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# THAILAND IN 2002

## *Political Consolidation amid Economic Uncertainties*

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### Abstract

This article surveys the key political and economic highlights of Thailand in 2002. The party of Prime Minister Thaksin Shinawatra consolidated its power by absorbing several opposition parties, thus cementing its unassailable hold on the House of Representatives. This, in turn, gave the party the ability to legislate virtually unopposed while guaranteeing both political stability and policy continuity for the rest of the prime minister's term. Meanwhile, the Thai economy, though still saddled with massive debt, rebounded strongly, led by robust private consumption and bolstered by loose monetary and fiscal conditions.

Prime Minister Thaksin Shinawatra's ruling Thai Rak Thai party (TRT, or Thais Love Thais), along with its coalition partners, consolidated its grip on Thai politics throughout 2002. By the end of the year, the coalition commanded an unassailable majority in the Sapha Phuthaen Ratsadon (House of Representatives), guaranteeing it unprecedented legislative powers. In the meantime, both the popularity and credibility of TRT eased somewhat, due in part to allegations of corruption against key ministers as well as perceived fickleness and partiality of some of the country's "independent" counter-corruption agencies. Bureaucratic reforms and a reshuffle of the military command at the end of the year further consolidated Thaksin's grip on power.

Elsewhere, a stronger-than-expected economic recovery buoyed by growth in private consumption plus strong export growth, and fuelled by loose monetary and fiscal conditions, was a welcome surprise to government critics and

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supporters alike, even though key uncertainties remained. The rate of inflation was low, partly as a result of sizeable excess capacity in both the labor and product markets, and the Thai baht (42 baht = US\$1) was relatively stable due to the country's stronger trade performance. The trade balance remained in surplus, albeit lower at year's end than it had been earlier in the year, due to weak export prices. For its part, the current account benefited from higher tourist revenue, which in turn helped to offset high interest payment obligations.

### Politics, Power, and the Premier

On January 27, the TRT merged with yet another party, the National Aspiration Party (NAP), thereby securing 289 of the House of Representatives' 500 seats.<sup>1</sup> NAP's merger with TRT, along with the remaining coalition partners, meant that Thaksin controlled 364 of the 500 seats in the House by the end of 2002, giving him the sort of unfettered control that non-military prime ministers of Thailand have never enjoyed.<sup>2</sup> That shift gave the government a majority not only in the House but also in joint sittings with the 200-member Wuthisapha (Senate). In theory, the ruling coalition could not only amend the Constitution when and if it desired but also block any censure motions against the prime minister or any other key government officials.

#### *Standoff among Independent Watchdog Agencies*

During the course of the year, several politicians tried in a number of ways to limit the independent watchdog agencies' authority as well as hamper their work. These independent watchdog agencies include the National Counter Corruption Commission (NCCC), the Constitution Court, the Parliamentary Ombudsman, and the Election Commission (EC). Some organizations, in particular the EC (which is authorized to nullify fraudulent elections), complained repeatedly about funding and staff shortfalls, both of which hampered proper execution of mandates. In a bid to curtail the power and influence of these agencies, some politicians proposed constitutional amendments to the agencies' authorizing statutes.<sup>3</sup> There was also talk of heavy lobbying and

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1. TRT achieved an overall majority in the main chamber of parliament the year before by merging with the small northeast-based Seritham [Liberal Democratic] Party, previously in the opposition.

2. "In Thaksin's Pocket," *Economist* (Internet edition), January 31, 2002, <[http://www.economist.com/world/asia/displaystory.cfm?story\\_id=966064](http://www.economist.com/world/asia/displaystory.cfm?story_id=966064)>.

