

*From the Desk of...*

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## **It's fascinating to watch the intrigue and power-play - but you have to ask yourself, is anyone really guiding Thailand's economy?**

### **So what does the future hold for post-Thaksin Thailand?**

Dislodging Thailand's ex-prime minister Thaksin Shinawatra and his feisty wife, Pojaman, from the political centre stage is proving more of a challenge than the trio of generals – Prem, Sonthi and Surayud – anticipated! However the Thai economy remains robust enough to withstand the continuing political storms ahead.

When the then prime minister left Bangkok in September for an extended overseas trip, scheduled to culminate in a speech at the United Nations in New York, he was under no illusions that trouble was brewing at home. Indeed he was brewing some trouble on his own initiative, though the concoction did not turn out as he anticipated.

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### **The plot thickens**

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Reports that prior to his departure Thaksin chartered a Russian transport plane to airlift quantities of personal chattels indicate 'extended exile' rather than a 'short trip' aboard. His wife followed in his footsteps checking-in 112 heavy suitcases. Furthermore Thaksin left with a carefully-prepared declaration of state of emergency in his pocket, which he attempted to read out from his New York base, on national television during the coup night of September 19th. That declaration, aborted when Thai TV stations pulled the plug upon the orders of the coup-makers, certainly had to have been drafted well before he departed.

Both sides in Thailand's latest political soap-opera followed pre-determined scripts, the military making their own coup preparations for some months, realising that Thaksin might succeed in moving his own military and police cronies into key command positions. This could have prevented the top command loyal to the Establishment from mobilising upcountry troops to secure key Bangkok positions. Tanks at the cross-roads have been part of the

standard stage scenery at just about all of the 18 coups that Thailand has experienced since 1932.

But Thaksin's cronies too, had plans afoot. On September 20th, a major anti-Thaksin rally had been planned to take place in Bangkok. Militiamen from Northern Thailand, a Thai Rak Thai Party stronghold, were to have descended upon the capital, violently breaking up that rally, with likely bloodshed. That event in turn was to have triggered a state of emergency, to be declared by Thaksin who could have returned to Thailand in triumph from his UN appearance. He could then have reshuffled the military and police in order to solidify his power base, and could have gone ahead with the already promised general election, winning a landslide victory in the name of pacification and reinforcement of stability.

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### **So who represents the people?**

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Thaksin as the champion of democracy seems to fly in the face of reality, but his Thai Rak Thai Party gained 59% of the vote in the February 2005 election, with 19 million supporters out of a total 31 million votes cast. The only other parties with a credible showing were the Democrats, with 7 million, and Chat Thai with 2 million. In the election of April 2006 (subsequently cancelled) Thai Rak Thai gained 16 million votes -- still a clear majority -- while the Democrats and Chat Thai chose not to field candidates. Population dominance in the North and Northeast, nurtured by grassroots canvassing to become loyal Thai Rak Thai strongholds, assured Thaksin a parliamentary majority, with the Democrats clinging onto part of Bangkok and most of the affluent but more thinly populated South of Thailand. If democracy means election by a majority of votes, then Thaksin and Thai Rak Thai Party certainly achieved democratic backing. Whether or not the votes were cajoled or bought from the farmers or workers they out-number the Bangkok elite.

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## The coup-makers clean-up their act

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Chief coup-maker and military commander-in-chief General Sonthi Boonyaratglin appeared surprised at the almost universal worldwide condemnation of the coup, considered a backward step along Thailand's rocky road towards democracy. While ASEAN nations expressed cautious hopes for rapid return to normalisation, Western nations ranted. The coup-makers never sought, nor cared, to offer convincing explanations of their action. They could have explained that this was more a 'counter-coup' or defensive action rather than deprivation of democratic liberties.

However, after an initial pause for breath, the Council for National Security, Thailand's version of Burma's SLORC (State Law and Order Restoration Council) appointed the credible and benign General Surayud Chulanont as prime minister, along with a cabinet of mainly retired technocrats, average age 63, cobbled together a transitional constitution and got down to the job of running Thailand, at least on a care-and-maintenance basis -- pending yet another permanent constitution and election.

