

# BTI 2008 | Thailand Country Report

<b>Status Index</b>	1-10	<b>5.98</b>	# 57 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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## Key Indicators

Population	mn.	64.2	HDI	0.78	GDP p.c.	\$	7,720
Pop. growth <sup>1</sup>	% p.a.	0.8	HDI rank of 177	74	Gini Index		42.0
Life expectancy	years	71	UN Education Index	0.86	Poverty <sup>3</sup>	%	25.2
Urban population	%	32.3	Gender equality <sup>2</sup>	0.49	Aid per capita	\$	-2.7

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review began with the landslide electoral victory of the incumbent civilian Prime Minister Thaksin Shinawatra in the February 2005 elections. His Thai Rak Thai (Thai love Thai, TRT) party won 75% of the seats in the lower house of parliament. Observers agreed that this indicated a further consolidation of “Thaksinocracy,” a version of electoral democracy characterized by the following: a grab bag of populist policies; the prime minister’s emphasis on his personal technocratic competence and his democratic mandate to impose his superior knowledge; direct appeals to rural voters and the urban lower class through radio and TV speeches and public gatherings; and a pronounced indifference to human rights violations committed by the police and military. Based on his unique popularity among rural voters and his ability to rally popular support for his political agenda, Thaksin has misused his parliamentary majority to marginalize opposition parties. In addition, Thaksin has attempted to compromise the moral and constitutional strength of institutions such as the Constitutional Court and the National Counter Corruption Commission by appealing to his “superior” democratic legitimacy. Thaksin has increasingly eroded the checks and balances that the 1997 constitution had established in order to strengthen liberal democracy.

More than any other feature of Thaksin’s government, the blanket indifference to the opinions of both the Bangkok-based middle class and NGOs, and its increasingly difficult relationship with the monarchy and the strongly royalist segments of the armed forces, prompted the opposition to seek representation after the 2005 elections in the only way it appears to be possible: outside the system. The government answered the opposition’s call for resignation (which was backed by mass demonstrations in the capital city of Bangkok) with the dissolution of parliament and called for new elections in April 2006. All major opposition parties boycotted the election, so the TRT’s

election victory turned out to be Pyrrhic for Thaksin, especially when the king publicly urged the political parties to end the crisis. Almost immediately after the king's speech, the Election Commission canceled the election. For the next five months, Thailand was without an elected parliament and was ruled by an unelected caretaker government under Prime Minister Thaksin. On 19 September 2006, units of the Royal Thai Army successfully staged a coup d'état against Thaksin. Immediately after their takeover of power, the junta revoked the constitution and dissolved the cabinet, parliament and the Constitutional Court. The junta announced that the aim of its intervention was to strengthen democracy through democratic reform, and they committed themselves to the restoration of democratic government within one year. However, instead of an interim civilian prime minister, as promised by the junta after the coup, General Surayud Chulanont, a retired Army CC and advisor to Thailand's king, was appointed Thailand's twenty-fourth prime minister on 1 October 2006. In addition, the ruling military council announced that after the elections (promised for October 2007), the council would be transformed into a permanent "Council of National Security," whose future role in Thai politics has yet to be clarified.

The 2006 crisis was followed by an economic downturn including declining growth rates, a weak stock market, rising levels of personal debt and a very weak currency. At the same time, the Muslim insurgency in the three southernmost provinces of the kingdom continued to worsen.

## History and Characteristics of Transformation

Thailand's economic development from an agrarian to an industrial economy took place within a few decades, essentially between the 1970s and 1990s. During this period, the kingdom joined the ranks of medium income countries and became one of the powerhouses of the Southeast Asian region. Yet much of the economic output was generated in the industrial and service sectors, while a substantial proportion of the population worked in the agricultural sector. This divergence in output led to large income gaps between urban and rural areas, and many social groups (such as northeastern laborers and southern Muslims) were largely excluded from the benefits of rapid economic growth. The Asian financial crisis of 1997 was triggered in Bangkok and hit Thailand's economy hard. The crisis led to the worst recession since the Great Depression, a severe rise in unemployment and a profound loss of confidence on the part of international investors. The inept handling of the crisis by international financial institutions and the national government helped trigger a modest nationalist backlash and contributed significantly to the attractiveness of Prime Minister Thaksin Shinawatra's neo-populist policies. In fact, under the government of Prime Minister Thaksin (2001 – 2006), the Thai economy recovered and experienced a new boom, with a GDP growth of between 6% and 8% per year and double-digit export growth.

Thailand's political order has demonstrated a range of conflicting tendencies since the end of absolute monarchy in 1932. Until the early 1990s, political development was characterized by frequent alternation between authoritarian and semi-democratic regimes. The military and civil bureaucracy held political power until the late 1970s. Beginning in the 1970s, however, the rise of private business and party politics weakened the power of the ruling generals and bureaucrats. In the early 1980s, this development led to the liberalization of the "bureaucratic polity." Political liberalization in the 1980s led to a short-lived democratic interregnum between 1988 and 1991. Disgruntled generals under the leadership of General Suchinda staged a coup against the elected government of civilian Prime Minister Chatichai Choonhavan in February 1991, abruptly ending this democratic interlude. However, the military proved unable to stop political liberalization. After the military failed to suppress mass protests in May 1992, a transition to democracy took place in September 1992.

The 1992 elections marked the beginning of Thailand's latest democratic experiment. However, in the following years, democracy became synonymous with cabinet instability, political corruption, vote buying, and the fusion of provincial crime with party politics. Frustration with the democratic process initiated the emergence of a broad political reform movement in the mid-1990s, which led to the passage of a new constitution in October 1997 accompanied by a broad package of additional reforms including electoral and bureaucratic measures. While these measures represented attempts to strengthen democracy in Thailand, the architects of reform do not seem to have anticipated unintended consequences; measures designed to promote political stability often contain the potential to have the opposite effect instead. The most significant of these unintended consequences was the rise of the Thai Rak Thai party, founded in 1998 by billionaire and politician-turned-telecommunications tycoon Thaksin Shinawatra, to near-hegemonic power.

## Transformation Status

### I. Democracy

#### 1 | Stateness

While the state's monopoly on the use of force is institutionalized in principle, this does not apply along the border with Myanmar or in the southern provinces bordering Malaysia. The state's monopoly on the use of force is compromised along the border with Myanmar, as well as in the northeast region of the country, by organized crime, incursions by Myanmar's security forces and the ethnic "militias" allied with them, and locally entrenched political, economic, and criminal structures. The military has recently been complicit in clearing prime real estate plots in Bangkok on behalf of developers linked to criminal networks. During the review period of this report, the state's monopoly on the use of force in the southern provinces of Narathiwat, Yala and Pattani has further eroded due to the escalating Muslim insurgency. In fact, the situation in these three provinces, where the military de facto rules, is extremely violent and volatile. The Thai government's growing reliance on abusive militias to fight a growing insurgency in the southern provinces not only places civilians at increasing risk, but may also lead to a certain degree of "privatization" of state coercion.

