

RESEARCHERS AT SINGAPORE'S INSTITUTE OF SOUTHEAST ASIAN STUDIES SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

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Whither Thailand's Juntanomics?

By Cassey Lee*

EXECUTIVE SUMMARY

- The military coup in Thailand has brought into power a junta that has swiftly implemented policies capable of revitalising the country's economy in the short to medium-run.
- Thailand's long-run economic performance will depend on the junta's interest and ability to undertake fundamental reforms that will bring about a functioning democracy with institutions that have broad legitimacy and trust.
- Two elements are crucial. The first is the formation of an electoral system based on principles acceptable to all major players, and the second is the strengthening of check-and-balance mechanisms. Care must be taken to ensure that such institutions are not captured by political parties or any other special-interest group.
- The new constitution should also ensure a reduction of the role of the military in future political affairs.

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INTRODUCTION

The Stock Exchange of Thailand index (SET) declined by 1.58 percent on 23 May 2014 – a day after the Thai military carried out its coup and two days after martial law was declared in the country. This was, by all means, a relatively mild response by investors to an event that fundamentally changed the way the country is governed. Whilst there may be a number of possible reasons for this reaction, questions remain as to what the political change implies for the Thai economy.¹ How will economic policy-making and stabilization be undertaken under the new military junta? Will the junta be able to manage the economy well in the next few months (and possibly years)? What type of economic policies and reforms can be implemented before (or if) democracy is restored in 2015?² What are the long-term implications of military rule?

CURRENT ECONOMIC CHALLENGES

The Thai economy was performing sluggishly in the months leading up to the military coup. In fact, Thailand has been the middle-income country in the region worst affected by the 2008 Global Financial Crisis. But whilst the economy did rebound strongly in 2010, this movement was unfortunately halted by the floods that hit the country from July 2011 to January 2012. With the exception of the fourth quarter in 2012 (October-December) and the period since then, the Thai economy has grown at a declining rate from 5.4 percent in the first quarter of 2013 to 0.6 percent in the fourth quarter of 2013. This culminated in a 0.6 percent contraction in the first quarter (January-March) of 2014 (Figure 1).³ The overall unemployment rate has remained relatively stable at 0.9 percent in the first five months of 2014 although the youth unemployment rate (aged 15-24 years) at 5.8 percent in May 2014 was much higher.⁴ The inflation rate has also trended upwards from 1.6 percent in January 2014 to about 2.6 percent in May 2014.

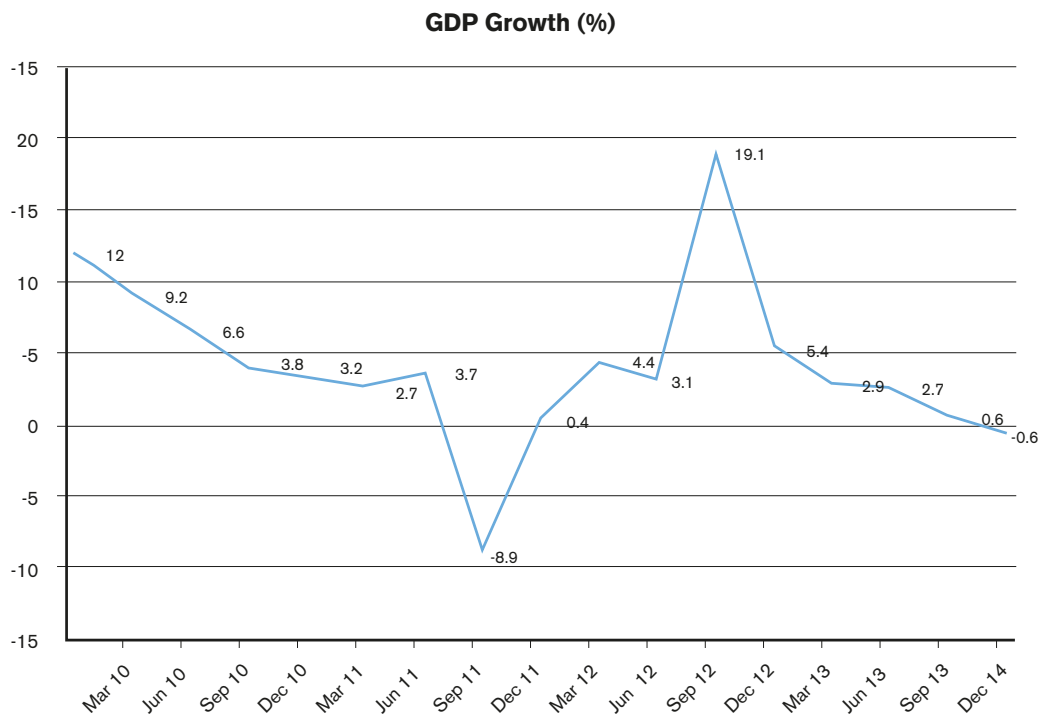
¹ There are a number of possible reasons for this. First, the business community expects “business as usual” in that the coup in itself does not affect how commercial activities are conducted. Second, the coup is just a culmination of a series of events – mass protests and martial laws – all factored in stock market index cumulatively. Third, the business community sees this change in political regime as an improvement from the pre-coup period.

