transformed into commodities directly without performing its useful function as a medium of exchange, one of the major causes of the economic crisis; It was deemed to be necessary to cut the linkage that connects communities to the larger systems. Under such scenario, community would be in much better position to generate its own capital for its own productive purposes. The alternative exchange system would then accommodate the alternative production and transactions, and the alternative market. This situation would lead to strengthening and empowerment of the community.

During the workshop in the Northeast and the South, both the local people and development agents from outside began by analyzing the figures of the family and the community's expenditures. They found with surprise, the severe excess of expenditures over earnings. The analysis provided a clearer picture of the -need for economic self-management, and the importance of making daily, monthly, and annual account of earnings and expenses.

However, many local people felt that the crisis was over and they could get by the way they did in the past. At the same time, most of them did realize that the existing monetary system only served as the factor that mobilized most resources from the communities to the large cities. In the end most of them must survive with only little amount of money and resources. The revival of their culture and tradition was thought to be a crucial part for invigorating the alternative exchange system of the community.

### **The Rise of Bia Kud Chum**

After several seminars and workshops, actual implementation of the agreed idea must be planned. The Kud Chum district was ready to serve as a candidate for such a trial. Kud Chum is a district of the Yasothorn province in the Northeast. Na So is the sub- district part of Kud Chum. Na So is a small community covering approximately 20,000 rai that can be divided into the village location of about 500 rai (2.5%), paddy fields for 15,000 rai (75%) and the community forest for all members to be used for 3,800 rai (15%). Kud Chum is 3 8 kilometers far from the center of the province containing 750 families with 4,000 people

It is the community resulting from immigration of some residents from Ban Pai Srang Chang, Sai Moon district, Yasothorn province, almost 100 years ago. As the existing area had more people that it could feed, people had to immigrate to new area for the settlement. In those days, the means of transportation was mainly by foot from the old area to new one where more natural resources were available.

During the initial stage of settlement, due to the small number of people and richness of the soil, water and forests, the size of land claimed by a family of each settler only ranged from 5 to 10 rai. The main economic activity of Na So villagers was a natural rice farming for only once a year. Besides rice farming, the villagers grew plants and upland crops for their own consumption. Among them were onion and garlic. Other vegetables and plants were collected from the forest. Fished were caught from the creek, canal and swamp. In general, lives of the Na So villagers depended very much on the abundance of nature.

The way of life of Na So villagers was inextricably related to the people in the community that mostly contained kinship, lineage. People still had a very close relationship to relate to one and the other as one family. They were very helpful and hospitable to each other. They preferred sharing things to other people.

This way of living was traditional for most people in Thailand before the penetration of capitalism into village economies. Such pre-capitalist relationship of the people was based on seniority gained through a merit system, and strict adherence to their traditional practices. In the village, there were the seniors who were highly honored, respectable, and helpful. They significantly played an important role in the community. For example, if there were any conflicts among the villagers, the seniors would resolve them through direct, transparent and acceptable judgment. In case of illness, the villagers would go to see the local medicine man who practiced traditional medicine by combining both conventional treatments and ritualistic beliefs. (Kanoksak Kaewthep 2001, 112-116).

Thailand has adopted the development direction of capitalism when she agreed to embark on the First National, Economic, and Social Development Plan in 1961. The main purpose of this plan is to transform Thailand from the so-called "stagnant" agricultural society into be the industrialized one. Such plan had an enormous impact on lives of people in communities and villages all over the country. Definitely, Na So community was not the exception. People of Na So began to use money as their medium of exchange since 1958. Gradually, money had come to play important role accompanied by rapid decline of their natural resources. Amidst the capitalist development, the villagers of Na So lived under a much more difficult condition. They encountered more problems resulting from the fact that they must continue to search for the ways to make money for their living while their natural resources has been rapidly depleted. They could not control their lives that depend much more on external factors.