Monopoly on the use of force

For the most part, long-term residents of Thailand have now gained citizenship as a result of successful nation-building policies. There is some discrimination against Muslims, who officially make up about 3.5% of the population (real figures may be rather higher) and are concentrated in the southern provinces. Some southern Muslims also hold Malaysian citizenship and they have been persistently accused of disloyalty to the central Thai state. Since January 2004, tensions between Buddhist Thais and southern Muslims have increased dramatically. According to official numbers, more than 1,700 people have been killed in politically motivated violence in the southern border provinces since 2004. As a consequence, it seems that more and more Malay Muslims question the legitimacy of the Thai nation-state. The 1997 constitution grants civil rights only to Thai citizens, implying that migrant workers (who number in the millions) possess no rights at all. This is especially problematic for the hundreds of

State identity

thousands of stateless peoples living in the border areas with Myanmar, mainly members of tribal minority groups

Although Thailand is officially defined as a secular state, the kingdom is a de facto Buddhist society. The 1997 constitution stipulates that the king must be a Buddhist. Other religious communities are not seriously discriminated against. The political process and the legal system are secularized, but the Buddhist Sangha is an influential social actor and the monarchy's political rituals are full of Buddhist symbolism. There is a danger that the insurgency in the south might turn into a religious confrontation between the Muslim minority and the "Buddhist" central government (at least from the perspective of radicals on both sides).

No interference  
of religious  
dogmas

An effective administrative system, public safety and order are largely assured. Undoubtedly, the Thai state is able to allocate and extract state resources at will. However, there is no administrative will to get things done, and the quality of administrative services is low in certain sectors. Ironically, most observers seem to agree that the quality of the state administration improved during the reign of Prime Minister Thaksin, not least because of the changing patterns of corruption (e.g., the shift from petty bureaucratic corruption to high-level political corruption).

Basic  
administration

## 2 | Political Participation

The 1997 constitution and the draft interim charter released on 27 September 2006 both promulgate universal suffrage (the 1997 constitution included some problematic limitations on the right to run for office). The February 2005 elections were sufficiently open, competitive and fair, although the vote was not necessarily fair due to government dominance of the media, widespread vote buying, and TRT's practice of using the government's control over local and provincial administrations to disadvantage opposition parties. However, since the dissolution of the parliament in April 2006, Thailand has had no democratically elected government or parliament. Since the 2006 coup, the kingdom is officially ruled by a military junta that styles itself as a national security council. The junta has appointed an unelected interim prime minister and nominated an interim parliament that consists of members hand-picked by the military. Elections have been promised for October 2007.

Free and fair  
elections

Since September 2006, Thailand has effectively been under military rule.

Effective power  
to govern

Under the civilian Thaksin government, freedom of association and freedom of assembly had already been curtailed, notably during the 2003 Bangkok Asia Pacific Economic Cooperation (APEC) meeting, when the government sought to prevent demonstrators from expressing critical views. Immediately after the coup,

Association /  
assembly rights

the military junta announced martial law. After dissolving the parliament, Senate and the Constitutional Court, the coup leaders announced that political gatherings of more than five people would be banned, with violators subject to six months imprisonment. Existing political parties and local administrative organizations were ordered not to hold any political activities or assemblies. Media censorship remained in place, with the junta directing the media to “cover news truthfully and constructively in order to promote unity and reconciliation in the country.” Soldiers were placed in newsrooms at TV and radio stations until 1 October 2006. Although martial law was later lifted, several informal and legal checks on the right of association and assembly, as well as the freedom of speech (see below), remained in place. Although the military and the government tend to tolerate the political activities of their critics and opposition parties, democracy activists and members or supporters of political parties have to act under partial constraints of their political rights that are not consistent with democratic principles.

Under the Thaksin government, freedom of expression and freedom of the press were increasingly constrained by the government’s tight control of broadcast media and by a variety of pressures brought to bear on the print media. Critical commentators gradually disappeared from the airwaves – which remain controlled by the military under anachronistic cold war legislation – and people close to the ruling party acquired formal or informal shares in various newspapers. While this turned out to have unintended consequences for the government (one of those commentators became a leading figure in the mass protests against the Thaksin government which contributed to its downfall), the situation became even worse under the current government.

Freedom of  
expression

In a report published in May 2007, the Committee to Protect Journalists ranked press freedom in Thailand among the 10 worst countries in the world. Reporters Without Borders ranked Thailand 122nd out of 168 countries in its 2006 Press freedom index (2005: 107). The military junta is known for giving “directives” to broadcast media networks not to air issues that threaten national security. Immediately after the coup, hundreds of local radios were closed by the military junta. In the months following the 19 September 2006 coup, video clips and news about ousted Prime Minister Thaksin Shinawatra were blocked from news programs. Exclusive interviews with Thaksin on international media networks, such as CNN and the BBC, were also taken off the air. In March 2007, the military-led government stopped the airing of People’s Television (PTV) news programs about Thaksin. Broadcast via satellite from Hong Kong, PTV was formed by former members of Thaksin’s Thai Rak Thai party.

In addition, the country’s only privately owned television station, ITV (Independent Television), recently renamed as TITV (Thailand Independent Television) was nationalized and placed under government control. The print media have so far remained unaffected, but they have borne the brunt of criticism

from civil society activists, who say they have been kowtowing to the government's demands and exercising varying degrees of self-censorship. In December 2006, when the administration presented a budget in which military spending was increased by 34%, the press did not dare publish critical editorials. The crime of "lese majesty" is punishable in Thailand by 15 years in prison. A Bangkok press baron narrowly escaped prison in 2006 after being accused of insulting the king. And in the months before the downfall of the Thaksin government, threatening opponents with "lese majesty" almost became a custom for both government and anti-Thaksin forces.

### 3 | Rule of Law

The separation of powers had already eroded before the final years of the Thaksin government. For the Thaksin government, however, separation of powers was little more than a constitutional phrase without any real substance. The TRT controlled 75% of the seats in the lower house, manufactured a pro-government majority in the Senate, and dominated the nomination process for constitutional organs such as the Election Commission and the Constitutional Court. However, since the military coup took place in 2006, there is not even de jure separation of powers. The National Security Council controls the cabinet under the leadership of Prime Minister General (ret.) Surayud Chulanont. The appointed parliament has no power to control the government. The Constitutional Court was dissolved by the junta in September 2006.

Separation of powers

The judiciary is institutionally well-differentiated and independent, though individual prosecutors and judges may be susceptible to bribery. The 1997 constitution created a new set of independent institutions to provide checks and balances, including the following bodies: the Constitutional Court, the Administrative Court, the National Counter-Corruption Commission, the Election Commission and the National Human Rights Commission. However, these bodies do not all work as intended, and some have been dissolved by the military after the coup. Trends in government conduct between 2005 and 2006 suggest that the significance and powers of these new institutions are fast being compromised. The Thaksin government was largely successful in neutralizing these institutions by appointing party hacks into key positions. After the coup d'état, most courts are allowed to operate independently, as long as "high politics" is not involved. Ironically, the military's takeover of power had only a modest impact on the functioning of the judicial system.

Independent judiciary

Political and bureaucratic corruption is endemic. Thailand's population views fighting corruption as the most urgent problem confronting good governance. Despite some high-profile exceptions, cabinet members, high-ranking politicians and their family members or business managers are seen as having de facto

Prosecution of office abuse



immunity from prosecution on corruption charges. After the army had staged its coup, the military argued to the Thai public and western governments that the military had intervened to stop corruption that had reached unprecedented levels under Thaksin. Although the junta tried to substantiate this accusation, it has been unable to present any convincing evidence to the public so far. Furthermore, some critics and foreign observers have noted that segments of the military have utilized the military's new power to get engaged in high level corruption and to control the pork-barrels and perks previously under control of the civilian government.