3. "Charter Rethink: Group to Study Power Overlap," *The Nation* (Bangkok), June 10, 2002; "Numerous Changes to Charter Proposed," *ibid.*, June 10, 2002; and "Constitution: Charter Ineffective, Says Snoh," *ibid.*, September 22, 2002.

influence peddling designed to influence the decisions of members of the watchdog organizations.<sup>4</sup>

Whereas in 2001 the overworked and understaffed NCCC had shown that it had some teeth and had won much praise from the public, particularly for its actions against such political heavyweights as former Interior Minister Sanan Kachornprasart and then newly elected Prime Minister Shinawatra, the agency generated considerable controversy in 2002.<sup>5</sup> The most serious storm was a nightmarish constitutional crisis in April, in which the Constitution Court, the NCCC, the EC, the House of Representatives, and the Senate were pitted against one another.<sup>6</sup> The controversy had, in fact, originated in August 2001 with the Constitution Court's questionable exoneration of the prime minister following accusations by the NCCC that he concealed assets. The contentious verdict dealt a serious blow to the Court's credibility, as it had been widely seen as being biased in favor of the prime minister. The former Democrat Party strongman, Secretary-General Sanan Kachornprasart, then opened a Pandora's box when he lodged a motion seeking the impeachment of four Constitutional Court judges in connection with his own conviction by the same court in 2000 for misreporting his asset statements. Sanan accused the four judges—Kramol Thongthammachat, Jumphol na Songkhla, Pan Chandrapan, and Sak Techacharn—of having double standards when they found him guilty but somehow let the prime minister off the hook. Sanan's motion was supported by over 60,000 citizens and endorsed by Senate President Manoonkrit Roopkachorn, who forwarded the case to the NCCC.<sup>7</sup> The Senate wields the power of impeachment.

In the meantime, House Speaker Uthai Pimchaichon, at the urging of Thaksin's TRT Party members, asked the Constitution Court to decide whether the NCCC could be trusted to investigate objectively the case against the four Constitution Court judges when the anti-graft agency was a party in the dispute over the Court's verdict on Thaksin's case. Three of the four judges in question then asked the Administrative Court to decide whether the

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4. See, for example, "Asset-Concealment Case: Judges Dismiss NCCC Queries," *ibid.*, January 3, 2002; "It's Over, Judges Tell Anti-Graft Agency," *ibid.*, January 4, 2002; and "I Was Pressured by NCCC Colleagues," *ibid.*, March 16, 2002.

5. The NCCC's successful prosecution of Sanan in an asset-concealment case had resulted in his ban from holding office for five years. In a similar case against Thaksin, the defendant was saved only by the Constitution Court, which ruled in his favor. See, in this regard, Michael J. Montesano, "Thailand in 2000: Shifting Politics, Dragging Economy, Troubled Border," *Asian Survey* 41:1 (January/February 2001), pp. 171–80, and Michael J. Montesano, "Thailand in 2001: Learning to Live with Thaksin?" *ibid.*, 42:1, pp. 90–99.

6. "NCCC vs. Top Court: Charter Crisis Looms," *The Nation*, April 19, 2002.

7. The NCCC is empowered to investigate alleged wrongdoings by members of independent bodies, including the Constitution Court, and also authorized to remove unscrupulous politicians from office and bar them from public service.

NCCC had the power to impeach members of the Constitution Court. On April 25, in a ruling seen as a snub to the parliament president, the Constitution Court ruled that the NCCC could investigate the Court's four judges. Five days later, the Administrative Court threw out the suit of the three Constitution Court judges facing impeachment, citing its lack of jurisdiction to intervene in the proceedings as prescribed in the Constitution. The bulk of the criticism from the fallout went to the Constitution Court, whose ruling on Thaksin's asset concealment case in 2001 had been less than transparent.

That episode threatened to wreak havoc on the entire checks-and-balances mechanism, leading reformists to question the strength of Thailand's "new" political system, as they feared that the government might use its majority to amend the Constitution and emasculate the watchdog institutions. By the end of 2002, however, the odds of that happening had receded, as different factions within the government wanted different changes and were not able to agree. Moreover, public opinion was against it, especially if such changes were not meant to simply clarify but also to clip the agencies' wings.

### *Skirmishes with the Press*

Early in the year—and in a manner more associated with Thailand's neighbors to the south—the government, led by the prime minister himself as well as his interior minister, decided to crack down hard on both the local and foreign press, perhaps signaling a divergence from the ways with which past governments dealt with press criticism.