² “Election in Oct 2015, NCPO says,” *The Nation*, 28 June 2014.

³ Source: Bank of Thailand

⁴ Source: Labor Force Survey May 2014, National Statistical Office, Thailand.

Figure 1: Economic Growth in Thailand, 2010-2014
 (Quarterly, % Change in GDP)



Source: Bank of Thailand

An analysis of the major expenditure components of GDP over time reveals that a number of factors are responsible for the recent economic slowdown – slow private consumption growth; limited fiscal stimulus; and weak export performance. The low rate of growth in capital formation (investment) in the past two years has further dampened medium-term prospects. Political unrest and instability from November 2013 to May 2014 have also adversely affected the economy – particularly private consumption, fiscal expenditure and investment. This has been compounded by the decline in tourist arrivals by about 3.9 percent (year-on-year) in the first five months of 2014.^{5,6} In the longer term, the Thai economy faces a number of key challenges, such as the competitiveness of its export sector, human capital development and regional inequalities.

This was the dismal economic scenario that confronted the Thai military junta when it mounted the coup on 22 May 2014. The extent to which these challenges can be handled is largely dependent on the institutional setup adopted by the new regime for its economic policy-making.

⁵ The tourism industry accounts for about 9-10 percent of Thailand's GDP.

⁶ "Thai Tourism Outlook Brightens after Curfew is Lifted," *Wall Street Journal*, 23 June 2014.

INSTITUTIONAL CHANGES IN ECONOMIC POLICY-MAKING

A key feature of military rule is the centralization of decision-making power. Under the current regime, the focal point of this power is the National Council for Peace and Order (NCPO) – a council comprising of seven senior members from four defence and security institutions, namely the Thai army, navy, air force, and police. The NCPO is led by General Prayuth Chan-ocha, the Commander-in-Chief of the Royal Thai Army and leader of the military coup. The responsibilities for the government ministries and agencies were distributed amongst members of the NCPO. The Council has the ultimate decision-making power in all matters including economic policy-making, and one of its members, Air Chief Marshall Prajin Juntong, has been made responsible for economics-related ministries such as Agriculture and Cooperatives; Commerce; Labour; Finance; and Transport.

A ten-member advisory board was subsequently formed on 26 May to support the NCPO. This board is led by former defence minister and army chief General Prawit Wongsuwan.⁷ The board member responsible for economic affairs is Pridiyathorn Devakula, formerly deputy minister of commerce (1990-1992); governor of the Bank of Thailand (2001- 2006); and finance minister and deputy prime minister (2006-2007). Another board member with knowledge of economic affairs is Narongchai Akrasanee, a former commerce minister (1996-1997) and adviser to the finance minister (2002-2003).

Under the new institutional setup, ministries continue to operate in the same way as they did prior to military rule except that they are now under the control of a NCPO-designated council member. In the absence of a cabinet minister and his/her deputies, the permanent secretaries in the various ministries have been “empowered” by the NCPO to act as de facto ministers, thereby retaining administrative control. The junta has also shuffled a significant number of senior civil service positions in key ministries such as defence, commerce, finance, energy, labour and transport.⁸ When deemed necessary, the NCPO has intervened in ministerial operations.⁹ Other institutions such as the country’s central bank (Bank of Thailand), have continued to operate as before. Overall, the techno-bureaucratic institutional setup for economic policy-making has remained unchanged. What has changed has been the top decision-making power for economic policies.

⁷ “Prawit, Somkid Pridiyathorn named advisers,” *Bangkok Post*, 27 May 2014.

⁸ “Many top officials shown the door,” *The Nation*, 29 June 2014.

⁹ “NCPO shakes up Labour Ministry,” *Bangkok Post*, 20 June 2014. See also “NCPO urges ministry to scrap useless projects, give plots to the landless,” *The Nation*, 31 May 2014.

ECONOMIC POLICIES UNDER THE JUNTA

Given the dismal performance of the Thai economy in the months leading up to the military coup, it is not surprising that the NCPO is giving priority to economic policies. The initial policies were short-term measures swiftly implemented within a week of the military take-over of the country. These were primarily aimed at boosting private consumption and, more indirectly, public support for the junta. One such policy was the payment of Bt92 billion due to more than 800,000 rice farmers (under the rice pledging scheme) beginning on 26 May.¹⁰ The loss-making scheme, which entailed paying rice farmers above-market prices, was first implemented by the Yingluck government in Oct 2011.