Even before the coup d'état, civil rights were compromised by discrepancies between government behavior and legal norms as well as by the authorities' selective application of established law. Thaksin's 2003 war on drugs, which resulted in 2,000 – 3,000 extrajudicial killings, as well as the excessive use of force by the military in the south during 2004, both contributed to the steady decline of civil liberties and human rights. Since the 2006 coup, the situation has not improved. In March 2007, Human Rights Watch claimed that Thai security forces are using "disappearances" as a means of weakening the militants in the south and intimidating the Malay Muslim community. These disappearances appear to be a matter of policy, not simply the work of rogue elements in the security services. While most of the enforced disappearances documented in the report took place during the government of Prime Minister Thaksin Shinawatra, the Thai government's growing reliance on abusive militias for security in the southern provinces also places civilians at increasing risk.

Civil rights

#### 4 | Stability of Democratic Institutions

From winter 2005 until September 2006, democratic institutions were paralyzed because of conflicts between anti-Thaksin forces and the government. After the coup d'état of September 2006, Thailand's main democratic institutions were abolished. However, it is worth mentioning that, before the coup, there was a great deal of friction between the institutions and the authoritarian style of governance that increasingly pervaded the political system. The administrative system is efficient and stable but suffers from severe corruption and undue influence from the political sector.

Performance of democratic institutions

The political crisis of 2005 and 2006 and the military coup proved the lack of a pro-democratic consensus among the political elites of the kingdom. While elections and democracy are accepted in principle, in reality, democracy is far from being the "only game in town." Obviously, the military and the monarchy (which has endorsed the overthrow of a democratically elected government and has given its strong support to the royalist-military junta which seized power) are powerful veto players who claim the right to intervene in the democratic process

Commitment to democratic institutions

whenever they feel that the “national interest” is threatened by elected politicians and civilian political parties. It must be pointed out that some critics of the Thaksin government, including intellectuals and scholars, as well as social activists who had joined the anti-Thaksin camp before the military coup, have played quite an ambivalent role when they asked the king to use Article VII of the 1997 constitution. This would have allowed the head of state to dismiss the Thaksin government and create a non-party cabinet responsible only to the king. In fact, contrary to the results of some public opinion polls and survey data, which had shown a very strong pro-democratic commitment among Thai respondents in the years before the coup, it seems that a majority of the Thai citizenry either cheered the coup or reacted with passive acceptance.

## 5 | Political and Social Integration

Thailand’s political party system is relatively young, except for the Democratic Party, which was founded in 1946. Towards the end of the 1980s, the party system was dichotomized into pro-military parties and political parties who stood for the de-militarization of Thai politics. While other ethnic, religious or economic cleavages had little impact on the formation of the party system, this cleavage became dominant in Thai party politics. In reality, however, this was a shallow distinction that reflected the lack of substantial policy differentiation between the parties. Rather than evolving through the emergence of contesting ideas or ideologies, the formation of Thai political parties in the 1990s was influenced by three political and institutional factors: the vertical centralization of political power and access to state resources within the unitary organized state; the horizontal decentralization of decision-making authority between state agencies and cabinet ministries; and the dispersion of political resources within oversized multiparty cabinets and factionalized political parties. The electoral system at that time (plurality rule in multimember constituencies with plural voting) and ubiquitous money politics further maximized the impact of the three factors on the party system. As a result, the party system was deeply fragmented and factionalized, far from well institutionalized, and its lack of social linkages and mass support was clearly evident.

Numerous corruption scandals, frequent changes of political parties and cabinets, and the shock of the Asian financial crisis of 1997 created a deep crisis of political confidence; for many intellectuals and civil society activists in the media and in the urban middle classes, party politics became synonymous with instability, corruption, vote buying and the collusion of “dark interests” and politics. As a result, a broad “tactical alliance of liberal, progressive, and conservative forces” emerged that gave the political reform debate of the 1990s an explicitly anti-political-party agenda. In fact, supported by the new

Party system

institutional setting and strategic learning by Thai Rak Tai, significant party realignment has occurred since 1997. The effective number of political parties dropped from 5.6 (pre-1997) to 1.6 in the 2005 election. Although twenty parties registered candidates with the Election Commission for the February 2005 election, only four parties won seats: Mahachon (2), the Chart Thai Party (28), the Democratic Party (94), and Thai Rak Thai (376). Along with the trend of decreasing fragmentation, eroding electoral competitiveness and the increasing aggregation of party politics and one-party dominance, polarization between the two largest political parties further deepened. While this trend became visible in the 2001 election, the February 2005 poll consolidated it. The structural causes for the transformation of Thailand's party system from a highly fragmented system to a predominantly one-party system goes back to the 1980s, although the 1997 reforms further fostered this trend. This broad package of institutional reforms had several effects. Compared with the previous elections, policies gained more relevance in the 2005 election campaign, although the policy profile of most parties is still weak. For example, during the 2005 election campaign, the Mahachon Party's manifesto called for more welfare reforms to improve quality of life and lessen income inequality. The Democratic Party tried to develop a sharper profile as a liberal democratic alternative to Thai Rak Thai, whereas TRT proposed various social democratic, liberal and populist policies.

However, in general, political parties in Thailand are not based on ideology. Party leaders prefer the flexibility to adjust to the immediate interests of voters during the campaign. Consequently, it is often difficult to distinguish the policies of one party from another. Major parties do not differ fundamentally in political and economic programs and ideological orientations. Party switching is also widespread. Organizational reforms implemented by various parties in the past couple of years did not go beyond the minimum required by law. The selection of candidates and the decision-making process within parties are largely non-transparent and non-participatory. Party conventions merely affirm decisions by the leaders. Rank-and-file members have little say in party decisions. Ordinary party members have no substantive role to play in the decision-making process. Furthermore, the consolidation of internal decision-making, Thaksin's paternalist style, and the rapidly dwindling commitment of the prime minister to listen to social organizations and activists, has alienated many progressive groups and individuals within civil society.

Although Thailand has a well-differentiated landscape of interest groups, particularly in the NGO sector, civil society's influence on interest intermediation between government and society is weak. The trade union system is poorly developed, largely disorganized and extremely fragmented. Business associations are better organized and they enjoy significant advantages over the unions in promoting their interests. Industrial relations are traditionally seldom subject to

Interest groups

regulation. Despite its modest roots, the civic organizational landscape continues to progress toward a high level of differentiation. However, there is a heavy concentration in and around Bangkok and the northern region as well, while the organizational development of the NGO sector in the northeast, the south and the central regions is significantly less dynamic. In addition, certain types of NGOs can be found more often in Bangkok, whereas others are more active in the provinces and rural areas (natural resource management, local governance, agriculture, etc.). Although the most recent data are from the late 1990s, there is empirical evidence that this pattern of spatial distribution has remained basically unchanged in the early 2000s.