In late February, the *Far Eastern Economic Review's* Bangkok bureau chief, Shawn Crispin, and one of the magazine's Bangkok-based staff writers, Rodney Tasker, both had their visas revoked (a sanction subsequently withdrawn after the magazine apologized). The revocation followed the magazine's refusal to correct a brief reference to the relationship between the royal palace and the prime minister in its "Intelligence" column in the January 10 edition. The Review had suggested that Prime Minister Thaksin was "becoming an increasing source of irritation to King Bhumibol Adulyadej because of Thaksin's perceived arrogance and his alleged attempts to meddle in royal family affairs."<sup>8</sup> Whereas the immensely popular king has no formal role in day-to-day politics, he had publicly admonished his prime minister in a speech in December 2001. Perhaps to divert some of the negative attention away from himself, Thaksin's machine turned on the media, suggesting that they might have broken the law in the first place by discussing affairs of the royal family.

As if to drive home a point, the government next targeted the venerable *Economist*, which, in a generally favorable survey of Thai events called "A

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8. "A Right Royal Headache," *Far Eastern Economic Review*, January 10, 2002, p. 8.

New Order,” had also contained a section with references to the monarchy that was deemed by officials to have violated the law.<sup>9</sup> Both incidents, particularly the former, caused quite a storm, even prompting rare public censures of the government from both the American and British embassies.<sup>10</sup> While the *Economist* had indeed contained references to the sensitive subject, what was not lost on its readers was the fact that the offending survey had focused much more on the many conflicts of interest surrounding the prime minister, particularly the nexus between his powers as head of government and as Thailand’s biggest businessman, than it had on the royal house. Similarly, the offending article in the *Far Eastern Economic Review* had less to do with the monarchy than with the king’s alleged displeasure with the prime minister.

Local press critics fared even worse than their foreign counterparts. In early March, a scandal—dubbed Thaksinagate—hit the press. The Anti-Money Laundering Office (AMLO), which reports directly to the prime minister, was said to be investigating the assets of several senior journalists, all of whom had been vocal critics of the Thaksin government. The names of Bangkok’s *The Nation* editor-in-chief Suthichai Yoon and *The Nation* group editor Thepchai Yong, as well as their children and wives, were among those on a list circulated to all local commercial banks, which had been asked by AMLO to examine their accounts. Others on the list included *The Nation* senior editor Sophon Ongkara, Thai *Post* columnist Roj Ngamman and his family members, and Amporn Pimpipat, another Thai *Post* columnist.<sup>11</sup> Media academics and human rights and other civic groups slammed the government’s move, with some comparing it, rather prematurely, to Nixon’s Watergate scandal.<sup>12</sup> Three journalists filed suit against AMLO in the Administrative Court. In a September court ruling that stopped short of penalizing AMLO officials following a tactical legal retreat by the government, the court sent out an unmistakable message that AMLO officials had abused their powers. Civil rights advocates, who are always wary of politicians’ tendency to manipulate state agencies to target their critics or political foes, hailed the ruling as a small triumph. The damage, however, had been done: the whole AMLO saga had raised serious questions about the Thaksin’s administration’s readiness to abuse state power and violate individuals’ rights and liberties in order to silence its critics. This concern was deemed serious enough by Chirmsak Pinthong, a key senator, to suggest, unsuccessfully, the launch of an official investigation.<sup>13</sup>

9. “Survey: A New Order,” *Economist* (special supplement), February 28, 2002, pp. 1–14.

10. “US, UK Embassies ‘Deeply Concerned,’” *The Nation*, February 26, 2002.

11. “Thaksinagate,” *ibid.*, March 7, 2002.

12. “AMLO Abusing Its Authority: Activists,” *ibid.* March 7, 2002.

13. “Probe as Bad as Phone Tapping,” *ibid.*, March 9, 2002.

Some observers pointed out that Thaksin had signaled his government's tough approach to the press much earlier, in 2000 when he was a prime ministerial candidate. After acquiring Thailand's only non-state-owned broadcaster, iTV, Thaksin subsequently fired many of its journalists, thereby killing off Thai television independence. The journalists who remained at the station complained of pressure to have a positive slant on all news about the government. The fate of radio journalists was very much the same. For example, after the broadcast of an interview critical of Thaksin early in March 2002, the government ordered a radio station to stop taking news reports from the Nation Multimedia group, one of the country's few independent sources. Elsewhere, the Suan Dusit Poll, one of Thailand's leading polling organizations, complained of police intimidation after its offices were raided following a survey that had shown a dip in Thaksin's popularity.

