
THAILAND IN 2001

Learning to Live with Thaksin?

Michael J. Montesano

Six days into 2001 Thai voters handed an electoral victory of unprecedented magnitude to telecommunications tycoon Thaksin Chinnawat and his Thai Rak Thai (Thai Love Thai, TRT) Party. Though under indictment until August for improper declaration of assets, Thaksin nevertheless moved aggressively to put his stamp on Thailand's politics, economy, and foreign affairs. After less than a full year of his premiership, it may well be premature to assess Thaksin's achievements in these areas. But as 2001 neared its end and a series of distinguished economists weighed in with criticism of his performance, Thaksin's reactions to their comments strongly suggested that he considered himself and his government in any case above the assessment of others.

Politics

In addition to unmatched financial resources, Thaksin Chinnawat brought to Thai politics a promise to lead with a more up-to-date, decisive style, putatively drawn from the business world. The scale of his TRT Party's electoral victory and his own frequently expressed self-confidence provoked prospective comparisons with the long, strong, transformative premiership of Malaysia's Mahathir Mohamad. In practice, however, Thaksin's 10 months in office recalled the distasteful dimensions of Mahathirism far more often than its visionary aspects.

Election and Cabinet Formation

If the costs of the campaign for the January polls—some 40 murders and some 20 billion baht in vote-buying—conformed to recent Thai norms, the

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results of those polls broke with all precedent in giving one party, the TRT, just about half of the 500 seats in the House of Representatives.¹ With access to essentially unlimited financial resources, Thaksin had built his two-year-old electoral vehicle out of two very different components. The image of high-tech entrepreneur behind which he had long veiled his exploitation of monopolies and concessions drew the first component, a younger group of candidates, to the TRT. The second component was a wing of the party that comprised veterans of provincial Thailand's money politics, drawn to the TRT above all by the prospect of access to the resources that Thaksin was willing to expend on the party's campaign.

The TRT contested the elections on a program built around four whopping promises: (1) grants of one million baht to each of Thailand's 70,000 administrative "villages" to promote economic diversification, (2) 30-baht visits to clinics and hospitals, (3) a three-year moratorium on farm debt, and (4) the creation of a national asset management company to relieve Thailand's commercial banks of their nonperforming loans (NPLs). The party's victory reflected above all the impatience of historically fickle Thai voters both with Thailand's slow rebound from the 1997 financial crisis under the outgoing Democrat-led coalition of Prime Minister Chuan Likphai and with the apparent weak leadership of Chuan himself.

While allegations of fraud and improper electioneering led the Election Commission to require repeated polling in 62 constituencies, these votes did little to change the basic composition of the new House of Representatives. In coalition with the New Aspiration Party of Gen. Chawalit Yongchaiyut and the Chat Thai (Thai Nation) Party of Banhan Sinlapa-acha, Thaksin controlled well over 300 seats. (In July, merger with the small Seritham Party occurred and added the latter's 14 members of parliament [MPs] to TRT's total and thus increased its own presence in the house to 263.)

Thaksin kept most important portfolios in the hands of TRT members. His close associate Somkhit Chatusiphitak, known neither as a political nor business heavyweight, became finance minister. To the Interior Ministry he sent Purachai Piamsombun, a former rector of the National Institute of Development Administration whom Thaksin had met when they were both police cadets. From outside of his own party, he named Chat Thai's Sonthaya Khunpluem, son of the notorious Chonburi Province "godfather" Somchai Khunpluem or "Kamnan Po," minister of science. General Chawalit took the defense ministry. If appointments like the former two brought a whiff of cronyism to Thaksin's government, choices like the latter two signaled a continued reliance on the money politics of the recent past. Given the composition of TRT itself, neither of these features of the new cabinet ought to have

1. "Back to Business in Thailand," *Economist*, January 11, 2001.

proved a surprise. They did, however, occasion clear, if fleeting, disappointment with Thailand's latest man of the hour.

Thaksin Acquitted

The last week of 2000 saw the National Counter-Corruption Commission (NCCC) indict Thaksin for concealing some 4.5 billion baht in assets at the time of his cabinet service in 1997. Conviction on these charges before Thailand's new Constitutional Court, which had found guilty each of the seven previous defendants in similar cases, would have ended Thaksin's premiership and excluded him from politics for five years.