Such problems existed in Na So community for quite a long time. In 1977, the people of Na So decided to quit producing for external markets and changed their development course to self-reliance. The first activity taken place in 1980 was a savings group in the form of a "store fund". Later, this fund has been further developed into the "Village Development Fund". The fund has been used for various activities such as the formation of a Herbal Medicine Group in 1983, and a Rice Mill for Organic Rice Farming in 1987. The two activities faced many problems. However, their members had very strong determination to overcome all difficult problems until the activities were satisfactory resolved. The two activities were subsequently developed further into more concrete activities such as Pha Pa Pan Mai Project (the collection of sapling to grow as a community forest) for the Northeastern people which was organized in 1989, Forest Conservation Campaign in 1990, the Thai Traditional Health Center at Wat Tha Lad in 1994, etc. These activities were operated under the direction of the community leader, including Pra Kru (abbot) Supa Jaruwat, Po Yai(male elder) Wichit Boonsoong, Po (leading male) Man Sam Si, Po (leading male) Pradit Kaewsai with the NGOs' participation in formulating, planning, and working with local people, a housewife group and a youth group in the community (Kanoksak Kaewthep 2001, 117-122).

The important circumstance that encouraged the Na So villagers to realize an importance of natural agriculture and self-reliance took place in 1990 when Komol Keemthong Foundation had invited Masanobu Fukuoka, a natural agriculturist based in Japan, to come to Thailand. The herb for self-reliance project which was the NGOs' project cooperated with the Herbal Medicine group encouraged the Na So leaders to attend the lecture of Masanobu Fukuoka. Fukuoka suggested to them to adopt the method of natural rice farming that would enhance good health, good environment, and was able to maintain soil condition for sustainability without taking any risk from using pesticide and other chemical products. The leaders agreed with the suggested concept and were interested to apply it in their own farms.

Unfortunately, such activities did not result in a genuine self-reliance for the Na So villagers. After the economic crisis in 1997, they inevitably encountered higher cost of living, their offspring who worked in the cities were unemployed. Their wages were reduced. The crisis motivated the villagers to consult and discuss about creating the economic system that depended less from the outside. At that time, there was a

former volunteer from VSO, Mr. Menno Salverda who was Dutch, and the other one from CUSO, Mr. Jeff Powell, who was a Canadian. Both of them had some experiences in working with the Thai NGOs and were interested in the concept of local exchange system. The two had opportunities to exchange views and opinions with various Thai NGOs about the possibility of applying the system to the Thai community. There had been various occasions for talk and discussion with the villagers. Finally, the Thai Community Exchange System Project-TCES has been the result.

In September 1998, there was a seminar entitled "Local Exchange System and Self-Reliance" in the province of Surin. As expected, the villagers from Kud Chum community attended this seminar, and they thought that the local exchange system was a way to assist the community in reducing dependency from external economy and creating an actual self-reliance.

As the Kud Chum villagers were interested in the concept, they started to explore the appropriate design of their own exchange system to suite the need of their community. They also consulted the lawyers on that matter. According to the legal study and discussion, they were informed that it was not illegal for them to create their own exchange system for their own use. After then, they began to set up the rules for using the local currency, including designing "bia " by focusing on beauty and the community's symbol, and organizing the membership system, the clearing house for the "bia " and other necessary arrangements. There was an experiment by rehearsing the role of buyers and sellers using their own medium of exchange. A year later, there was a formal opening ceremony of the TCES in March 29, 1999 (Supapan Palangsak 1999, 3-4). The main purposes of Kud Chum's exchange were to generate productive activities for self-reliance within the community; to exchange varieties of products that were non-toxic, good quality; to reduce buying products from external market to be self-reliance and sufficiency and to generate local savings for their own uses when necessary (Piyantart Proyoorn 2000, 89).

### **Rules in Using 'Bia' Kud Chum**

The word "bia" has dual meanings. A legal term of money is also known as "bia", for a Northerner "bia" also means a sapling, the symbol of progress and prosperity. It has good meanings both ways. Bia Kud Chum is designed to be a medium of exchange to be used along with the baht, to exchange for goods in the community such as handicrafts, agricultural products, herbs, products from rice mill and labor services such as haircut, a daily wage for harvesting, etc. The "bia" cannot be used outside Kud Chum community and cannot be exchanged directly with the baht.