Based on survey data published between 2001 and 2005, one would assess consent to democracy among Thais as high. According to these surveys, Thailand's citizens appear to have a high level of support for (or trust in) the institutional underpinnings of democracy. However, widespread (although not quantifiable) support for the 2006 coup (just as, before the coup, there was support for the semi-authoritarian style of Prime Minister Thaksin Shinawatra's governance and policies) may indicate that the data are flawed, unreliable or at least are of limited use. Furthermore, high voter turnout in Thailand has traditionally been associated with extensive vote buying and was due in part to the compulsory voting measures introduced after 1997.

Consent to  
democratic  
norms

As in other countries, civil society in Thailand is defined by political conflict. In addition to ideological differences, different views on the relationship between state or government and civil society are one of the most important sources of discontent and debates within Thai civil society. Generally speaking, the different views range from concepts of complementary relations to concepts that heavily emphasize the confrontational character of state-civil society relations. Although opportunities for non-governmental actors to participate in the process of governance have increased over the past two decades (for instance, the Thaksin government offered civil society groups financial and other incentives to cooperate with projects advanced by the state, as part of a co-optation strategy), NGOs and civil society prefer to keep their distance rather than collaborate with the government. For example, while civic movements and NGOs contributed to the consolidation of democratic reforms in Thai society after 1992, the civil society wing of the political reform movement of the 1990s increasingly developed a negative view of political parties and parliamentary politics.

Associational  
activities

The contribution of civil society and NGOs to the stabilization and consolidation of democracy in Thailand is difficult to assess. Attributes such as accountability to their own clientele and participation are often not well institutionalized in NGOs. In addition, there is a strong dualism between grassroots and "people's organizations" on the one hand, and "modern" NGOs or "elite urban civil society" on the other. Most Thai NGOs are dependent on outside funding. They

are therefore prone to adopting donor agendas without developing an appropriate sense of ownership of these agendas. Furthermore, many progressive NGOs and other civil society actors are not well connected with political society or have turned away from political parties.

Other structural factors, such as a high degree of fragmentation and polarization and a lack of strategic capabilities, also negatively impact the capability of non-governmental and other civil society organizations to organize, mobilize and assert social interests. So-called progressive NGOs, as well as organizations of “urban elite” civil society, are often poorly integrated into the cultural pattern of Thai society. Hence, their membership is often weak and they encounter difficulties in the performance of core functions for democracy. On the other hand, many of the urban “civil society” groups, who focus on the urban middle classes in particular, do not have a strong rapport with the rural population, which finds it difficult to make a connection between the topics proposed by urban groups and their own needs.

On the issue of social capital, a World Bank study, published in January 2000 as Thailand Social Monitor, showed a mixed picture, both in terms of the stock of social capital and its manifestations in Thai society. At the household and family level, there is a dense network of structures and mechanisms to help family members, and community structures are intact. Particularly during and after the Asian financial crisis, communities came together and created new institutions to help themselves, particularly savings groups. The Thai government has played a decisive role in supporting community-level mobilization. But the survey also found troubling signs that social capital at the family and community level declined in recent years, at least for some people, that some manifestations of social capital have also deteriorated, and that, overall, social capital (and government programs) could not cushion the adverse economic impacts of the crisis on Thai society.

## II. Market Economy

### 6 | Level of Socioeconomic Development

Thailand ranks high among the group of middle-income countries. With a per capita GDP of \$8,090 (PPP) and an HDI value of 0.784 (ranked 74th out of 177 countries in the HDR 2006), the country’s development status allows the majority of citizens an adequate freedom of choice. However, a considerable proportion of

Socioeconomic  
barriers

the population remains excluded from society because of poverty, lack of education and discrimination based on gender or ethnicity (including so-called hill tribes, though the Karen are actually lowland dwellers). Throughout the period of review, Thailand failed to reduce its considerable social and economic disparities (distribution of income is more unequal than in most other Southeast Asian countries). Rather, post-1997 crisis management policies led to a significant income drop among lower income groups, greater income inequality and more poverty. Existing development imbalances between Bangkok and the rest of the country, as well as among the various regions, were not reduced. Preliminary evidence suggests that the government's populist programs have had mixed results; village development funds, aimed at stimulating small business activity, have often been spent on consumption (typically, the purchase of motorcycles) or monopolized by well-connected villagers. In 2003, the Thaksin government introduced a "war on poverty" in an attempt to address inequality by registering Thailand's estimated eight million poor and providing further benefits to them. In fiscal year 2005, government spending plans involved the largest budget in Thailand's history, with projected expenditure of 1.2 trillion baht. Pervasive social exclusion results from poverty, unequal access to education and deeply rooted ethno-religious or gender discrimination. These problems are most pronounced in Isan (the country's northeastern region) and the southernmost provinces. The protracted insurgency has already adversely affected development efforts throughout the south.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	126,877	142,920	161,688	<b>176,634</b>
Growth of GDP	%	5.3	7.0	6.2	<b>4.5</b>
Inflation (CPI)	%	0.6	1.8	2.8	<b>4.5</b>
Unemployment	%	1.8	1.5	1.5	-
Foreign direct investment	% of GDP	0.8	1.4	1.1	<b>2.6</b>
Export growth	%	12	7	9.6	<b>4.3</b>
Import growth	%	13.7	8.5	13.5	<b>9.4</b>
Current account balance	\$ mn.	7014.3	7952.8	6857.4	<b>-3670.5</b>
Public debt	\$ mn.	22,523.8	17,701.6	15,247.5	<b>13,483.0</b>
External debt	\$ mn.	59,370.7	51,782.7	51,231.5	<b>52,266.3</b>
External debt service	% of GNI	15.8	10.7	7.9	<b>11.3</b>

		2002	2003	2004	2005
Cash surplus or deficit	% of GDP	-	1.5	1.1	2.5
Tax Revenue	% of GDP	-	15.4	15.9	17.1
Government consumption	% of GDP	11.1	10.7	11.1	11.8
Public expnd. on edu.	% of GDP	-	-	4.2	-
Public expnd. on health	% of GDP	2.4	2.2	2.3	-
R&D expenditure	% of GDP	0.2	0.3	-	-
Military expenditure	% of GDP	1.4	1.3	1.2	1.1

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Thailand's constitution guarantees a market economic system. While the foundations of a competitive market economy are well established, market competition still operates under an insufficiently institutionalized framework. There is an acknowledged need to introduce more transparent bidding processes and challenge vested interests to address fundamental problems of the business and financial sector. As in most Southeast Asian economies, the informal sector is large. For instance, according to UNDP data (2004), employment in the informal sector as a share of agricultural employment is 71.1% and about 20% of all employed labor in the non-agricultural sector. It is worthwhile to mention that there is no significant difference in the numbers of men and women in the informal sector. Thus, significant segments of the labor force are kept out of the market. The informal sector also accounts for a large share of all enterprises in the manufacturing, trade and service sectors.

Thailand's antitrust policy is set out in the Trade Competition Act of 1999 (TCA). The provisions of the TCA do not apply to certain parties, mainly state enterprises and public agencies. Since 1999, the dense regulation of the economy has been reduced. Personal and financial interrelationships among politicians, bureaucrats and entrepreneurs have created numerous distortions in a competitive system that could be described as crony capitalism. In the restructuring of the financial system and the business sector, the government repeatedly made ad hoc exceptions to general rules of the game. Application of existing laws governing competition is neither even-handed nor impartial. Thus, although Thailand's TCA is rather advanced, the effective application of the competition law can be further improved by identifying dominant players in the market. In addition, effective procedures will be necessary in order to encourage competition in public procurement.

