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The Military Coup and its Implications for the Thai Economy¹

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In this presentation I will try to make a few points related to the September 19 coup and its implications for the political economy of Thailand. First I will attempt to discuss a few untraditional explanations for the re-insertion of the military dictatorship in Thailand. Secondly I will look into the role of the US and China both in terms of their view of the disarming of democracy but also in security cum political economy terms what are their reactions! Finally I will attempt to link these discussions to the Thai economy – briefly divided into a before and after Thaksin.

On the night of September 19, with the prime minister out of the country at the United Nations in New York, a faction of Thailand's military led by General Sonthi Boonyaratglin staged a bloodless coup, suspended the constitution, and declared martial law. The coup leaders pledged allegiance to King Bhumibol Adulyadej, who is constitutionally a political figurehead but holds great power through his cultural reverence; the following day, the coup leaders received his endorsement. General Sonthi declared that he would serve as prime minister for two weeks, when the coup's Council of Administrative Reform was supposed to choose an interim prime minister. Elections will follow by October 2007.

Why did the coup happen (the official explanation)?

Mr Thaksin, who came to power in 2001 was probably one of the most controversial leaders yet seen in Thailand. Although he was very extremely popular with Thailand's rural poor, his abrupt CEO style and enormous wealth won him many enemies and appeared to split the nation.

Mounting protests last year can be interpreted as attempts to undermine his position. But it was his easy victory in the April 2006 general election - subsequently declared invalid - that may have prompted the generals to act. Their assessment may have been that since Mr Thaksin's wealth and politically dominant Thai Rak Thai party made him electorally unbeatable, a coup was the only way to get rid of him.

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All that remained was to choose a date. With new elections set for later in 2006, the generals seem to have decided to act swiftly, taking advantage of the fact that Thaksin was out of the country at the UN's General Assembly in New York. I will return to the other reasons in a moment reasons probably more complicated than this.

But what does the coup mean for the development prospects at the regional level?

It is a severe setback for the whole region which became democratic in the wake of the financial crisis in 1997. Thailand had not suffered a coup in 15 years, and had started to boast about being a stable democracy at the heart of South East Asia.

The country's institutions may again appear flimsy, and its military shown up to be still untrusting of democracy and its conflicts. The coup is also bad news for Western hopes of change in Thailand's neighbour, Burma. Thailand is one of the few countries with real influence over Burma's repressive military junta. But Gen Sonthi is hardly likely to press Burma's leaders to introduce democracy, and they will see the coup as a justification for inaction.

What this implies is that there is an external dimension which has to be taken into consideration- regional as well as extra-regional and international political economy type of argument which I will try to elaborate.

Other reasons for the Coup

While military coups have been relatively common in Thailand's history many assumed that the country's new constitutional democracy was strong enough to prevent another takeover. However, there were many warning signs of instability before the coup as the split between the prime minister and the king become more and more untenable. Among the most important were the attempts by Thaksin to remove military personnel and high-ranking bureaucrats close to the King himself. In brief it led to accusations and rumours about the so-called "Finland Plan," in which it alleged Thaksin was part of a conspiracy to overthrow the king.

This began a series of accusations and counter-accusations. Pairoj Vongvipanon, a high-profile academic, warned that "Thaksin must be careful or else he might be killed. Don't think that assassinations cannot occur in Thailand," he said.

It was essentially a retro action: a military coup, not seen in Thailand since the early 1990s. Indeed, the sight of armed troops in camouflage patrolling the streets of Bangkok was surprising to most Thai and international other observers. Most of us probably know the grand old man or student of Thai politics Fred Riggs who in his book on Thailand from 1967: “The Modernization of a Bureaucratic Polity” claimed that Thai bureaucrats, whether civilian or in military outfit, are noted for their involvement in politics. The bureaucratic participation, as Riggs called it, has historically speaking been part and parcel in the Thai political arena all the way back to the overthrow of absolute monarchy in 1932. In fact, we also see a certain inertia in the announcements from the new military leaders –the four reasons mentioned by General Sonthi clearly echoes the reasons for the coup in 1976 and also the coup in 1991 where General Suchinda mounted a coup against the civilian government on the same claims of widespread corruption and the existence of “unusually rich” politicians and again the usual accusations of lèse majesté against the King.