To assist the cabinet to run the country, a national legislative assembly has been set up, consisting of 242 members, including 68 present or past civil servants and state enterprise executives, 35 military, and 41 academics and lawyers. There appear to be no farmers, no factory workers and no taxi drivers either, thus disenfranchising not only the bulk of the population, but also the solid core of Thai Rak Thai voter support. The leader of the assembly is to be Meechai Ruchupan, bitterly opposed by democracy activists and NGOs as a former Thaksin adviser. Not the best start to the journey back to democracy!

Writing a new constitution is extremely complex. For the actual constitution writing, there is initially to be an appointed National Confederation of 2,000 members, reminiscent of the Burmese National Convention which has been plodding through its own constitution process for the past 15 years. Thailand's constitution is however, to be written within six months, and not by the whole 2,000 appointees but rather by 200 of them, then whittled down by Council for National Security selection to 25, together with 10 directly appointed by the Council itself. The final draft constitution is to be submitted to a "take-it-or-leave-it" national referendum at the beginning of September 2007. If endorsed, it gets promulgated, if not, then the no-doubt exasperated Council for National Security will simply pick one of Thailand's many past constitutions, revise it as they fancy and approve it all by themselves. An election will follow by 15 December 2007 and a new government will follow in the new year of 2008.

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... meanwhile, in London and Bangkok ...

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After being cut off in mid-sentence, reading his state of emergency while still in New York, the now deposed Thaksin headed for his London home.

Back in Bangkok many Thai Rak Thai parliamentarians are mindful that the Party might be banned and that they themselves might be excluded from politics for five years if convicted of electoral or other misdeeds. In Bangkok and in London, Thaksin's political strategists are already at the drawing board, planning not just survival, but a carefully engineered return to power. Back in the late 1990's, these same strategists had created the monster called Thai Rak Thai, the political party that manipulated the 1997 constitution to create a strong, systematic political machine that could dominate Thaksin's hoped-for 20 year rule.

Some analysts have named this vision of uninterrupted rule a 20 year Reich. Not that Hitler was Thaksin's model. Nazism's viciousness and aggressiveness were evidently alien to Thailand's gentler traditions. But Mussolini, and Mussolini's disciple Juan Peron of Argentina, were much closer parallels. In the event, Peronism seems to have too many parallels to Thaksinocracy and Thaksinomics to be a mere coincidence. It is more like the role model. Like Peron, Thaksin was born up-country, of immigrant origins, sought advancement through the uniformed services, schemed his way to influence, and was buttressed by an ambitious wife. To win power, both Peron and Thaksin pitted the rural masses against urban elites, attacked the hostile media but ultimately came to grief while confronting the combined hostility of the military and the outraged elites of the capital city. Peron eventually returned from exile to reassume power, but it took him 18 years. Thaksin would prefer a much shorter timeframe!

In order to prevent such a return to power, the government brought together General Surayud Chulanont, Council for National Security chief General Boonyaratglin and, in the background, Privy Council Chairman General Prem Tinsulanond. This officers' mess of a government has to rely on discrediting Thaksin and his ex-cabinet ministers through corruption investigations, as well as devising a political system wherein a single, strong party such as Thai Rak Thai can never again emerge as a powerful monolith.

Ferretting-out corruption in the post-Thaksin era has been compared with discovering weapons of mass destruction after the ouster of Saddam Hussein. In both cases, the evidence was supposed to be clear and decisive. How more successful will the plain-clothes detectives of Surayud and Sonthi be at finding smoking guns and spent bullets than were the incoming peacemakers in Iraq? In Thailand anything less than a major discovery could heavily discredit the coup-makers. A new Assets Scrutiny Committee, along with the existing but hitherto ineffective National Counter-Corruption Commission, is sifting through 100 projects, several of them linked to the

newly-opened Suvarnabhumi Airport. Investigations will need to be convincingly thorough and therefore take time. But the longer they take, the weaker the political implications of guilt will become.