Market-based competition

Anti-monopoly policy

Foreign trade has been liberalized under pressure from the IMF and the WTO. Special regulations exist for certain economic sectors, though not to the extent previously observed. In principle, the Thai Foreign Business Act allows foreign companies to conduct business in all sectors except those enumerated in one prohibitive list and two others where specific approval are required. The liberalization of trade, which ensures that Thailand remains competitive, has been progressing well. Thailand is a founding member of the ASEAN Free Trade Area. Thailand also has two more FTAs with Australia and New Zealand. Negotiations between Thailand and the United States on a bilateral FTA are under way. However, Thailand was excluded from the 2006 Korean ASEAN FTA because of unsolved disputes over the question of rice imports. Of all developing countries in Asia, Thailand has the lowest trade barriers to imports from least developed countries (weighted average tariffs is 1.1%). As part of the ACMECS cooperation framework (Ayeyawady Chao Phraya – Mekong Economic Cooperation Strategy), Thailand offers trade concessions to Cambodia, Laos, Myanmar and Vietnam.

Liberalization of  
foreign trade

Non-performing loans (NPLs) in the Thai financial system have declined steadily from the peak of 2,729.3 billion baht in May 1999, or 47.7% of outstanding loans, to 484.7 billion baht, or 8.23%, at the end of June 2006. To tackle NPL problems, an informal mediation process has been established and is supported by various measures. The government has also amended the Bankruptcy Law to allow qualified debtors to restructure their bad debts in the courts. A number of mediation mechanisms have been established to ease the problems associated with NPLs. The Capital Market Master Plan I was implemented from 2002 to 2005 to enhance the quantity and quality of securities, enlarge and strengthen the investor base, and enhance infrastructure efficiency in order to reduce transaction costs. The Capital Market Master Plan II (2006 – 2010) aims to enhance the attractiveness of the capital market as an alternative source of fund-raising and savings choice in order to increase the size of equity and debt markets to be comparable to that of the banking sector and to encourage more institutional investor's participation in the equity market and more individual investors in the debt market. Market capitalization in the Stock Exchange of Thailand has grown significantly, from 1.268 trillion baht at the end of 1998 to 5.046 trillion baht on 29 September 2006. However, rules and regulations must be reviewed to ensure that they are relevant to the current situation and sufficient to immunize the market from excessive volatility caused by speculative transactions. Furthermore, risk mitigation instruments must be developed to help reduce risks. Regarding the development of the futures market as a tool for risk management, the Thailand Futures Exchange (TFEX) was granted a license in February 2005. It is essential that its operation, which began in April 2006, be effectively regulated.

Banking system



## 8 | Currency and Price Stability

Inflation has been low from 2003 to 2005. However, average inflation in 2006 accelerated to 4.6%, the highest rate in seven years, mainly as a consequence of the elimination of fuel subsidies in 2005. As world oil prices eased and the impact of the elimination of fuel subsidies faded, price pressure subsided. To lean against inflation, the Bank of Thailand, which implemented an inflation targeting policy, raised its interest rate seven times between 2005 and 2006. As inflation pressures diminished, the central bank kept the policy rate steady until early 2007, when it cut its benchmark to 4.7% in an environment of stabilizing inflationary pressure and weakening economic growth. Current account surpluses, allied with significant capital inflows, put strong upward pressure on the Thai baht, which hit a 9-year high against the U.S. dollar in December 2006. In mid-December, the monetary authorities, in an attempt to curb capital inflows and slow currency appreciation, announced controls in the form of a 30% non-interest-bearing reserve requirement on many capital inflows. That decision prompted a plunge in the stock market. Reacting to harsh domestic and international critique, the authorities had to amend the announced controls several times, creating even more concern and confusion.

Anti-inflation /  
forex policy

Economic stability has been restored and maintained since 1999 by changing the monetary policy regime to a managed float system of exchange rate determination and by adopting an inflation-targeting regime as a framework to ensure price stability. Enacted in February 2006, the Credit Information Business Act, meant to improve risk management standards for financial institutions, has reduced the onerous legal risks for the credit bureau and their members by providing greater flexibility for the operators. This has strengthened Thai commercial banks, with their average capital adequacy ratio increasing from 9.23% in 1997 to 13.53% in July 2006. The Fiscal Sustainability Framework was successfully implemented, under which the public debt to GDP ratio was not to exceed 50% during the Ninth National Plan (2002 – 2006). Under the Tenth National Plan (developed by the Thaksin government), the aim was to limit this ratio to 45%. The Public Debt Management Act, promulgated in February 2005, provides more flexibility, prudence, and coverage on public debt creation and management and allows limited financing of existing debt, which could not have been done in the past. Net international reserves have been replenished from a mere \$2.5 billion in August 1997 to over \$65 billion in September 2006.

Macrostability

## 9 | Private Property

Property rights and property acquisition are adequately defined. The 2007 International Property Rights Index reports, including the Legal and Political Environment, Physical Property Rights, and Intellectual Property Rights reports, ranked Thailand at 32 out of 70 countries, well ahead of India, Indonesia, Pakistan, the Philippines and China, but behind Singapore and South Korea.

Property rights

Private companies form the backbone of the Thai economy. However, there is a large public sector, especially if one counts the manifold economic interests of the monarchy, which are often financed through the government's budget. The privatization of existing state companies has advanced slowly. A comprehensive privatization plan has yet to be implemented. Given the entrenched nature of vested interests in the Thai economy, there are real fears that further privatizations would not serve the public interest. After the military coup of September 2006, one of the very first measures of the new junta was to re-appoint several military officers to the boards of state enterprises, creating concerns that the military may use this opportunity to strengthen its control over public funds and resources by illicit means.

Private  
enterprise

## 10 | Welfare Regime

Thailand has only a rudimentary welfare regime. Social security systems are budget-oriented and cover a small percentage of workers. The government's social policy is largely limited to meeting basic needs; the family is the primary source of social security. Efforts have been made in recent years to develop social programs for health care, pensions and unemployment, but these did not adequately offset the social consequences of the Asian crisis, particularly because some (such as the 30 baht health scheme) faced substantial financing problems. Thaksin had proposed taking revenues from tobacco and alcohol taxes, currently used for health promotion purposes, and reassigning them to subsidize the 30 baht program. In view of demographic and social change, shifts in the labor market and the effects of the Asian crisis, further adjustments will be necessary if social stabilization is to be achieved in the medium term. An active state labor market policy, as well as state-sponsored continuing education or integration measures, exist in very limited forms. Growth facilitated a gradual decline in unemployment between 2004 and 2006. However, the official unemployment numbers tell only part of the story, because a high percentage of jobs are informal and underemployment is widespread. Labor law standards are in place but are often ignored.

Social safety nets

There are institutions to compensate for gross social differences, but they are insufficient. Women, members of minorities, such as Malay-Muslim or members of the hill tribes in the northeast, have limited access to education, public offices and public services.