The main difference between the other 16 coups or so since 1932 was that this time His Majesty King Bhumibol Adulyadej not only endorsed the coup, but also through his army proxies, taken absolute control of the whole kingdom.

Does it mean that Rigg’s thesis is correct today as well? Yes and no with certain modifications there is some truth and it was predictable when Thaksin threatened the power circles of King Bhumipol’s old boy’s network as Duncan has called it elsewhere or simply the old feudal elite. But the coup is also a reminder to those political scientists who repeatedly have claimed that the bureaucratic polity was over and had been replaced by a different model in response to the bargaining strategies employed by local business association. What it really implies is furthermore that a power struggle is emerging about the direction of Thai society when the King he dies.

In a review of Paul M. Handley’s *The King Never Smiles*, a banned book in Thailand, Ian Buruma suggests that the “King remains the ultimate arbiter of power” and citizens expect “that in a crisis it is the King, and not his government, who comes to the people’s rescue.” So in conclusion we might say that because Thaksin did not have a good relationship with the King he would sooner or later run into trouble especially since he tried to replace those loyal to King Bhumipol in the military with his own people. But it was the King’s network – their ideology and political sympathies which determined the situation and this is where the US-China link comes in.

The official US and China Connection

The United States, European Union, Japan, and Australia officially reacted with disappointment to the coup, and each called for a quick return to democracy. None, however, demanded that Thaksin's government be reinstated. China said it was an internal situation and that it would continue to push for closer relations with Thailand regardless of what form the government takes.

Nine months after the coup little appears to be out of the ordinary for U.S.-Thai military relations. Yet tensions between Bangkok and Washington remain — and Beijing may benefit. Although the United States has officially suspended some military programs various joint U.S.-Thai military exercises appears to be business as usual.

After the coup, the U.S. suspended \$24 million in military aid and cancelled military education programs. U.S. law prohibits Washington from providing assistance after an elected leader is deposed by a coup

Thailand's military is well connected to U.S. security agencies. Although Washington did not condone the coup, those ties have prevented any sanctions for the near term. The United States maintains a counter-terrorism training center with Thai security forces on the outskirts of Bangkok called the International Law Enforcement Agency.

According to US media Chinese Influence Rising

In contrast and as mentioned before Beijing brushed off Thailand's military coup as an internal affair and wished the country "harmony and prosperity". "It's Thailand's own internal affair. The PRC has consistently upheld the principle of non-interference in other countries' internal affairs," the foreign ministry said in a statement posted on its website.

“Thai coup leader Gen. Sonthi Boonyaratglin visited Beijing in January for four days. China is now offering Thailand \$40 million in military aid. There are growing numbers of Thai military officers going to China for training. There are Chinese military officers coming to Thailand offering military education opportunities. The Chinese don't use sanctions to punish nondemocratic countries.” The Communist People's Daily reported. “The Chinese army would like to promote friendly relations with the Thai army,” Chinese Defense Minister Cao Gangchuan said in a meeting with Thai Army Commander-in-Chief Sonthi Boonyaratkalin.

The Chinese also put more money on the table than the U.S. had denied Thailand. China announced a special assistance package that included \$49 million worth of military aid and training. Beijing continued with visits to Thailand by several senior Chinese officials, mostly in the military and security fields. State councilor Tang Jiaxuan, a former Chinese foreign minister visited Bangkok after the Chinese New Year. He reaffirmed Beijing's support of the Council for National Security (CNS).

That reality hurts the United States far beyond Thailand, Pongsudhirak said. "This is why the Americans are falling behind. Not just with Thailand but also with Myanmar, Laos, Cambodia, Vietnam, even other ASEAN countries," he said. "China has a lot to offer now. China is embracing ASEAN on a multitude of fronts, not just military, but political, strategic, economic, trade, investment and cultural. And the U.S. has become constrained by all these legalistic, politically correct mechanisms. U.S. foreign policy in Asia has been held hostage by U.S. domestic politics, and sometimes American parochial pressure groups. Many special interest groups opposing a policy can kill it. China is not constrained on this front." At least this is the excuse nowadays – while before communism used to be the reason for US support to rightwing dictators.