In applying for a Bia Kud Chum membership, the Kud Chum Bank's committee must approve the application. As a person becomes a member, he/she is able to borrow the "bia" from Bia Bank of 500 baht per year with interest free. After one year, the borrower must return all "bia " that the person has borrowed to the bank. In addition, a member may want to deposit and withdraw the "bia " . Participate in the training organized by the Bank, express opinions and exercise the person's voting right, and receive necessary help from the Bank.

The Membership of Bia Kud Chum was limited only to persons who lived in Yasothorn province only, Hundred twenty people in five villages, including Soke Khum Poon, Santisuk, Kud Hin, Koke Klang, all of those who were in Kud Chum and Sai Moon districts were initial members. The bia was started to be used in the temporary market open every Saturday and was to be rotated among the five villages.

The value of Bia Kud Chum depended on the agreement among the members. There was an agreement at that time that one bia worth equivalent to one baht. For example, a hand of bananas was 10 baht, a

member could pay eight baht along with two bia. As for the cost of printing the bia, the community received the grant of 30,000 baht from the Japan Foundation Asia Center to print 10,000 papers of bia that worth 3 0,000 bia. The printed bia included 1 bia, 5 bia, 10 bia, 20 bia, and 50 bia (Supapan Palangsak 1999, 4).

### **The Outcome of Using Bia Kud Chum**

Among 120 members in five villages, there were only 33 persons to use the bia, with a sum of 7,000 bia. Among those 33 persons, not more than 10 used bia in their daily life according to the purpose of the bia. Soon after people started using bia for almost 20 days, on April 19, 2000, the Fact Finding Committee of Bia Kud Chum founded by the Bank of Thailand (BOT), from the Northeast branch sent the officers to collect information about its usage. The investigation was on whether the issue of the bia violated the following legal aspects of money (Supapan Palangsak 199 1, 4).

1. Monetary Act 1958, Section 9 states that any person shall not make, distribute, use or issue any materials or symbol to replace money, without a permission. Section 240 is about money counterfeit. Section 249 stated about making things similar to money
2. Commercial Banking Act 1962, Section 9 forbids persons other than commercial banks from using the word "bank" or other words containing the same or similar meaning.

In addition, there were the officers from the National Security Council and the National Intelligence Agency entering Kud Chum to find out whether the production and the use of the bia is harmful to the national security.

During the investigation, the Bank of Thailand (BOT) requested the villagers to stop using the bia or limit the use to small group within the limited area only. It was subsequently decided by the Bank of Thailand that the bia is illegal. Such decision threatened the villagers. They were afraid that they would be charged for committing some illegal action. Consequently, no one dared to use it again. Some were afraid to bring the bia out of the house, or were scared to admit that they had bia because they were afraid of being arrested.

### **Legal Considerations**

In June 8, 2000, the Bank of Thailand (BOT), Northeastern branch basically concluded that Bia Bank was illegal according to the Commercial Banking Act 1962, Section 9. The question of whether issuing and printing the bia violated the Money Act had to wait for the decision of the Bank of Thailand (BOT) in Bangkok.

On this issue, the Subcommittee on Human Rights Case of the Human Rights Committee, and the Thailand Attorney Association had insisted that the main purpose of this law was to prevent persons to use word "Bank" for other business activities. The Bia Bank that issued Bia Kud Chum did not aim for any business gain. Therefore, the use of the name Bia Bank or other similar word should not be considered illegal. There was a similar usage of the same word for other activities such as Rice Bank, Cattle Bank and Blood Bank. Concerning the question of issuing the bia paper, the bia was just a symbol determined and created by the people in the community to be used as a medium of exchange for agricultural products, with its aim to solve their economic problem in the community. Its main purpose was not to counterfeit or imitate the banknote. The bia had no similarities to any banknote or money, neither considering from the picture, pattern, colour

or words printed on the bia paper. In addition, Bia Kud Chum did not have the qualification to be money or used as money because the bia paper is the document owned commonly by the members. The one who exercised the ownership of the bia was the Committee, the bia could not be transferred to anybody. It could not be used to pay debt or to be speculated as the baht. Therefore, the bia was entirely different from the baht. If the Bank of Thailand (BOT) insisted that the bia was illegal, the Thailand Attorney Association was willing to defense for justice of the local people. The Association believed and perceived the good intention of the villagers in finding the way to solve their economic problems.