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### **Thaksin back onto the offensive**

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Meanwhile the activity of the Thaksin camp has not been limited to the golf course. Notably Thaksin's wife Pojaman returned from London to Thaksin's Thon Buri eagle's nest, reportedly without most of the suitcases with which she had departed, but not lacking in wily initiatives. Much to the amazement of press and public, she was accorded a prompt audience with Privy Council Chairman General Prem Tinsulanonda, deferentially accompanied to his house by General Oud Buengbon, who happens to be both Prem's aide and Pojaman's relative. Such favours were never granted to anti-government representatives in the recent past.

Like Peron's Evita, Pojaman Shinawatra has always been a key influence on Thaksin, but in different and more significant ways. Her own lineage, the Damapong family, has wealth, power and influential connections. She is gifted, shrewd and reputed to be the only person that Thaksin really trusts. She also holds the purse strings and, unlike Peron's Evita, happens to be alive and well at the time of Thaksin's ouster, able to advise, scheme, and intervene his comeback. Some observers have noted that even three generals (Prem, Surayud, Sonthi) cannot match just one Pojaman, when it comes to political guile.

Equally significant in the current chess game, will be how the prospective knights and pawns move across the board. Thai Rak Thai was made up of a number of knights (faction leaders) each of whom controlled a grouping of pawns (elected party members). Martial law prevents political activities, for the time being at least, but these factions are preparing and planning their moves. Departure from Thai Rak Thai will not necessarily mean departure from the Thaksin camp. Few, if any party deserters, are likely to join the Democrats. Some may relocate for temporary convenience, with Chat Thai, coalition partner of Thai Rak Thai in Thaksin's 2001-2005 government. Others may form new political parties in order to contest the end-2007 election, Thaksin's strategists must therefore draw up plans for a variety of scenarios, taking into account the as yet unknown structuring of the new constitution, A coalition is not as easily managed and manipulated as a single party government, or, as Thaksin might say, it will simply cost more money to hold together. Money is something that Thaksin is not short of, even if corruption convictions might end up costing a few millions here and there.

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### **But is anyone guiding Thailand's economy?**

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Thaksin's time can be spent avoiding, or defending himself from corruption charges, and planning his

comeback. The generals meanwhile have to concentrate on running the country and on getting themselves out of the driving seat within the promised 12 to 15 months.

Their political agenda is clear: to create stability, including any necessary counter moves to match those of the Thaksin camp, to police corruption, in order to seek to discredit the former government. There is also one important additional factor: to restore peace to the Muslim South of Thailand. Thaksin really made a hash of this problem, while General Sonthi, himself a Muslim, is uniquely qualified to take new initiatives. Success in these endeavours would save lives (over 1,700 have been lost over the past two years) but the South is remote from Bangkok and a minor contributor to national GDP. Totally different in race and religion from the rest of Thailand, with over 100 years of separatist activities, the Southern problem is on the "must resolve list", but full resolution may outlive the current government. The government must work on the issue, but may not have time to gain credit for solving it within its limited lifetime.

For the economic agenda, the outlook bodes well. Oil prices, and therefore inflation, have fallen off, and there are expectations of at least as good a performance in 2001 as in 2006. This could mean maintaining GDP growth at around 4.5%, and export growth at 15%. Economic recovery will bring about much stronger imports, and a resulting small current account deficit. The government is planning a Baht 1.52 trillion budget, with a Baht 100 billion deficit, disbursement to commence at the beginning of January 2007.

Meanwhile a start is planned to the much delayed mega project scheme, the former showcase of the Thaksin government, but with reduced scope, more transparent bidding, and funding from the Japan Bank for International Cooperation. As regards private investment, rising capacity utilisation and declining capital input growth have created a shortfall which should recover, once business confidence returns. Similarly, consumer confidence is expected to improve once political stability appears more assured.

The government will seek to pre-empt grassroots opposition by Thai Rak Thai adherents, through maintaining at least some of Thaksin's populist policies, notably the health scheme and village funds. On the international front, they will pursue the Economic Partnership Agreement with Japan, which will enhance Japanese investment, especially in the automotive and electronics sectors. This agreement could be signed once martial law is lifted and Thailand is clearly on the road back to democracy.