### *Storm Clouds over Monastic Reform*

The year 2002 also witnessed a storm among rival Buddhist groups over proposals to amend the law governing Buddhism that could have had far-reaching implications. Coincidentally, the law was temporarily put to rest when the prime minister lent his name to a petition drive that had collected some 600,000 signatures to oppose the law's proposals.<sup>14</sup>

A closer examination of the proposed changes reveals why. The legislation, which planned to amend the Monastic Act of 1962 (last amended in 1992), had called for, among other things, the following: reorganization of the Sangha Supreme Council—Thailand's highest Buddhist body—so that it could make monastic rules; establishment of a new governing body to handle day-to-day monastic affairs, including the promotion of senior Buddhist monks and the punishment of misbehaving monks; setting up an independent National Buddhism Office; punishment of those who made false accusations against Buddhism, the Supreme Patriarch, or certain monastic bodies; and greater power for the Sangha Supreme Council. Followers of Thailand's two rival Buddhist sects, the Mahanikai and the Thammayuth, fought over the proposed amendments, claiming that their respective lines of thinking were backed by the rules and customs laid down by the Lord Buddha himself. The sects staged mass rallies in April in overt attempts to pressure the Thaksin administration and the Sangha Supreme Council to take them more seri-

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14. Interestingly, the Cabinet had unanimously endorsed the draft amendments in October 2001 with no reservations whatsoever. The Council of State, the government's legal advisor, had also reviewed the draft, and arrangements had been made for House deliberation before the prime minister's surprise move.

ously.<sup>15</sup> The storm calmed after the government agreed to make further amendments to the proposed bill.

### *Bureaucratic Largesse*

The beginning of October 2002, which was also the beginning of the new fiscal year, saw passage of the Bureaucratic Restructuring and the National Administration Acts, collectively billed as Thailand's biggest bureaucratic shakeup in more than a century. Despite some last-minute attempts by the political opposition to stall the legislation, the prime minister's blueprint for overhauling Thailand's large and often unwieldy bureaucracy was finally signed by the king and gazetted in the Royal Register on October 2—the last step for the bill to become law. In what is probably a first in contemporary bureaucratic reform, and to the disappointment of the opposition as well as other Thai watchers, six new ministries as well as several other departments came into being.<sup>16</sup>

In theory, the reforms represented Thaksin's crack at structural change, but they probably also represented his effort to become Thailand's greatest modernizer since King Chulalongkorn (Rama V), who reigned from 1868 to 1910.<sup>17</sup> In reality, the bureaucratic restructuring further consolidated Thaksin's grip on power. By raising the number of ministries and departments, Thaksin increased his scope for patronage politics and maneuvered his supporters into key government positions, perhaps to further his stated aim of ruling for four consecutive terms—16 years.<sup>18</sup> Skeptics pointed to the fact that even before Thaksin had endorsed bureaucratic restructuring, he had openly centralized most decision making under his direct control. Thaksin's fans, on the other hand, pointed to the fact that he had consistently expressed his frustration with the bureaucracy ever since taking office.

It remained uncertain, however, whether the reforms would shift the Thai bureaucracy away from its functional mode to a greater emphasis on policy implementation. It will be some time—probably years—before that uncertainty is cleared up.

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15. The rivalry between the two Buddhist sects stretches back to the 19th century during King Rama III's reign. For an accessible, quick treatment of that rivalry, see Paisarn Likhitpreechakul, "Sangha Bill: A Face-off with a Long History," *The Nation*, April 28, 2002.

16. The new ministries are: Tourism and Sports, Culture, Social Development and Human Security, Energy, Mineral Resources and Environment, Information and Communication Technology.