Offering alternately weak and implausible lines of defense in the courtroom, Thaksin opted to try the case in the court of public opinion. While supporters warned of unrest in the event of a conviction, Thaksin attributed his transgressions to oversight rather than malevolence and argued strongly that Thailand needed his leadership at this time. A number of erstwhile promoters of the reformist constitution under which he was charged joined him in making this latter argument. At the same time, members of Thailand's elected Senate leveled charges that the prime minister sought to use police pressure on the print media and state control of most broadcast media to block coverage of the case against him. Further, Thaksin's stake in an independent television network, the allocation of his own firms' considerable advertising budget among news outlets, and his apparent attempt to purchase a major newspaper group all testified to his willingness to use his immense personal resources to control the flow of information to the Thai public.

On August 3, the Constitutional Court announced Thaksin's acquittal by an 8-7 vote. The apparent lack of clarity of the case against the prime minister and evident or perhaps feigned confusion among some judges over the applicability of relevant articles of the Thai charter led immediately to speculation that public or other sorts of pressure had determined the outcome of his trial. For his part, Thaksin expressed only contempt for the possibility that small, unelected bodies like the NCCC or Constitutional Court could ever have considered contravening the popular will that he lead Thailand. And, whether or not the prime minister makes good on his intention to clip these bodies' wings, the verdict proved an unmistakable setback to the cause of political reform.

Making a Mess of Civil-Military Relations

Amid growing concern over the involvement of some Thai soldiers in organized crime and ongoing debate over the internal-security role of the armed forces after the expiry in June of the 1952 Anti-Communist Act, the Thaksin government spooked observers with its politicization of the annual reshuffling of military and police commands. The intervention of former prime

minister and current Privy Council president Gen. Prem Tinasulanon protected the job of reformist Army commander-in-chief Surayut Chulanon. But unlike Chuan Likphai, who served concurrently as defense minister in his own government, both Prime Minister Thaksin and Defense Minister Chawalit have strong connections to individuals and factions in the Thai military. The year's military and police promotions reflected Thaksin's loyalty to his military preparatory school and police academy classmates. Similarly, a number of soldiers close to Gen. Chawalit benefited from the outcome of the August reshuffle. If particular promotions gave more influence to officers resistant to professionalization and to the accelerated retirement of redundant personnel, the reshuffle as a whole had the far more serious effect of rekindling the naked, politically destabilizing military factionalism of the past. And Chawalit's clear determination to see the Thai military return to the roles in economic development and international relations that it once enjoyed only made the stakes in factional disputes and their potential consequences all the more serious.

Education Reform in Jeopardy

Thaksin's approach to military and police matters was hardly alone in undercutting his claims of a break with the bureaucratic politics of the past. The Ministry of Education fell victim to similar treatment. Recognition of Thailand's inadequate and misdirected investment in human capital dates back at least a decade, to the peak years of the economic boom. Thaksin's government inherited a National Education Act mandating reform of the sector by August 2002. Major features of the reform include 12 years of compulsory schooling and the decentralization of curricular and budgetary authority. Political and bureaucratic resistance, due to both the cost of these changes and a prospective loss of control over resources, led to the resignation of education minister and veteran educator Kasem Watthanachai in June. Holding the education portfolio himself for three months, Thaksin ultimately filled it with a TRT minister widely viewed as a die-hard opponent of the decentralization of Thailand's school system. Delay in the realization of reform came to seem all but inevitable. And, in what may well have represented the palace's comment on Thaksin's handling of education, Kasem received an appointment to the Privy Council the month after his resignation from the government.

Ruling Party Rifts

No less than any Thai party of the past quarter-century, the TRT is a collection of factions, held together not only by Thaksin's money but also by the prospect of achieving power and enjoying its rewards. Both the sheer size of its parliamentary contingent and the real political differences dividing its younger, better educated MPs from its provincial political veterans make al-

location of rewards among factions particularly difficult. In the second half of 2001 increasingly open tensions challenged Thaksin in his role as party leader. Seasoned power-broker and chief party advisor Sano Thianthong used criticism of both the performance of some of the TRT ministers and the planned enhancement of the authority of provincial governors to remind the prime minister of the size and importance of his faction. While not yet serious, emerging rifts in TRT pointed to one of two potential threats to the survival of Thaksin's premiership and his plans to recast Thai politics in his own image. The other possible threat lay in the continued poor performance of the Thai economy.