However, the United States is in an awkward but familiar position, where realpolitik imperatives now, as historically, have trumped Washington's stated public position of non-support to governments that seize power through anti-democratic means. In reality, President George W Bush and senior US envoys in Bangkok have signalled clearly to the junta that Washington has scant intention of downgrading bilateral relations because of the coup. As Shawn Crispin has noted in Asia Times quite recently, "Thailand's coup has served US regional interests well". Washington's most trusted strategic ally in Southeast Asia, and US officials are leveraging their senior military contacts now in government in a bid to counterbalance China's expanding regional influence. While the US maintained strong ties with Thaksin's authoritarian administration, particularly through cooperation on counter-terrorism issues, there were concurrent concerns in Washington that the ethnically Chinese Thaksin was gradually moving Thailand closer to Beijing at the United States' strategic expense.

Those concerns would help to explain why Bush received coolly last April Thaksin's pleading personal letter, where the then-embattled premier claimed "anti-democratic" forces were attempting to knock him from power through "extra-constitutional" means. Of course those anti-democratic forces - the royalist military officials who spearheaded the coup - were and remain some of the United States' best in-country contacts. And since Thaksin's ouster, to the deposed premier's apparent chagrin, the US has kept close working tabs with the junta and its interim civilian administration. It's no surprise when a Bangkok-based US diplomat confirms that US-Thai military-to-military relations have remained firmly "on track" despite the suspension in aid. Noted one long-time Thai observer: "The US is saying to itself: they may be generals, but they're our generals." Crispin further notes that Most significant, perhaps, former prime minister and current Chief Privy Councillor Prem Tinsulanonda, seen by many as the mastermind behind last year's coup, has strong Cold War ties to several senior US Republican Party operators. During a private dinner in 2000 sponsored by the Johns Hopkins University School of Advanced International Studies, in a speech Prem voiced his "heartfelt" appreciation to Paul Wolfowitz, then the school's dean, for his role in assisting Thailand after Vietnamese communist troops invaded neighbouring Cambodia in 1979 and threatened to continue their march into Thailand.

To some, the US has today made a similarly controversial policy position in supporting the coup makers who ousted a twice democratically elected leader. While publicly lamenting Thailand's retreat from democracy, and more recently criticizing protectionist economic policies that threaten certain US business interests, in private US officials have persistently reaffirmed to Thailand's ruling generals Washington's long-term commitment to keeping bilateral ties on track.

During last November's Asia-Pacific Economic Cooperation meeting in Hanoi, Bush met with Surayud on the sidelines and conveyed that Washington "understood" Thailand's political situation. The following month, his father, former president George H W Bush, paid a personal private visit to His Majesty King Bhumibol Adulyadej - widely viewed in Thailand as a symbolic endorsement of the royalist coup.

For Washington, last year's military takeover has presented a unique opportunity to steal a march from China, which through soft economic power has seen Beijing consolidate strong alliances in neighbouring Myanmar, Cambodia and Laos. It is therefore no coincidence that Thaksin, spurned by what he perceived to be his former US ally, has chosen to launch his anti-junta propaganda campaign, in attempted divide-and-rule fashion, from China and Singapore.

The Economic Implications – Before and After Thaksin

As well as being hit by the 2004 tsunami, Thailand's economic growth was already being pegged back by political uncertainty as protests against Mr Thaksin rumbled on.

In fact, some have dubbed Thaksinomics. “On the theoretical level, Thaksin's program combines elements of demand management (Keynesianism), supply side incentives (Reaganomics), entrepreneurial development (Schumpeterism), grassroots empowerment (de Sotoism) and the structuralist—non-price system reorienting—state led growth of Albert Hirschman. It embraced globalization and comparative advantage, while at the same time attempting to shape the country's comparative advantage through non-price incentives. On the other hand Thaksin also gained favor with foreign investors by promoting an economic program to boost Thailand's economy in the face of growing competition from China. This program, which many economists viewed as a template for other, similar countries dealing with the rise of China, included efforts to privatize state companies, to negotiate free-trade pacts with other countries, including the U.S. and Japan, and to authorize large investments in new infrastructure.