17. Shawn Crispin, "How to Disguise a Power Play," *Far Eastern Economic Review*, October 17, 2002, pp. 20–21.

18. *Ibid.*

*Of Family and Friends: Cabinet and  
Military Reshuffles*

Almost in tandem with the bureaucratic reforms, and most probably aimed at balancing various factions within the ruling coalition, Thaksin reshuffled his cabinet in early October. The most notable change saw Interior Minister Purachai Piumsombun move to the Justice portfolio. Wan Muhamad Noor Matha, who had served as minister of transport and communications (and is one of the few members of Thailand's small Muslim minority to reach political prominence), took over the Interior Ministry. The latter appointment might have been a move by the TRT Party to appeal to the sometimes-unquiet Muslim community, which is concentrated in the south—traditionally an opposition stronghold. The interior minister's position is traditionally one of the most powerful in the Cabinet, but decentralization and other recent reforms mean that its influence is on the wane. Finance Minister Somkid Jatusripitak and other key economic ministers kept their posts in the 36-member Cabinet, while General Chavalit Yongchaiyudh, a former prime minister, was replaced as defense minister but retained as one of six deputy prime ministers.

Elsewhere, veteran politician Pongpol Adireksarn became Thaksin's fourth education minister in less than two years, while politically untested Uraiwan Thienthong was appointed the new culture minister. It had not hurt that the latter is the wife of veteran strongman Snoh Thienthong, who controls a powerful faction within the Thai Rak Thai Party. Of equal worth was the appointment of Suwit Khunkitti as deputy prime minister; he had been one of the most criticized Cabinet members when the education reform plan stalled under his stewardship. Deputy Industry Minister Pichate Satirachaval, accused by the NCCC of asset concealment, also kept a seat in the Cabinet. Prapat Panyachatraksa, the deputy agriculture minister who had been embroiled in a recent rubber stockpile scandal, was appointed as the new natural resources and environment minister.

Thaksin—already well-established in business, well-connected with the media and non-governmental organizations (NGOs), looking invincible in the National Assembly and, with the bureaucracy well under control—next focused on securing the military-security complex. In the annual military reshuffle announced a week before the bureaucratic changes took effect, his cousin, General Chaisit Shinawatra, was put into position to become the army chief in 2003. Another cousin, General Uthai Shinawatra, was marked for the post of defense permanent secretary. In addition, the reshuffle saw the promotion of many of the prime minister's pre-cadet school former classmates and friends.<sup>19</sup> In March 2002, Police Lt. General Piewphan Dama-

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19. "Military Reshuffle: Jobs for the Boys," *The Nation*, September 29, 2002.

pong, the prime minister's brother-in-law, had risen to the post of assistant police chief, beating to the position 14 more senior officers. Several of the officers had withdrawn from the race, allowing the Police Commission, chaired by Thaksin, to easily promote Prieuphan, who by 2005 will be well-positioned for the post of national police chief.

Key among the other changes was the promotion of Army Commander-in-Chief General Surayud Chulanont to the largely ceremonial post of supreme commander, with Army Chief of Staff General Somdhat Attanand taking Surayud's former position.<sup>20</sup> Unlike his predecessor, whose views on how best to deal with Myanmar often conflicted with those of Thaksin, Somdhat had indicated that in an era when politics leads the military, the Thai armed forces would "follow government orders or policy."<sup>21</sup> The military reshuffle brought the army and government policies on Myanmar closer into line, thereby reducing overt tensions between the armed forces and the prime minister and opening the way for closer cooperation with Yangon (Rangoon). However, it is doubtful that such a superficial change to the armed forces altered the deep-seated causes of tensions between Yangon and Bangkok—namely, illegal logging and drug trafficking, along with Myanmar's internal ethnic clashes, which frequently spill into Thailand.

### *Bombs and Snipers in the South*

By the end of 2002, more than 21 Thai police officers' lives had been claimed by a resurgence in yet-unexplained violence, nearly all of them in shooting attacks. The prime minister suggested that the spate of violence was only a local problem being carried out by bandits with vested interests in prostitution, gambling, drug trafficking, and smuggling, and with links to local and national politicians and government officials.<sup>22</sup> Other observers (and in fact, the prime minister himself earlier in the year) pointed to more ominous developments. When unexplained bombings had taken place in 2001, then-Thai Army Chief of Staff General Boonrawd Somthad had blamed them on an emerging Muslim separatist organization, Bersatu, a Malay word meaning "united." Apparently, the remnants of the Pattani United Liberation Army (PULO) and the Barisan Revolusi Nasional (BRN, National Revolutionary Guards)—two Islamic separatist groups active a decade ago—had merged to form the 100-member Bersatu.<sup>23</sup> In July 2002, the prime minister

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20. The removal of General Surayud may also have been meant to preclude any coup attempts. See "Thaksin Builds a Formidable Base," *ibid.*, August 16, 2002.