Economy

Along with money and political organization, TRT's economic platform helped propel it to victory in January. To Thailand's poor—especially its rural poor—Thaksin held out the promise of debt relief, low-cost health care, and development funds. To more affluent, urban Thai, he promised the decisive application of business know-how and some prospect of “recovery” from Thailand's post-1997 national economic malaise.

As one veteran foreign observer of Thai politics noted in mid-2001, promising to manage the economy like a chief executive officer meant little if there was no economy to manage. As the year wore on, his words rang truer and truer. Projections of growth in the gross domestic product (GDP) for 2001 fell ever lower, from over 4% to just over 1%. Downward trends in electronics, canned seafood, rubber, and clothing shipments meant that Thai exports were set to decline by at least 6% from their levels in 2000. By November, some analysts warned of a contraction of the Thai economy in 2002. Even more optimistic observers saw up to a half-decade of slow and perhaps unsteady growth—perhaps averaging no more than 3% annually—in the years ahead.

Against charges that TRT's campaign rhetoric presaged a move away from an open, foreign direct investment- and export-oriented economy, Thaksin stressed that his was a two-track approach. Without compromising the historic and historically advantageous outward orientation of the Thai economy, he expressed a determination also to cultivate domestic sources of growth, less vulnerable to the ups and downs of world markets. Skepticism among foreign finance professionals and officials as well as among many local commentators greeted this line. But that skepticism also bespoke limited perspective, for Thaksin's stated approach squared with the prevailing practice of Thai political economy of the last seven or eight decades—decades marked by spells of growth impossible even for unreconstructed modernists to deny.

Thaksin appeared to have the three—allegedly “populist”—poverty-alleviating planks in the TRT's campaign platform in mind when he stressed the

second, domestically oriented track of his economic strategy. At the risk of lasting damage to the functioning of Thailand's rural financial markets, Thaksin's government moved quickly though tentatively to bring debt relief for a period of three years to farmers deemed eligible. Mid-2001 saw the launch of the promised development funds of one million baht per village, reconfigured as a program of small-scale loans. And by October, amid great uncertainty over costs and quality of care, the government had implemented its program of 30-baht hospital visits in all provinces of Thailand. The potential pump-priming effects of these measures notwithstanding, mounting concern over low levels of domestic demand and the country's economy straits prodded the government in the fourth quarter of 2001 to unveil a 58-billion-baht stimulus package and push state-owned banks to increase credit disbursements.

Thaksin's decision to fire Bank of Thailand governor Chatumongkhon Sonakun in late May underlined the prime minister's self-confident—and perhaps self-interested—approach to macroeconomic policy. Revelations concerning the central bank's operations both before and after the collapse of the Thai economy in 1997 had hurt its previously excellent reputation, and many observers credit Chatumongkhon with progress in restoring both its good name and its independence. But he had earlier criticized Thaksin's plan to create a national asset management corporation, and it was a dispute with the prime minister over interest rates that in fact finally precipitated his ouster. Thaksin disagreed with the conclusion of most analysts that capital outflows reflected debt repayments. Arguing rather oddly that higher interest rates would raise consumer spending, the prime minister had his way with Chatumongkhon's replacement, Thai Export-Import Bank president Pridiyathon Thewakun. Nevertheless, rumors that the government would impose capital controls in the second half of 2001 proved unfounded.

Thaksin kept his fourth major campaign promise with the establishment of the Thai Asset Management Corporation (TAMC), intended to purchase the NPLs of the country's struggling banks. The Chuan government had resisted this step, despite the urging of many in the business and finance sectors that Thailand follow the example of several of its Asian neighbors in thus shoring up their banks after the 1997 crash. Beginning operations in October, the TAMC would use 10-year bonds to purchase loans from financial institutions at book value. Foreign-owned creditor banks were to be ineligible for participation. More than 75% of purchased NPLs are due to come from government-affiliated institutions. Amid concerns over the systematic over-valuation of collateral for many NPLs, at year's end it remained to be seen how effective the TAMC would prove in restructuring over one trillion baht in delinquent loans. As 2001 drew to a close, NPLs still represented some 30% of the financial sector's total outstanding credit; among commercial banks

not owned by the government the figure was some 12% lower. And the future of Thai banks seemed to depend at least as much on the fortunes of the country's real economy as on the success of Thaksin's TAMC.