Equal opportunity

## 11 | Economic Performance

The Thaksin government was able to generate increased consumer confidence and “feel good” factors, which contributed to a general sense of economic well-being. This trend was especially pronounced in Bangkok and adjacent provinces and was not as pervasive in rural areas. Thaksin has also used public sector investment to help stimulate the economy. Many of the government’s successes have reflected regional and global economic conditions: high world prices for rubber, for example, have brought economic benefits to rubber growers in the south. But the government has also faced performance challenges in handling issues such as the 2004 outbreak of avian flu, which Thaksin unsuccessfully attempted to hide from the Thai public, and the December 2004 tsunami, which devastated Phuket and other tourist areas. High levels of personal and household debt remain the most significant cause of concern, since a relatively small economic downturn could leave large numbers of people unable to service their debts. One survey by the Thailand Development Research Institute suggests that the average level of household debt is equivalent to six months’ salary, and considerably more for those with lower income levels. Growth stepped down to 5% in 2006, mainly because of heightened political uncertainty and flooding in the northeastern and central regions, which affected farm income. Private consumption growth decelerated and fixed investment growth slowed as firms waited for political and policy positions to become clear. In addition, most of the large public investment projects planned by the Thaksin government were delayed. Average inflation grew to the highest level in nine years. Merchandise exports grew strongly while, in contrast, import growth pulled back, reflecting weaknesses in both consumption and investment demand. The current account surplus amounted to 1.6% of the GDP in 2006, a turnaround from a deficit in 2005.

Output strength

## 12 | Sustainability

Environmental awareness in society at large and among lawmakers is low, though it has been raised in recent years by NGO activity. Environmental concerns are often subordinated to growth considerations.

Environmental policy

Thailand has a well-developed state system of primary and secondary education. Having achieved near-universal primary education, Thailand is focusing on

Education policy / R&D

expanding secondary enrollment and upgrading the quality of education. However, participation rates in secondary education are below those of less-developed neighbors such as Vietnam. The greatest challenge lies in improving quality. The education system is currently weak in both skills and creative critical thinking. There is an urgent need for education reform, an issue Thaksin failed to pursue during his term in office. The university system is inadequate and plagued with serious quality shortcomings. The state's expenditures for education from 2002 to 2004 averaged 4.2% of GNP, or about 40% of the central government's total expenditures. The average expenditures for research and development from 1990 to 2000 amounted to a mere 0.2% of the GNP. Furthermore, state infrastructure projects suffer from extended "planning and negotiation" phases, a euphemism for large-scale corruption which often prevents the completion of important projects or greatly increases their costs. As a result, significant deficiencies in infrastructure development persist. The Thaksin government sought to stimulate the economy by prioritizing a number of high-cost, high profile projects, such as the Bangkok subway system and the new Bangkok airport. Further mega-projects, with a total value estimated at 1.9 trillion baht, were proposed for the 2005- 2008 period but were partially delayed after the military coup.

# Transformation Management

## I. Level of Difficulty

From January 2005 until September 2006, Thaksin's government and its successor faced a number of substantial challenges. These included: a poor regional environment for maintaining an export-oriented industrialization strategy; the regional concentration of development in a few centers, with significantly less development in the poorer peripheral areas; regional and social imbalances; inefficient state administration; corruption; money politics; and organized crime. All of these challenges created unfavorable conditions for continuing transformation at the start of the period. The ambivalence of the military and the monarchy, combined with the hostility of government officials, are significant obstacles on the course toward a deep and stable democratic transformation. At the same time, Thaksin (in contrast to the military government) had an unprecedented political mandate, complete control of the parliament and enormous influence over all sections of the government apparatus. The success or failure of reforms during this period comes down largely to a question of political will, and the collapse of democratic reforms came down to management failures.

Structural  
constraints

In the early twentieth century, some elements of "modern" civil society had already emerged out of traditional forms of social organization, such as Buddhist charity organizations and the secret societies of Chinese immigrants. Together with Christian institutions, these groups can be seen as harbingers of modern NGOs in Thailand. Still, however, the expansion of a critical civil society is complicated by the weak traditions of "modern" forms of civil society.

Civil society  
traditions

While many foreigners view Thailand as a prime example of successful state and nation-building in the region, the recent spate of unrest in Thailand's Muslim-dominated southern provinces of Yala, Narathiwat and Pattani since 2001 is posing a challenge to the political and social formulas governing the Buddhist kingdom's self-definition as an ethnically homogeneous and harmonious society. Since 2004 alone, over 1,900 people have been killed in more than 3,000 separate incidents. Nearly half of the casualties are among the Buddhist population, which numbers roughly 300,000. This has led to de facto ethnic

Conflict intensity

cleansing. Entire Buddhist communities have fled to the relative safety of Hat Yai and Songkhla. Furthermore, the political crisis of 2006 and the September coup clearly indicate that society and political elites are deeply split along various cleavages, such as urban versus rural, middle classes versus farmers, nouveau rich versus traditional social forces, and the military versus civilian political parties.

## II. Management Performance

### 14 | Steering Capability

There was a curious discrepancy between the durability of the Thaksin government, which served an unprecedented full four-year term without any serious threats to its authority, and Thaksin's constant cabinet reshuffles, which involved lackluster ministers swapping places with no particular rhyme or reason. Commentators have suggested that under Thaksin, ministers served more as executive assistants to the prime minister than as policymakers in their own right, and were thus inherently interchangeable. No coherent transformation strategy was evident in economic reform, competition policy reform, the restructuring of the banking and financial sector or foreign trade policy. The same applies to programs such as education and bureaucratic reform, which went nowhere during Thaksin's term. Because of various statements and measures on the part of the Thaksin government, international and domestic actors lost confidence in its will to reform. Again and again, Thaksin's market economy transformation strategy featured surprising changes of course. Short-term strategies oriented around self-interest and the retention of power dominated medium- to long-term policies of expanding democracy. However, there is also little evidence that the current military government is seriously interested in pursuing the reform agenda of the 1990s, which appears increasingly to have been the product of a specific historical episode. Although it seems quite certain that elections will be held in October 2007, there is ample evidence to suggest that the military (backed by powerful forces in Thai society) is pursuing a policy that seeks to return to the semi-democratic status of the 1980s. Furthermore, after a promising beginning, the military's policy towards the insurgency problem in the south seems inconsistent. Its economic policies clearly lack strategic prioritization. Because of the various and often contradictory interests and policy preferences of civilian, military, bureaucratic, and royalist forces attached to the junta, it is very difficult for the current government to develop a coherent policy. This has led to serious questions regarding the credibility of the government among foreign actors.

Prioritization

Under the Thaksin government, reform programs were weakly anchored, if at all, in the administrative system and in society, raising doubts about whether the process can continue. The previous achievements of the slow but steady spread of democratic standards now threatens to recede. The military's trend toward increasing politicization was nevertheless quite apparent even before the September coup. Following the political events that culminated in a military takeover on 19 September 2006, an interim civilian government headed by retired General Surayud Chulanont was appointed to oversee political reforms. Now that the interim government has been in place for a year, important economic policy initiatives continue to be put on hold. This prolonged period of political uncertainty has included a review of economic policy initiatives and public investments pursued by the previous government, such as free trade agreements with the United States and a program of public infrastructure projects planned for 2006. Plans to spend \$46 billion on urban mass rapid transit, highways, power, low-income housing, water systems, education, and health projects – initially expected to be financed by external borrowing on the order of \$7.9 billion, with significant private sector participation – have been scaled down or delayed. In terms of its financial and corporate sectors, Thailand has made progress in the implementation of reforms in the last few years, including a Financial Sector Master Plan which helped to increase competition in the financial sector, expand the business scope of commercial banks and develop consumer protection mechanisms. Other priorities on the reform agenda were working on strengthening financial structures, regulating supervision and introducing innovative financial instruments to enhance the competitiveness of Thai banks and firms. However, in terms of corporate governance, Thailand still needs to implement several structural reforms in the corporate and financial sector.