21. Wassana Nanuam and Yuwadee Tunyasiri, "Army to Toe Government Line on Rangoon: Somdhat Prefers a More Pliant Attitude," *Bangkok Post*, August 6, 2002.

22. See, in this regard, "Blasts: 2nd Man Nabbed," *The Nation*, November 4, 2002.

23. Wassana Nanuam, "Army Blames Muslim Militants: Saboteurs recently trained in Middle East," *Bangkok Post*, April 9, 2002.

gave the green light to his cousin, General Chaisit Shinawatra, to contact and then hold peace talks with some 90 or so core members of the PULO and the BRN.<sup>24</sup>

Other reports mentioned that the Thai military was monitoring an al-Qaeda-linked group, Guragan Mujahideen Islam Pattani, a 40-member Muslim militant group responsible for at least three of eight recent killings and attacks on police in Pattani, Yala, and Narathiwat Provinces.<sup>25</sup> The report said that a key member, Wae Ka Raeh, had trained and fought with al-Qaeda in Afghanistan and was now hiding in Malaysia's Terengganu state.<sup>26</sup> By September, however, the official line had changed. A government committee headed by General Chaisuek Ketudat concluded in an official report that the violence was mostly the result of conflict among interest groups in the deep South, contrasting sharply with the findings of Internal Security Operations Command Deputy Chief General Panlop Pinmani. The latter was convinced that the trouble in the Muslim-dominated area was the work of separatist movements.<sup>27</sup>

If it is the case that Muslim separatists were responsible for the reemergence of violence in southern Thailand, then Thaksin will have a yet another complicated challenge to tackle as he begins the second part of his term.<sup>28</sup> Although there was not likely a single root cause for these attacks, all of them appeared well-organized, using similar weapons, explosives, and methods of operations. Whatever coalition of interests was behind the attacks, the situation is much more likely to intensify than die down in 2003.

## A Revitalized Economy with the Usual Anxieties

The government's economic policy, dubbed "Thaksinomics,"<sup>29</sup> seems to have undergone several conceptual adjustments in 2002. The inward-looking

24. "Violence in the South: PM Taps Cousin as Mediator," *ibid.*, July 12, 2002.

25. Wae-dao Harai, "'Separatist Gunmen' Raid Military Facility: Guard Shot as M16s, Ammunition Pilfered," *ibid.*, July 1, 2002.

26. *Ibid.*

27. Wassana Nanuam, "Group Linked to al-Qaeda under Watch: Key Member Trained at Afghanistan Camp," *ibid.*, March 24, 2002, and "Conflicts of Interest Led to Crime Wave: Inquiry Report Says No Separatists Involved," *ibid.*, September 11, 2002.

28. Thailand's Muslims, who make up less than 5% of the national population, live in southern Thailand along the border with Malaysia. Nearly 80% of the population in Pattani, Yala, and Narathiwat Provinces is Muslim. Muslims in this region have close ethnic and historical links to northern Malaysia, which today is the stronghold of the opposition Islamic Party of Malaysia (PAS), a group that Malaysian Prime Minister Mahathir Mohamad has repeatedly warned is "extremist." Poor transportation infrastructure has left the area geographically isolated from the rest of predominantly Buddhist Thailand, and the local population has been a ripe recruiting ground for Islamic and other separatist movements.

29. "Thaksin, Economic Guru," *The Nation*, October 23, 2001.

mode of TRT's first year metamorphosized into an acceptance, even if a reluctant one, of the importance of external forces to the Thai economy—foreign capital, investment, markets, technology, and managerial skills. Moreover, the government shifted somewhat away from Keynesian fiscal stimulus toward a greater reliance on monetary management, even though it retained its populist programs for the rural sector. The latter include the People's Bank and the village fund, as well as 30 baht (\$0.70) per visit health care program, both worthwhile rewards to voters who put the TRT in power.