To prevent further erosion of consumers' real income, a decision to cap the price of diesel fuel and LPG price was announced on 1 June. In addition, the value-added tax (VAT) was maintained at 7 percent for another year. Plans to restructure the personal income tax have also been approved.

On the fiscal expenditure side, a key problem was the disbursement of budgeted fiscal expenditures which was disrupted during the period of political and social unrest prior to the military coup. This had somewhat diminished the effectiveness of fiscal stimuli especially after the house of representative's dissolution on 9 December 2013.¹¹ This problem was tackled by the junta in a number of ways. First, state agencies were instructed to accelerate the fiscal-2014 budget disbursement process.¹² Second, the junta approved the 2014/2015 state budget in early June 2014, thereby ensuring that future fiscal measures could be implemented in accordance with the annual budget schedule (beginning 1 October 2014).¹³

To deal with the problem of weak private capital formation, the junta approved the new members of the Thailand Board of Investment (BOI) on 6 June.¹⁴ By 25 June, the BOI had in turn met and approved a total of 18 investment projects valued at more than 120 billion baht.¹⁵

State enterprises have also been mobilized to revitalize the economy. Close to half of the funds (Bt40 billion) for repaying rice farmers came from the state-owned Bank of Agriculture and Agricultural Cooperatives (BAAC). The state-owned banks' loan target was also raised from Bt129 billion to Bt400 billion. More programmes and reforms are likely to be seen with the establishment of a "super board" on 26 June to supervise all (56) state enterprises. This has begun with the replacement of

¹⁰ "Farmers will get paid starting on Monday," *Thai PBS*, 25 May 2014,

¹¹ "FPO: coup clears pathway for stimulus", *Bangkok Post*, 26 May 2014. See also "Protests to hit investment, budget spending in 2014," *The Nation*, 20 December 2013.

¹² "FPO: Coup ends the recession," *Bangkok Post*, 30 May 2014.

¹³ "Thai military junta approves fiscal budget plan for 2014/15," *Asia One News*, 10 June 2014.

¹⁴ "NCPO announces appointment of BoI members," *The Thai Financial Post*, 9 June 2014.

¹⁵ Press release, Board of Investment, Ministry of Industry, 25 June 2014.

the directors of some major state enterprises such as PTT and Krung Thai Bank.¹⁶ In the case of PTT, this is also part of the junta's larger energy reform agenda involving the restructuring of energy prices and a re-orientation of renewable energy policies.¹⁷

Another area that has received much attention is labour market reform. Thailand's unemployment rate is as low as around only one percent, and there are currently about three million foreign workers in the country.¹⁸ Initial fears that the junta would tighten up on foreign worker employment prompted a large exodus of illegal Cambodian workers. It has subsequently clarified that it is not interested in a public crackdown on illegal foreign workers but would like to regulate foreign worker employment more effectively in order to deal with problems such as exploitation (forced labour and slavery) and human trafficking.

Other longer-term issues such as human capital are expected to be addressed by the junta in the coming weeks or months. The education reforms will focus on areas such as equal access and quality of schools.¹⁹ Such "technical" reforms are likely to be accompanied by the introduction of normative elements in the education curriculum related to ethics, social responsibility and patriotism.²⁰ More recently, the Office of Basic Education Commission (OBEC) – which regulates primary and secondary schools – was reported to have issued a directive that essentially bans "the dissemination of provocative, violence-condoning, or false information that could encourage students to disrespect laws or oppose the mission of the NCPO".²¹

After its first month in power, the junta has clearly moved towards tackling more medium to long-term economic problems. The formulation of a new and comprehensive long-term reform plan will require more time – such plans usually consume at least one year of inter-agency planning. In the absence of such a plan, the junta announced an economic "roadmap" in late June in the form of ten broad principles:²²

1. Keep state spending within the initial budget, maintain financial discipline and prevent public debt from increasing;
2. Revive the confidence of foreign and domestic investors;

¹⁶ "New heads, old faces at Thai state enterprises," *Nikkei Asian Review*, 30 June 2014.

¹⁷ "NCPO vows to prioritise price reform," *Bangkok Post*, 5 June 2014; "NCPO to continue energy overhaul," *Bangkok Post*, 23 June 2014 and "23 energy projects facing scrutiny," *Bangkok Post*, 2 July 2014.

¹⁸ "Thai Military Moves to Curb Illegal Migrant Labor as Cambodian Workers Flee," *Wall Street Journal*, 17 June 2014.

¹⁹ "NCPO to reform country with education," National News Bureau of Thailand, 24 June 2014.

²⁰ "CUPT set to propose education reform plans to NCPO," *Thai Financial Post*, 6 June 2014.