Implementation

Before September 2006, the Thaksin government had shown almost no will and ability in political learning. Even after the crisis started to escalate in early 2006, the government continued to make obvious mistakes, such as the January 2006 tax-free sale of Shin Corp. to Singapore's government investment arm, Temasek Holdings, for 73.3 billion baht, or \$2.3 billion. The Thaksin government also pursued harmful domestic policies, such as the counterinsurgency policy in the south. While the current government has developed some innovative policies to quell the unrest in the south, contradictions and conflicts within the military and its allied civilian organizations, along with the military's way of practicing politics, do not allow the government to respond to policy failures in an effective manner. For example, it took the government a while to realize that the draconian capital control measures imposed by the Bank of Thailand – which are gradually being eased in the face of growing opposition from domestic and international firms – damaged business prospects in Thailand.

Policy learning

## 15 | Resource Efficiency

The government's use of available personnel and organizational resources to pursue its transformation policy is only somewhat effective. Shortcomings are evident mainly in the restoration of the health of the financial market and banking sector, as well as in reforming the bureaucracy and strengthening the rule of law. The use of public funds to support bad loans, troubled banks and businesses facing insolvency, in structural programs for rural development, and in expanding social insurance, is both inefficient and ineffectual. Overall, public services are adequate to support further economic development. However, real progress has been thwarted by the close ties among the political and economic elite, which extend into the highest circles of government. The provision of state social services is seriously inadequate. The military is using its new power to pamper the armed forces and its own clients. For example, after the 2006 coup, the new government increased the military budget by more than 30%. Of course, these allocations took funds away from necessary investments in public services, including education and health care.

Efficient use of assets

The current government has tried to coordinate conflicting political objectives, such as fighting the insurgency effectively while preventing further alienation of Malay-Muslims, or implementing economic reforms without alienating civilian supporters, or introducing political reforms without providing former Prime Minister Thaksin Shinawatra an opportunity to reassume a political role, yet the government has failed to resolve political uncertainty. Instead of promoting transparency in its decision-making and developing a coherent policy direction, the interim government has added to the confusion, which has given foreign investors the false impression that Thailand's economic policy is anti-foreigner. To make matters worse, the disruption caused by the sudden military takeover of government also delayed the disbursement of funds for public sector investment. This could have made up for a shortfall in private investment and contributed to growth at a time when consumer confidence was depressed by persistent political turmoil and the escalating insurgency in the deep south. The Surayud government continues to stumble in matters of economic policy, resulting in a sharp decrease in FDI and growing problems in the export sector. The Asian Development Bank (ADB) advised the Bank of Thailand to replace the draconian controls on short-term capital inflow with a flat tax rate regime in order to shore up foreign investors' confidence and assure them that they are not discriminated against when they participate in Thailand's economy. To come up with a coherent economic policy platform, consensus among policymakers must be reached. However, it appears that there is a serious lack of communication and coordination among the ministers responsible for various aspects of the country's economic affairs.

Policy coordination



In theory, the institutional structure is in place for a successful anti-corruption policy. The National Counter-Corruption Commission received large numbers of complaints. At the same time, investigation of these complaints has been slow, and few officials have been punished or prosecuted. Such tendencies include hierarchical thinking, nepotism, use of the law as a tool for special interests, and little readiness to assume political responsibility and engage in the long-term process of consensus-building. Responsibility for this lies not with the government alone, but also with all of those who wield influence in the political and economic arenas. After the 2006 coup, the Thai military said it overthrew Prime Minister Thaksin because his government was corrupt and was dividing the nation. The coup leaders have set up a committee to probe alleged corruption and wrongdoing committed by Thaksin, his cabinet ministers and their families, but have yet to produce any evidence of such wrongdoing. The new nine-member committee, which includes Thai central bank officials, prosecutors and government auditors, began to investigate accusations that members of Thaksin's administration abused power for personal gain. However, recent corruption investigations into Thaksin's policies have not led anywhere. In the most recent annual survey, published in March 2007 by the Political and Economic Risk Consultancy (PERC), Thailand's corruption ranking deteriorated badly. In fact, the kingdom was now seen in the same light as Indonesia. According to PERC, there is no reason to be confident that the junta's behavior will be any better than that of the Thaksin government.

Anti-corruption  
policy

## 16 | Consensus-Building

The political crisis of 2005-2006 and the resultant military coup illustrate a dramatic lack of consensus about the goals and directions of political and economic transformation among major political actors, particularly with reference to the political development of the country. There is an increasingly significant lack of consensus surrounding the controversy of "Thaksinomics" versus a "self-sufficient economy"; the latter is an idea that has been supported by the monarchy for quite some time, one which gained new relevance in the months following the coup d'état. However, the situation is more complex than it might appear from an outsider's perspective. The conflict over political transformation is not about autocracy versus democracy, but rather about what kind of democracy Thailand should pursue. Should democracy in Thailand reflect a compromise between the competing demands of a more populist and highly centralized democratic leadership or should democracy reflect an elitist concept thereof that is shared by the middle classes and business interests? Or should a more traditional concept of "semi-democracy" be pursued, in which the military and the monarchy act as power moderators and non-partisan guardians of the nation? In the context of economic and social development, there are two

Consensus on goals

basic conflicts. The first conflict focuses on national development vs. integration in the global economy. Advocates of the former, including the king and other representatives of traditional interests, would like to see a specifically “Thai” form of capitalism take hold that accounts for the country’s cultural and social particularities. Other nouveau capitalists, such as Thaksin, envision a highly globalized Thai economy. The second conflict is defined by the divergent interests of the urban middle class and rural poor, who have begun to demand a bigger piece of the economic pie.

It should be noted that both Thaksin’s style and policies were immensely popular, as seen in his February 2005 landslide election victory. However, even before the 2006 coup, the military, the civil service, and components of the business sector could in effect block the market economy reform process via their strategic positioning in the political system, their de facto political or economic power, and their representatives in the government and parliament. Their obstructionist actions significantly slowed the pace of reform. In the meantime, the reform process appears largely to have come to a standstill. The 2006 coup proved that democratic reformers in Thailand have no control over actors with veto power, such as the military and the monarchy, who can shape the speed and direction of the political process, at least in times of deep political crisis. The military, but also the monarchy, which has endorsed the overthrow of a democratically elected government and has strongly supported the royalist-military junta, are powerful veto players who can successfully claim the right to intervene in the democratic process when they feel that the “national interests” are threatened by elected politicians and civilian political parties. The overthrow of a democratically elected government by unconstitutional means, especially with the collaboration of the monarchy, clearly demonstrates that segments of the political elite and remaining veto powers are not willing to tolerate political change in Thai society which would threaten their power, economic interests or political prerogatives.