For the Thai government who always propagates the policies of both "sufficiency economy and the community economy, if it was sincere to support and enhance such policies, it should order the Ministry of Finance to issue the Ministerial regulations to protect the villagers because they did not oppose any existing laws (Nakorn Chompuchart, an interview on January 12, 2002).

### **Thai Academic's Views About Bia Kud Chum**

The problem of using Bia Kud Chum stimulated many academics to express their views and opinions by presenting their views in many popular newspapers, and expressing their opinions in various public forums. Their views can be summarized as follows:

Professor Dr. Nithi Eiamsriwongse of the Midnight University wrote an article entitled "Bia Kud Chum" in Matichon Newspaper on May 5, 2000. He made a very interesting remark that

"...an operation to escape from money power has conducted in many forms all over the world, however, this does not mean to refuse the role of the central money. It is impossible because there is no community that is able to produce everything by itself. The problem is how to connect its own economy to the national or world economy by not having been extracted its surplus labor and natural resources that serve the interest of commercial bank and external economies. Such process has been experienced through "learning by doing" for a long time. At the same time, to enlarge the local center to be much wider that its natural boundary will result in absorbing or taking the resources and surplus labor from the others. This lesson is one among many of the learning by doing. There is no standardized process or method that can be generally applicable to all communities because each community has its own uniqueness and peculiarity. Kud Chum is the pioneer in this direction that is extremely important to Thailand and the world, in demonstrating its determination to solve its own problems by its own methods. We can see clearly that issuing money for making profit will lead to the disaster, the same way as setting the economic goal for unlimited growth. The fact that there are limited resources in the world, both Thailand and the world must provide a possible alternative in exchange or trade. Such attempt will cultivate peace to the mankind more than the currency invented by the banking system."

Mr. Somkiat Pongpaiboon, A lecturer of the Nakorn Rachasrima Rajhabhat Institute, stated in the discussion of Kud Chum members meeting at Moo Ban Santisuk, Kud Chum, Yasothorn on May 30, 2000 that

"...sustainable development by self-reliance must contain five elements. They are (1) local organization which is the seminal unit of the activity (2) local wisdom that is relatively predominant for not depending only on the activities outside (3) natural resources and environment supporting all necessary living activities (4) mode of production focusing on living, eating, and exchange within the community and with the rest through trade (5) a just medium of exchange. For Kud Chum, it will have all five elements by having the bia to serve as a medium of exchange. Moreover, this bia does not worth only as a medium of exchange,

but also contains life, hospitality, and spiritual capital in itself. In the bia that is worth 50 baht, its genuine value in exchange may be only 30 baht, the rest of 20 baht is for generosity or support from others, another 10 baht is paid for an effort of the person who organizes the trade. In other words, the bia value can be flexible according to the system of relationship of the people in the community..."

Mr. Athajak Satayanulak, Faculty of Sociology, Chiang Mai University wrote an article in Bangkok Business on June 9, 2000 that,

"...all attempts of the villagers since the first gathering until there is Kud Chum case does not happen because the need or intention of only one individual. But it is the desire of considerate and collective people in the communities who have come together to solve their own problems. This attempt is important based on a very long social relation system which can be called culture. The gathering of the people in the community in creating new activity to solve their own problems based on the cultural foundation is the creation of flexibility in confronting the new possible problems. This flexibility worth much more than using money to create social safety net adopted by the Thai government according to the IMF's recommendations..."

Associate Professor Dr. Kanoksak Kaewthep, Faculty of Economics, Chulalongkorn University mentioned in the people's meeting coordinating with the organizations that support the local currency on July 7, 2000 at Local Development Institute-LDI that,

In any economic system that has no alternative, the community must depend on the dominant economy. When there are more than one dominant economic system, the community will have the alternative to enhance its own strength due to the fact that economic decision-making will be removed to the community with the emphasis on communal benefit. When the community economy is strong, the national economy will be strong also..."