²¹ Sourced from: "Thai Schoolchildren To Be Re-educated Under Junta's New Guideline," *Khaosod English*, 8 June 2014.

²² This list is excerpted from "After its first month in power, junta targets longer-term economic reforms," *The Nation*, 23 June 2014.

3. Proceed with delayed projects under the 2014 budget;
4. Re-prioritise projects that have legality issues, based on their importance to the economy, such as the ousted democratic government's proposed Bt2.4 trillion mega-project for logistics systems and its Bt350 billion water-management programme;
5. Consider special projects such as promotion of border trade for small and medium-sized enterprises;
6. Make sure economic plans adhere to rules and regulations of financial discipline, the capital market and registered companies;
7. Set up a private-sector fund to lower public investment;
8. Modernise state enterprises;
9. Achieve energy stability;
10. Ascertain transparency in the economic plans.

This set of economic and developmental principles is comprised of a mixture of governance-related best practices as well as broad indicators of future economic priorities. Their value will only materialize with the introduction and implementation of specific economic plans in the future. What is available for assessment are the concrete policies that have been implemented thus far. So what are the likely effects of the junta's economic policies to date?

There is no doubt that the junta has responded very swiftly to address Thailand's short-term economic problems. Some but not all of the policies implemented by the junta were originally planned under the Yingluck government. A number of projects proposed under Yingluck have been scrapped though, due to budgetary and other reasons. Most of the policies being implemented is likely to have positive effects on the economy in the short to medium-term.²³ The country's consumer confidence index increased for the first time in May 2014 after a 14-month continuous decline.²⁴ This is a positive development given the importance of private consumption which accounts for half of the country's GDP. Private investment is likely to take a longer time to recover given its longer time horizon.

²³ Note that the Bank of Thailand has revised downward its forecast for the country's GDP growth rate in 2014 to 1.5 percent (from 2.7 percent).

²⁴ "Consumer confidence rebounds," *The Nation*, 4 June 2014.

But whilst the Thai economy is bound to recover in the next six months, long-term prospects remain uncertain. What long-term economic policies the junta can implement in the remaining period before democracy is restored in late 2015 is not easy to imagine at this time. Part of this uncertainty relates to the question of whether the junta's current institutional setup for economic policy-making can promote long-term economic growth. In other words, we are left to ponder whether democracy has to be first restored before sustained economic growth can be achieved in Thailand.

DEMOCRACY FOR LONG-TERM GROWTH?

The relationship between democracy and economic growth has been an eternal subject of debate in political science and economics.²⁵ In the recent research literature, political institutions are key determinants of long-run economic growth.²⁶ The key argument for this is that these configure economic institutions which in turn affects economic growth. Even though the junta in Thailand has repeatedly emphasized that it wishes to restore democracy eventually, it might still be useful to address this issue.

A good place to start would be to draw a contrast between a junta and an elected government. Unlike in a democracy, junta leaders are not elected representatives of the people and hence are not likely to be accountable for their actions. This is not necessarily bad if the junta is benevolent and stays with the goal of enhancing society's long-term welfare.

However, in the case of Thailand, it is difficult to ascertain (based on its recent actions and policies) whether the junta is benevolent or merely exhibiting self-interest. Such assumptions do not matter as much in the case of an elected government since it is replaceable by voters disenchanted with its performance.

But given the political polarisation affecting the country prior to the military coup, the restoration of democracy in Thailand will not be an easy task.

Two elements are crucial to the achieving of a functioning democracy supported by institutions that have broad legitimacy and trust. The first will be the formation of an electoral system that is "fair" in the sense of being based on principles acceptable to the major political parties in Thailand.²⁷ All relevant actors will have to set out in great detail what these principles are and how they should be operationalized. The second is the strengthening of check-and-balance mechanisms. These will include, among others, a truly independent judiciary, a free press and a strong anti-corruption

²⁵ For a recent discussion of the literature, see Acemoglu, Daron, Suresh Naidu, Pascual Restrepo and James Robinson. (2014). "Democracy Does Cause Growth," *NBER working paper* no. 20004.

²⁶ This is consistent with the emerging evidence on the role of institutions in long-run economic performance. See Acemoglu, Daron, Simon Johnson and James Robinson. (2005). "Institutions as a Fundamental Cause of Long-Run Growth," in *Handbook of Economic Growth*, edited by Philippe Aghione and Steven Durlauf, Elsevier.

²⁷ Note that this does not in any way imply that previous election(s) were unfair.

agency. Care must be taken to ensure that such institutions are not captured by political parties or any other special-interest group. These two elements should be present in the new constitution that is to be drafted under the purview of the NCPO.

This constitution should also ensure a reduction of the role of the military in future political affairs. If the Thai junta achieves this, it will truly have proven itself to be benevolent and its contributions will be remembered in posterity.

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