The terms under which the TAMC would operate only confirmed the fears of observers already sensitive to Thaksin's expressions of economic nationalism. More troubling, however, is the degree to which those expressions have diverted attention from the prime minister's extreme insouciance about conflicts of interest. Legislation to limit foreign ownership of telecommunications firms to 25% worked, for example, to tie the hands of his Shin Corporation's major rivals in their attempts to link up with foreign partners. And this provision came on top of the government's decision to release telecom firms like his own from obligations to share revenues with the state fully a decade and a half ahead of schedule.

To his willingness to use openly state power for the benefit of his own and his supporters' firms, Thaksin has married an absolute intolerance of criticism. The closing months of 2001 brought mounting expressions of concern over Thailand's macroeconomic health and prospects from a number of Thailand's leading economists. Calling attention to public-sector debt amounting to 60% of GDP, the Thailand Development Research Institute's Ammar Siamwalla worried over the fiscal impact not only of debt service but also of the government's rather half-baked domestic policies. He warned of the risk of a Japanese-style, semi-permanent slump. Failure to resolve the financial and managerial problems of its private sector would leave Thailand endlessly dependent on deficit-spending. Accusing Ammar and other critics of ignorance of economic realities and alluding to his own doctorate in criminology, Thaksin suggested that they lacked adequate mastery of the writings of his fellow high-tech monopolist Bill Gates!²

Foreign Affairs

The Thaksin government's approach to foreign affairs offered little more promise than its economic policies. Efforts to pursue a foreign policy centered on Thailand's economic interests, relations with Burma, and reactions to the Taliban-American war all left the distinct impression of ineffectiveness and disorganization.

The government took office with a pledge from its foreign minister, the brilliant international trade law specialist Surakiat Sathianthai, to pursue a foreign policy that would "correspond with the economic needs of Thai-

2. "Govt 'Hooked' on Borrowing," *Nation* (Bangkok), November 14, 2001, and "PM's Radio Address: Critics Told to Read Gates," *ibid.*, November 18, 2001.

land.”³ Its work during the year to form and deploy a team of high-level trade representatives for Thailand appeared to reflect that change in focus. But a far more important change in Thai foreign policy in 2001 related to the Thaksin’s government’s determination to follow what Surakiat termed “the Asian way” in treating with its neighbors.⁴ Personal contacts—often rooted in a history of business deals—and studied noninterference in the domestic affairs of neighbors were to supplant the less ad hoc approach of the Chuan government and the “flexible engagement” advocated by its foreign minister Surin Phitsuwan.

Nowhere was Thaksin’s departure from the approach of the outgoing government more important than in the management of Thai-Burmese relations. As in 2000, these relations—embodied in the persistent problems of drugs, migrants, border skirmishes, and disputes over fisheries—stood at the center of Bangkok’s diplomatic challenges in 2001. A major complicating factor lay in Thaksin’s willingness to let the Thai military reassume the role in relations with neighbors from which Chuan had effectively banished it.

Burma welcomed the Thaksin government to power with an early-February cross-border incursion, meant apparently to cut off a Shan rebel position along the frontier. Repelled with great force by elements of Thailand’s northern Third Army, this incursion set the pattern for a series of violations of Thai territory by and Thai exchanges of fire with both Burmese forces and those of their Wa allies. Thai seizures of many hundreds of thousands of methamphetamine pills manufactured in reaches of Burma under United Wa State Army (USWA) control led Third Army commander Lt. Gen. Watthanachai Chaimueanwong to decry both the involvement of Thai political figures in this trade and failure of the Rangoon government to take effective steps against it. Nonetheless, an estimated 600–800 million pills were expected to reach Thailand from both Burma and newly operational USWA laboratories in Laos during the year. Defense Minister Chawalit, a long-time staff officer with far more experience of business deals with Burma than of combat, criticized Watthanachai for expending too many shells in responding to Burmese and Wa incursions. By year’s end, the Third Army commander had been reassigned to a post in Bangkok.

Chawalit used a July trip to Burma and a return visit from Lt. Gen. Khin Nyunt, first secretary of Rangoon’s junta, to dismiss the significance of ongoing patterns of armed conflict between the two countries’ militaries and stress his close, useful ties with the Burmese leadership. Thaksin himself visited Burma in June. He also took the lead in promoting a high-profile meeting of

3. “Shrewd Thaksin Sees Profit in Closer Ties with Yangon [sic],” *Straits Times* (Singapore), February 24, 2001.