The fact that the economy grew at a faster rate in the latter half of 2002, coupled with concerns about the rise in public debt, prompted a tightening in fiscal policy during the same period. Meanwhile debt restructuring by the Thai Asset Management Corporation (TAMC) and the 780-billion-baht (\$18.4 billion at the 2002 average exchange rate) financing program for the Financial Institutions Development Fund's (FIDF) losses led to more transactions in the money markets and prompted more sophisticated interest-rate policy management. Thaksinomic "stimulus" continued through pressure on the state banks to lend (in a bid to lift credit growth) and privatization.

*Higher Export-Led Growth, Low Inflation,  
and a Steady Exchange Rate*

According to the National Economic and Social Development Board (NESDB), overall, gross domestic product (GDP) in the third quarter of 2002 continually grew at a higher rate, due in large measure to strong domestic demand and increased exports.<sup>30</sup> Third-quarter GDP growth was 5.8%, compared to 5.1% in 2001. Seasonally adjusted GDP grew by 1.0%. In the first three quarters of 2002, economic growth was 4.9% higher than the 1.7% level in 2001.<sup>31</sup> There was stronger export demand (especially between April and August) and an embryonic recovery in private investment, particularly in the second half of the year. Increasing consumer confidence and spending, low interest rates, loose credit conditions, and signs of greater external demand combined to boost investment by the private sector.

Although inflation picked up modestly during the latter half of the year due in part to budgetary pressures and strengthened private consumption, it stood at a low 0.2%, year-on-year, by mid-2002. The baht's appreciation (6.1% against the dollar in the first half of 2002), coupled with relatively steady international oil prices as well as considerable excess capacity in the labor and product markets, helped to contain inflation. The baht's rise was mostly the result of strong portfolio inflows, speculative interest-rate arbitrage trading, rising confidence in the domestic economy, and the strength of the yen

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30. See, NESDB Economic Report, GDP 3Q02, December 16, 2002, p. 1.

31. Ibid.

versus the dollar. Nonetheless, the high debt-servicing obligations had exerted downward pressure on the baht by the year's end.

The current-account balance remained in surplus throughout 2002, comfortably above 3% of GDP on average. However, the Thai export sector remained weak in the first quarter of the year but grew on a year-on-year basis in the second quarter. Strong import growth and weak export values meant that the trade surplus fell in the latter half of the year.

### *New and Old Risks to the Economy*

Whereas the combination of low interest rates, easy credit, and the government's Keynesian pump-priming helped the economy grow fast in the last half of the year, critics argued that the situation was a bit too reminiscent of the bubble economy days before the 1997 crash.<sup>32</sup> Non-performing loans (NPLs) remained doggedly high and investment, sluggish, even as property values, the stock market, and consumer confidence all climbed markedly. As was the case elsewhere in the region, the terrorist bombings in Bali, Indonesia, in October threatened to depress tourist arrivals during the peak tourist season, showing yet again how not all the economic variables were in the government's hands.

## Conclusion

In general, the year 2002 saw Thaksin making great advances in the consolidation of various key sections of society and positioning himself well for 2003: he further strengthened his already strong parliamentary base and re-shuffled both the military and Cabinet to his liking, all the while maintaining his grip on state-owned banks, the media, and TRT's grass-roots populist agenda. Indeed, while the self-assured prime minister may have overextended himself and created enemies over such issues as bureaucratic reform, his popularity remained strong despite a number of questionable actions during the first half of his term.

In the meantime, the economy bubbled along rather briskly, but with key vulnerabilities. Should the government reduce spending in 2003, then it may be able to avoid bursting its own "bubble." That, however, will partly depend on whether the U.S. and Japanese economies, Thailand's biggest export markets, pick up—a possibility clouded by the prospect of higher oil prices if there is another war in the Gulf.<sup>33</sup>

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32. "Four Risk Factors Seen," *The Nation*, February 20, 2002, and "Credit Policy: Risk of Another Crisis," *ibid.*, August 18, 2002.

33. "Thai Economy: Bubbling Along," *Economist*, September 21–27, 2002, pp. 27–30.