Many well-known figures supported the Bia Kud Chum concept. Among them was Surak Sivarak. He said that Bia Kud Chum was the form of self-reliance which was in line of the Buddhist ideology. Prof. Dr. Apichai Puntasen, a Buddhist economist, believed that there were several factors to support the strengthening of the community, and one of them was a community exchange system that would help the community to reduce its external dependency. Prof. Sneh Jamarik also believed that any government has no power to stop globalization and capitalism. The only institution that could deter such undesirable forces was the strength of the local community (Interview on January 2002).

#### **Position of Ministry of Finance and the Bank of Thailand to "Bia Kud Chum"**

Similar to the HOURS system, the Bia Kud Chum is used to replace money for some transaction in the community. Bia Kud Chum is also an interest-free exchange and it plays an important role in stimulating local production for self-reliance. However, production of tangible representation of money can also be the most important source of the problem.

In the past, there are also many cases of local currencies that have been ruled out because of their tangible representative of money similar to that of Kud Chum. They are wara, a local scrip in Germany, the Worgl stamp scrip in Austria and "emergency currency" in the United States.

Although some of them (Wara and Worgl stamp scrips) were proven to be good for local economy, either the Central Bank or the government prohibited the use of them. In case of wara, the Germany Central Bank, on the basis of its monopoly on currency creation, prohibited the entire experiment. In case of the

Worgl, the Austrian Supreme Court overruled it. President Roosevelt also prohibited the use of "emergency currency" in the United States.

Although there was legal problem, the general attitude of many government on Bia Kud Chum was rather positive. In 2000, some government officials mentioned that such local currency would be useful for local people, if its use could be restricted to a small territory of the three villages in Yasothon. Yasothon Governor, Prasongsak Bundet said he did not see any negative effects of the usage of Bia Kud Chum in the three villages and that he also viewed the project as the one that fostered the solidarity and economic independence of the three villages. He also said that the villagers had designated their-villages "Self-sufficient Farming Communities" and are using Bia Kud Chum as the exchange to purchase commodities from each other. However, if more villages started issuing their own money coupons, the practice might threaten national security. Additionally, commercial transactions and commodity exchanges between villages could become confused.

Somlak Jiranburana, an administrator at the Bank of Thailand's Northeastern Region Branch, said that he saw no problem in the introducing of the community exchange system. Somlak also said he saw no threat to the baht, as the use of the community currency was limited to the community level only. Similar to others, Pittaya Songsawat, of the legal division of the Banks of Thailand said: "In my opinion, the system is not illegal. Furthermore, the Thailand Attorney Association has also come out to argue that Bia Kud Chum is not illegal."

#### **Before issuing of the coupons, the Sokkhumpoon Village Community Fund**

Committee consulted a lawyer to determine whether it was legal. The lawyer told the Committee that coupons would not be illegal because they did not bear a royal image. Moreover, the coupons were limited to the use of a particular group of people only. If anyone want to imitate such practice elsewhere they would design their own exchange system. The Community Fund could issue coupons for its members without violating monetary laws if it made clear that the coupons did not represent money, and that they were not similar to bank notes.

However, a source at the Bank of Thailand said that the Committee has violated Thailand's monetary laws. According to the Monetary Act, the Bank of Thailand alone had the authority to issue bank notes to be used as money for the entire economy. Because the Bia Kud Chum coupons had several features that resembled the bank note and have been used as money on the basis of one bia for one baht, the issuance of Bia Kud Chum could be considered as a violation of the Act. There was also another detail in the law that could make the bia note illegal. The law said that no one would use any material or symbol as money without the permission of the Minister of Finance. The other legal topic that was the Bank of Thailand's main concern was the use of the word "bia" because "bia" in a legal term also meant money. This fact would result in the violation of Article 9 of the Banking Act.