4. “New Thai Govt to Apply ‘Asian Way’ in Foreign Policy,” *ibid.*, February 28, 2001.

counter-drugs officials from Thailand, Laos, Burma, and China in Beijing in August. His government offered to extend technical assistance in combating the drug trade to Burmese authorities. It blocked the delivery of power-generating equipment to Wa-controlled territory and twice induced Burma to send representatives to meetings of the Regional Border Committee for northern Thailand and adjacent parts of Burma. Thaksin agreed to semi-permanent U.S. Special Forces participation, along with elements of the Thai Army and Border Patrol Police, in a new counter-drugs task force based in northern Thailand. Neither these many steps nor the pledges of cooperation from Burma that they occasioned brought meaningful improvement in Thai-Burmese relations or in Thailand's methamphetamine crisis. As of late 2001, however, it appeared too early to assess former foreign minister Surin's warning that, in Bangkok's relations with its neighbors, "[p]ersonal diplomacy, in the end, often translates into mere personal interest."⁵

While the impact on Thailand of the September 11 attacks on New York and Washington, will doubtless prove primarily economic, the dithering of Thai politicians and soldiers over American use of the naval airbase at Utapao to support the Afghan campaign disturbed many in the Pentagon and the Department of State. A treaty ally of the U.S., Thailand is also bound by a 1993 logistics agreement to make certain facilities available to American forces. Despite these commitments, an artful public campaign on the part of Bangkok (rather than southern Thai) Muslim leaders and anti-Americanism buttressed by local understandings of the 1997 financial crisis appear to have choked off clear statements of Thai support for Washington's military actions.

Nevertheless, the joint Thai-American Cobra Gold exercises in 2002 will focus on counter-terrorism. And it remains unclear whether Bangkok's failure to back its American ally less equivocally will have any lasting effect.

Conclusion

Apparently for reasons of health, King Phumiphon spent much of 2001 at his Klaikangwon (lit., far from worry) Palace, several hours south of Bangkok in the pleasant beach-side town of Hua Hin. But he returned to the capital for his traditional birthday-eve speech before the cabinet and the kingdom's bureaucratic, military, political, business, and social elites on the evening of December 4. This televised event is the king's most important public appearance of the year and one ideally suited to his modest, matter-of-fact speaking style. He has often used the annual speech to address national affairs from a perspective inaccessible or uncomfortable to participants in the day-to-day

5. "Thai Defence Chiefs March Out of Step," *Far Eastern Economic Review*, September 13, 2001.

skirmishes of Thai political life. This year, the king mounted a surprising, unmistakable criticism of the Thailand of Thaksin Chinnawat. Decrying “double standards” in public life, he warned that the country faced the prospect of bad times. He stressed that arrogance and lack of toleration for differing points of view represented serious barriers to national progress.⁶

With a few, carefully chosen words, the king underlined the basic reality of Thailand in 2001. For all the energetic self-promotion and loudly trumpeted self-confidence of its leader, the Thaksin government failed to demonstrate a coherent or promising approach to politics, to the economy, or to foreign affairs. Its achievements, if any, lay in the future. This conclusion is not to deny the impact of the politics, the money, and the personality of Thaksin Chinnawat on Thai affairs in 2001.⁷ Whether Thaksin’s government or his impact likewise proves durable or whether—like Thailand’s 1991–92 return to military rule—they represent a temporary deviation from the clear, promising trends of the past three decades will depend on three main factors. First is the prime minister’s ability to hold his TRT Party together. Second is the notoriously fickle Thai public’s assessment of his capacity to deliver improved economic conditions. And third is the lengths to which Thaksin will go to remain in power.

6. “King Calls for End to Intolerance,” *Bangkok Post*, December 5, 2001, and “HM Warns of Catastrophe,” *Nation*, December 5, 2001.

7. For an outstanding English-language study of an earlier Thai exemplar of the cult of leadership, Field Marshal Phibun, see Kobkua Suwannathat-Pian, *Thailand’s Durable Premier: Phibun through Three Decades, 1932–1957* (Kuala Lumpur: Oxford University Press, 1995).