The bloodless coup did increase Thailand's short-term economic uncertainty, but in some ways it also increased Thailand's stability for the midterm. Politically, Thailand has been largely rudderless since Thaksin came under fire from the opposition, the monarchy and its Network, the Thai courts and the continuing insurgency in the country's far south and especially the sale by his Shin Corp to Singapore. The latter is still an unresolved matter and moves to regain control of the company would be interpreted in a patriotic spirit by most Bangkokians while it would send shock waves through the region.

The outcome of the latest power struggle is of vital importance to investors and Western governments. Although Thailand no longer is among the world's fastest-growing economies – as it was in the 1980s – it has emerged as an important staging ground for Western companies that don't want to place all their bets on China. This includes the world's largest auto makers, including Ford Motor Co., General Motors Corp. and Japan's Toyota Motor Corp., all of which have made the country a vital production platform.

The coup leaders have indicated that they favour the king's preferred economic strategy of slowing the economic growth rate in an attempt to hold on to traditional Thai values by limiting foreign investment. However, this does not imply a downturn for the economy.

While tanks rolled along Bangkok's streets, Thai exporters ran up the country's largest-ever monthly trade surplus at US\$1.4 billion. Those revenues contributed to Thailand's biggest balance of payments surplus since 1997, evidence that foreign investors were pouring money into the country before, during and after the military seized power. Surging capital inflows last month pushed the baht to a six-year high against the Dollar. That's significant for Thailand, where economic dips have historically presaged bouts of political instability.

So far investors believe that the September *putsch* has shored up stability after a year of anti-government street protests and general political chaos - though self-exiled and former premier Thaksin Shinawatra's ambitions and His Majesty King Bhumibol Adulyadej's health are still two major, potentially volatile, wild cards. And because Surayud's government derives its legitimacy from the crown, it's wholly unclear how Thailand's power balance would recalibrate and foreign investors react if the ailing revered monarch were to pass in the coming months. While most of Thailand's good economic news has been externally driven, Surayud's government has reaffirmed its commitment to a "free-market economy" and asserted that its application of King Bhumibol's "sufficiency economy" should not be confused with protectionism.

"The meaning of growth should be broader, embracing not only competitiveness but also sustainable development, social justice and contentment," said Surayud, a former army commander. And in a not-so-subtle jab at the outgoing administration, "The way rules and regulations governing commercial and investment practices are implemented will be improved through greater transparency, and hence predictability. We will do away with double standards."

Surayud's clear-headed presentation was in stark contrast to Thaksin's first internationally received speech in 2001, where he clumsily unveiled his "dual track" economic policy and through its "inward-looking" message managed to panic foreign investors for many years. Later in 2001, Thaksin alienated the Japanese investment community when he unilaterally amended contracts already held by Japanese construction companies to build the terminal at the new Bangkok international airport, requiring that they source 80% of their building materials locally.

In conclusion on the economic front, the interim government's handling and bungling of the economy is exemplified by two decisions. In December, the stock market experienced a sharp 15% drop when the government unwisely tried to impose capital controls to curb currency speculation. More recently, the stock market fell again when leaders limited foreign ownership of companies in Thailand invoking nationalism as a justification. These measures and the lack of stability that a coup represents have caused the economy to falter and hurt the government's credibility in the eyes of international investors. Still, Thailand's economy is expected to have a solid year of growth in 2007 despite some forecasts that rates will slow.

In an attempt to appeal to Thaksin's base and continue his successes economically, the government is repackaging populist economic interventions. It is shifting away from Thaksinomics to a "sufficiency economy" as advocated and created by the King. Government actions to carry out the plan, however, have been met with resistance and encouraged rumors of internal rifts in the regime. Both the finance minister, Pridiyathorn Devakula, and Somkid Jatusripitak (a former Thaksin official) have resigned in the last couple of weeks, and the government recently announced the lifting of capital controls.

To me it seems that there is a close connection between the coup itself, the internal power struggle between various interpretations or ideologies if you like, and the impact of the US and China on Thailand's future development strategy.