

Corporate Network

Thailand's tricky future

A looming economic crisis?

After weeks of unrest, all sorts of political shenanigans and even the King stepping in, there is still no clear road ahead for Thailand. In a special article for Corporate Network by Chris Bruton in Bangkok, we peer through the fog. Our conclusion? That Thailand's political crisis is not going away soon. Worse, it threatens to escalate into an economic one.

Failed democracy? There wasn't one in the first place

Although there has been much comment that the current problems in Thailand are a sign that democracy has failed, that is not the case. Democracy only works when implemented properly and in Thailand, like much of the region, there was not much of a democracy. In the last few years it had tried very hard to be a democracy, or at least the country's leaders had tried very hard to convince us that they had one. Yet democracies need a lot more than a four-yearly referendum handing power to an absolute leader. They need access to free media information, effective political parties (note the plural, Singapore) which are not just cheer-leaders for autocrats, independently empowered institutions providing checks and balances on government and the absence of strong-armed enforcement and suppression techniques, among which may be included mischievous law suits. Sadly, Thailand falls short on all these counts, although it was arguably closer to the preferred model than any other ASEAN country, until Prime Minister Thaksin Shinawatra hijacked the system five years ago. Thailand's liberal cultural heritage and seriousness about evolving grassroots freedoms had put the country ahead, despite being poorer, and less well-educated than its neighbours Singapore or Malaysia. But it was not yet enough.

The coterie of wizards who hijacked a nation

So the current mess is largely Thaksin's responsibility. His Thai Rak Thai Party cleverly brought together an ungainly and unlikely group of misfits, chief amongst whom were the ascetic Chamlong Srimuang and the cunning media eccentric Sondhi Limthongkul, both now leading the People's Alliance for Democracy against their former master, as well as Pansak Vinyaratn, the experimental economic planner behind many of the offbeat populist policies. Together, this coterie of wizards, sometimes compared unflatteringly with the National Socialist thinkers of Europe's 1930's, built links to business tycoons with vested interests and into the military and police forces. With their populist policies and deep pockets they sought to appeal to the less-well educated and highly numerous mass of rural voters from Thailand's impoverished north and north-east, allowing them to beat the polls.

The straw that brought the crisis

The populist policies sounded great but didn't really work, however. Worse, they cloaked the activities of an inner circle which was able to amass a vast war-chest for their own ends and also to finance future party promotion. Compliant institutions condoned the flouting of their legitimacy. The Constitutional Court, Election Commission, National Counter-Corruption Commission and Anti-Money Laundering Organisation all fell swiftly by the wayside. Human rights abuses grew, especially in southern Thailand. Attacks on media freedom almost eliminated access to any news unsanctioned by the government. Cronyism led to self-enrichment and unprecedented corruption, even in a country which had developed graft into a fine art. The sale of Thaksin's family company Shin Corp for massive profit was not the last straw, but the declaration that the profits on the sale were tax-free certainly was. Ironically, the self-styled defenders of democracy in the opposition saw no hope in using the ballot box to oust Thaksin at this point and instead took to the streets in protest. Disillusioned members of Thaksin's inner circle, including Chamlong Srimuang, Sondhi Limthongkul and even Snoh Thienthong joined members of the Bangkok middle classes, white-collar office workers in protest. The 'official' opposition parties, somewhat sidelined by this action, then announced that they would boycott the April 2nd election which had been called by Thaksin in an effort to deflect attention from the tax-free sell-out.

The elections that were not

Thai Rak Thai garnered over 15 million votes on April 2nd and held a clear majority. Yet forming a government was not possible. Thailand's constitution requires candidates who stand unopposed in any constituency to garner at least 20% of the eligible votes. Because of the boycott, there were 39 constituencies that fell short of that requirement and of these, 14 remained in limbo even after the subsequent by-elections of April 23rd. With mounting pressure from demonstrators, Thaksin announced that he would not take up the prime-ministership, appointing Deputy Premier and Police General Chidchai Wannasathit in his place. Yet, doubting Thaksin's sincerity and fearing that the deputy would be a puppet leader, the street protests continued until Thailand's revered King stepped in and instructed the Constitutional, Supreme and Administrative Courts to work out a solution.

The Constitutional Court, in an 8 to 6 majority vote, ruled the April 2nd, 2006 election unconstitutional, on the basis that the 35 day time between parliamentary campaigning and voting was too short to allow opposition parties to campaign, and also that the design of the polling booths violated confidentiality. They failed to rule on the allegation that a major party had hired small parties to contest the election to circumvent the requirement that uncontested candidates must win at least 20% of total eligible votes.