In July 2000, at a meeting of the Board of the Bank of Thailand, it was finally concluded that the use of Bia Kud Chum violated Article 9 of the Currency Act of 1958. This article 'forbids anyone from making, distributing, using or issuing any material to replace currency, except where permission has been granted by the Minister of Finance'. In addition, the Bia Bank was said to violate Article 9 of the Commercial Banking Act of 1962 which 'forbids individuals other than commercial banks from using the word 'bank' or other words with the same meaning'.

During 2000-2001, the Bank of Thailand and Ministry of Finance discussed the issue of Bia Kud Chum for many times. The results remained the same that Kud Chum as a local currency was illegal, and it could be

threatening to the country's security. The reasons were as follows. There could be the problem of quality control in production and the after-use quality management. There might also be the problem of fake money. All of these problems could result to some financial loss for the holder of the local currency. If this kind of project spread widely, it could have adverse impact on the national currency system as well as the national security. They suggested that local communities should try other method of community development rather than issuing its own currency. The above statement was the reply of Ministry of Finance on 23 July 2001.

However, there was a hope for Bia Kud Chum when considered positions of government officers from the meeting at The Ph.D. Program in Integrated Sciences, Thammasat University on 15 and 17 January 2002. Mr. Vorathep Vithaviroj, a officer of the Bank of Thailand, mentioned that it was still possible for using alternative medium of exchange such as Bia Kud Chum but such exchange must be kept to the following conditions.

- 1) Such exchange must be restricted to local territory only. It must not be widely used.
- 2) The total volume and value of such exchange must not be too high.
- 3) Its physical appearance must not resemble the bath note.
- 4) The bath can be used to buy this exchange, but this exchange cannot be used to buy the bath.
- 5) This exchange must serve as medium of exchange only but not for legal tender.
- 6) Its unit value should not be equated to the bath.
- 7) The name of this exchange must not be used to implicate money such as "bath, bank, bia or other words that can be interpreted as "money" in Thai language.

In addition, Mr. Vorathep also said that this exchange must not be used for wealth accumulation. He also added that he was willing to volunteer to explain those points to villagers. If the villagers agreed to follow all those points, he would volunteer to explain to other officers in the Bank of Thailand (BOT) that such form of exchange was not -illegal.

Dr. Ekniti Nitithanprapas, a representative from Ministry of Finance, also admitted that the BOT played dominant role in the decision making process of Ministry of Finance. The Ministry simply followed the suggestion made by the Bank of Thailand.

Professor Dr. Apichai Puntasen, Director of the Ph.D. Program in Integrated Sciences, mentioned that the idea of local currency was compatible with concept of the sufficiency economy of His Majesty the King Bhumipoladuyadej.

Dr. Priyanut Piboolsrawut, an officer from National Economic & Social Development Board, agreed with this statement since the Ninth National Economic and Social Development Plan (2002-2006) was designed according to the sufficiency economy concept. However, she added that economic and legal research at both the micro and macro levels were needed for actual implementation of this idea. The examples of research questions could be as follows:

- 1) How much compatibility between local exchange and sufficiency economy concept?
- 2) How can local currency support the grass-root economy?
- 3) How can system be designed?
- 4) The cost -benefit analysis of local exchange.

Dr. Ekniti Nitithanprapas and the other member from the Ministry of Finance also agreed that if this local exchange system has been well managed, it could be used as one of the long term plan for financial decentralization of the Ministry of Finance. All comments from these government officers were warmly accepted by Mr. Wanlop Pichongsa, TCES , and other NGO representatives.

### **Recommendations**

Based on our study, the purpose of the Kud Chum's exchange was to reduce buying products from external markets in order to support self-reliance within the community. Therefore, the research team would like to recommend the following:

1. The government should come up with the clear policies to promote the community exchange rather than opposing it.
2. Further research should focus on action research for actual implementation of the community exchange in selected communities in many parts of Thailand during the Ninth National Economic and Social Development Plan (2002-2006).
3. There should be a research on ideology of community exchange and its function to strengthen the community to be self reliance, and how to link community exchange with sustainability? whether "green convertible exchange " possible ?

Community exchange system means a totally new kind of self-financing technology. It can bring about a wide scale of social change to the village life. Therefore, it is very important to identify possible social impacts at the local level. We need research activities in this direction.

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