The biggest issue is that of nominee structures for foreign control of Thai business. This emerged from the acquisition by Temasek of Singapore of Thaksin's own family company Shin Corporation. This is but one of an estimated 13,000 nominee situations which

appear to contravene Thailand legal requirements Thailand's Foreign Business Law stipulates a genuine 51% Thai shareholding and control for most businesses. There are three options to handle this issue: either the anomaly is allowed to continue, which seems at this stage impossible because of the extent of publicity; secondly the law might be amended to permit foreign majority shareholding, but this option appears equally impossible, given nationalist sentiments; finally, if all else fails, the foreign shareholders must reduce their holdings to 49%, which will discourage foreign investment and result in capital outflow. This nominee issue also affects foreign landholdings, especially in Phuket, Ko Samui and Pattaya, along with the tourist industry in those locations.

A further somewhat tense issue is the future of retail superstores, certain of which are foreign investors, whose nationwide operations are claimed to be affecting small family-owned retailers.

As an overall policy, General Surayud Chulanont has espoused the concept of a "sufficiency economy", a philosophy which has yet to be fully explained, but suggests living within the nation's and the individual's means, with limited risk-taking, greater stability, and a higher emphasis on moral conduct, all factors hardly evident during the Thaksin era. However the government has hastened to indicate that there is no intention to turn away from globalisation or international competitiveness. The more it is supposed to change, the more the policy remains more or less the same as before.

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### Have we seen the last of Thaksin?

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In the election of 2001, Thaksin's Thai Rak Thai moved from a position of zero to dominance, thanks to manipulation of the well-intentioned but imperfect constitution adopted in 1997. Thaksin's party also had shrewd strategies and massive money power. At that time, Thaksin was already under investigation for election irregularities which could have barred him from politics for five years. His political fortune was restored by a much-questioned constitutional court verdict of innocence despite the evidence to the contrary.

At the current juncture, Thaksin still has access to even shrewder, certainly more experienced strategies, loads more money than previously and a constitution which, though as yet undetermined, may

well have loopholes and scope for manipulation. Meanwhile, among existing political parties, the main contender is the old-style Democrats, with following only in Bangkok and South Thailand, but totally alien to the populous north and northeastern regions. In addition, there is the equally old-style Chat Thai, led by the wily but aging Banharn Silapa-Archa, plus the more recently formed and less accepted Mahachon Party of ex-Democrat Sanan Kachornprasat. None of these parties was any match for Thai Rak Thai in the elections of 2001, 2005 or 2006, and they have not grown in status since that time.

For the next election, this situation could represent a vacuum to be filled, either by a broad-based coalition of multiple parties, including old, together with some new ones, or else by a reincarnation of Thai Rak Thai. Thaksin may, or may not choose to lead such a party himself, but he, along with Pojaman, could effectively control it. Thaksin may presently appear weak, even helpless, but the seeds of support remain in the ground, waiting to be refertilised by the spreading of Thaksin's financial largesse.

The *possibility* of a return of Thaksin is likely to create hesitancy and caution among politicians, the military, bureaucrats, the press and business people alike. The pro-democracy protests that followed the coup, along with the disenfranchisement of wide sections of the population in the selection of representatives for the new consultative bodies, will add to this hesitancy of many segments of the population to move away from Thaksin or to support what the coup-promoted government is trying to achieve. Time alone will tell. Those who seek to predict Thai politics are always in for a surprise.

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Mr. Bruton is the Managing Director and founder of Dataconsult and has been based in Thailand for over 35 years. He is highly respected for his understanding of Thailand, Vietnam and the Indochina sub-region, providing advice to MNC and Asian businesses on their business strategies. He is a seasoned, insightful presenter who has briefed CEOs and board members of many MNC organisations. Dataconsult runs the Associate executive programme, *The Thailand Regional Forum*, within the Economist Intelligence Unit's Corporate Network.

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