There are also many complaints against the Election Commission which may result in its members being dismissed or forced to resign. In such a case, the organization of a new election may be delayed.

What might happen now

If no new Election Commission is required, a fresh election could be held in mid-July 2006 at the earliest. But if a new Election Commission is required to be appointed, this could move the election into September, and formation of a government to a month later.

It is still anticipated that the government formed as a result of the election will be an interim one, lasting 12 to 15 months, with a main objective to reform the Constitution (yet again Thailand already went through 17 constitutions since 1932). This constitutional reform is likely to be undertaken by an independent commission and referred to a national referendum, a process that is unlikely to be completed until late 2007.

Another general election in 2007 too and no real change

Whatever happens, Thailand will probably have yet another election in 2007 to select a four year National Assembly going through to 2011. And, unless the party is broken up, the probability of poll success for Thai Rak Thai in any election is high. This means that, almost no matter what happens, we will see the return of the same old faces, including Thaksin as prime minister (or something like a minister mentor). The same old policies will prevail although with the added spice of having witch-hunts for dissidents who had deserted the camp. The only real hope is for some sort of constitutional reform which could weaken an already factional Thai Rak Thai Party, and allow a coalition government, in which Thaksin would not have everything his own way. In this case there would be cut-backs in populism and cronyism, but more protectionism too, as well as greater nationalism, and less privatisation. The megaprojects would be revived, but subjected to review, and down-sized.

Economically, the outlook is deteriorating

The political uncertainty will certainly have an economic impact and growth will slow. The Economist Intelligence Unit has revised downwards its GDP growth expectations for 2006 to 4.6% from 4.9% previously, while the pessimists forecast 4% or lower. The prospects for next year depend very much on what happens in the coming months. For now, sectors most likely to buck the trend are tourism and computers, including IT components. The continuing strong tourism growth (assuming there is no serious civil unrest) will benefit airports, hotels, healthcare, property development and the retail trade too.

Megaprojects the main economic casualty, not the currency (for now)

More seriously, perhaps, the much-vaunted megaproject scheme has been deferred until 2007 while the mass rapid transit project may now be subject to further reconsideration. Similarly, several other projects with dubious investment returns may also be reassessed. Somewhat curiously, the Thai baht has actually strengthened significantly through out all the ups and downs, rising by 10% since the start of 2006 and creating problems for exporters. That trend may not continue, however. Inflation has risen to beyond 5%, against a Bank of Thailand target of 3.5% - although this is mostly because of the cost of oil. The Bank of Thailand benchmark interest rate has also risen to 4.75%, and is likely to rise to 5% by mid-year 2006, depending on US rates. Other longer term negative consequences could also mean a

delay to free-trade negotiations with Japan and the US. Foreign investors are also likely to shy away from participating in the bidding process for the ambitious US\$46bn infrastructure development plan.

Could it become more serious? Very possibly

Could the political disarray cause more serious economic decline? That will depend on how long the confusion lasts but it is more than possible. With 17 revolutions since 1934, Thailand is not new to political crises. Yet, surprisingly, these can have a very limited long-term economic impact. In 1992, when there was last violence and a state of emergency, there were only temporary setbacks for investment, housing, car sales, the stock exchange and tourism. Arguably the situation is better now, with a floating exchange rate and over US\$55 billion of foreign exchange reserves. Strong exports could also help the economy weather any continuing storm. But consumer confidence is likely to be affected progressively, hitting retail sales and consumer credit. Sovereign risk ratings could also deteriorate, raising the cost of borrowing and delaying the pace of any recovery, when it comes.

Bigger changes needed to make the problems go away

So the future for Thailand is more uncertain than it has been for many years. Moreover, until there is serious political reform, many of the problems will not go away. A strong economy needs to be linked to a real democracy and the evolution of a solid civil society. Yet the divide between the increasingly sophisticated urban population in Thailand and the backward rural sector is growing and needs to be bridged. Bangkok has 20% of population but 50% of the GDP. This means that Bangkok residents feel that they are owed a disproportionate share of political representation. Yet the hands of power are selected by the rural population with 80% of the vote. These people typically lack education and information to guide them. Until this widening fracture is resolved and proper controls are introduced on those wishing to hijack the system, the prospects for Thailand will remain uneven.

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