Anti-democratic veto actors

The political conflict between pro- and anti-Thaksin forces in 2005 – 2006 represents a resurrection of the “two democracies” identified by Thai political scientists in the 1990s. This “two democracies” theory describes the conflict between the politics of Bangkok and the politics of the rural north, northeast, and central regions from which the majority party, Thai Rak Thai, drew its strength. Underlying this cleavage is a division rooted in the history of Thai politics that is only now becoming critical to social stability as a result of advancing democracy in the Thai nation. The conflict between Bangkok and the hinterland has been long in the making, but, once the structures of democracy were in place, it was not long before the rural part of the nation, making up 80% of the electorate, asserted their political strength, much to the dismay of Bangkok elites. On the other hand, this political conflict also reveals the cleavage between traditional

Cleavage / conflict management

political forces in Thai society, such as the military, bureaucracy and the royal court, and so-called progressive forces, such as segments of academia, intellectuals and some NGO activists. Both camps hold very different views about the future of Thai society and politics. The conflict between an emerging, mass-based democracy and the traditions embedded in a hierarchical society pose major obstacles to the further development of democracy in Thailand. Cleavages beyond the urban-rural divide emerged after 2001. Data from a 2005 poll predicted a growing political cleavage based upon class. Cleavages based upon education, income and social status have produced considerable political tensions over the past decade that, until recently, seemed to be receding. The threats posed by these cleavages include declining enthusiasm for democracy and ambivalence among the middle class towards democratic transformation. There is growing evidence suggesting that the middle class opposes authoritarian forms of government that restrict individual freedoms and exercise a heavy hand over commerce. The uncertainty produced by changes in government, even through democratic processes, can be viewed as destabilizing influences on the economic and cultural environment traditionally led by elites of the middle class. Neither the Thaksin government and the civilian political parties, nor the traditional elite of Thailand, have shown the willingness or ability to prevent these cleavage-based conflicts from escalating; in fact, their political strategies have accelerated the escalation. To some extent, this is also true for the conflict in the south, which basically is the result of underlying socioeconomic and cultural cleavages between the Muslim minority and mainstream Buddhist society. Here, the Thaksin government's management failures have contributed considerably to the worsening of the conflict, thus providing the "enabling environment" for Muslim radicals to mobilize support among the local population for their armed struggle against the Thai government and its security forces.

Early in his tenure, Thaksin, unlike his predecessor, demonstrated a willingness to speak directly to popular movements, and both his cabinet and inner circle included people with excellent connections in the world of nongovernmental organizations. After 2002, many of the most vigorous and vocal groups of civil society became disillusioned with the reality of Thai politics under Thaksin. The current "constitutional reform process" is very much elite driven. The military junta seems to be even more skeptical about civil society's participation in the political process than the Thaksin government. Another problem for progressive NGOs, particularly since the 2006 coup, is the national security mindset inside the military and its ideologically charged view of the government, public authorities and social organizations. Many NGOs are viewed by the government not as part of civil society but as genuinely political groups "brainwashed" by an insidious foreign "third hand."

Civil society  
participation

The need for national reconciliation has become a pressing issue in Thailand in recent years, not so much because of the lack of transitional justice, seen in the brutal repression of pro-democracy protesters in the mass demonstrations of May 1992, but more because of the deepening unrest in the south and growing polarization between the supporters and opponents of the Thaksin government in 2005 – 2006. Regarding the problem in the south, in March 2005, the Thai state created a National Reconciliation Commission (NRC). The NRC, chaired by former Prime Minister Anand Panyarachun, published its report, entitled “Overcoming Violence through the Power of Reconciliation,” in 2006. While the commission has been widely praised for its efforts to address the violence afflicting southern Thailand, the NRC’s work over the past two years, which has sought to find solutions that address both security concerns and issues of injustice, has not contributed effectively to reconciliation, primarily because the Thai government has reacted slowly to the NRC’s recommendations. The Thaksin government did not show a strong will to implement the NRC’s proposals. Another issue is the reconciliation between the “losers” and “winners” of the 2006 coup; this process has not even started yet.

Reconciliation

## 17 | International Cooperation

The Thaksin government demonstrated a determination to prevent the IMF from intervening in Thailand’s economic affairs, and this nationalist posturing has alienated some foreign investors. Thaksin was critical of international pressure for the investigations of human rights issues, such as the war on drugs and treatment of southern Muslims, and threatened to walk out of the 2004 ASEAN summit if Malaysia or Indonesia raised the latter issue. In talks about the unrest in the south, the military junta has at least shown the willingness to cooperate more closely with Indonesia and Malaysia to find a solution.

Effective use of support

Thailand’s military rulers are struggling to convince the international community that staging a coup was the only way to maintain democracy here. Thailand’s military rulers, their civilian supporters and critics of the Thaksin government say that foreign governments have failed to consider the complexity of the situation in Thailand, where democracy and democratic institutions took a severe beating under Thaksin. Due to the 2006 coup, however, the kingdom has suffered a significant loss of credibility as a beacon of democracy in Southeast Asia. At the same time, however, the Thai government is still seen as a reliable partner in other matters of international or regional politics, probably more so now than before under the previous civilian government.

Credibility

As a founding member of the Association of Southeast Asian Nations (ASEAN) and other regional groups such as the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM) and the Asian Resource Foundation

Regional cooperation

(ARF), Thailand works toward stronger regional cooperation. Thailand is increasingly reaching out to other developing countries in support of development. As an emerging donor, Thailand's official development assistance (ODA) is estimated at about 0.15% of its GNI. A large component of Thai ODA (73% of the total) supports infrastructure development in Cambodia, Laos and Myanmar. Thailand has taken in a large number of refugees from Myanmar, though their treatment has been criticized by human rights organizations. Thailand actively campaigns for the economic and political integration of Indochina into the region, as well as for dialogue with the military regime in Myanmar. On the other hand, the Thaksin government also allowed the military to assume a special role in policies toward Myanmar. Thailand's desire to assume a position of regional leadership seems unlikely to materialize so long as state violence is directed toward Muslims in the south and the country is under direct military rule. The role of external actors in the democratic transformation process during the period of review was negligible. Even after the coup, international actors did not play an important role.

## Strategic Outlook

The momentum of economic reform slowed quite significantly after the military coup of September 2006. Before the coup, the Thaksin government had not pursued a conventional path of transformation as understood by international analysts. It has instead built a dynamic economy in which business interests are intimately associated with the prime minister, the ruling party and its close associates; in other words, Thailand had developed a new form of Southeast Asian corporatism. This market is an un-level playing field, one on which certain actors loom much larger than others. In the short term, this experiment appears to have been rather successful, although its sustainability is questionable. Although the institutional framework for democracy and the rule of law has expanded since 1997, there have been few de facto improvements. The fairness of elections remains questionable and efforts to build cooperation between labor and capital associations have languished. At present, the political elites are facing three crucial challenges. First, the new rulers must establish a credible legitimacy so that they may construct a broadly acceptable system of accountability and construct a transparent system of governance based on proper constitutional and electoral norms. Second, to build the foundation for political stability in post-Thaksin Thailand, the new rulers have to develop a framework for national reconciliation between anti-Thaksin and pro-Thaksin forces, as well as between the Buddhist majority and the Muslim minority in the south. Third, the interim government must develop a political formula for a new democratic beginning that provides for checks against the return of “Thaksin-style democracy” without allowing a revival of the political status quo of Thai democracy in the 1990s, the deficits of which were exploited by Thaksin in order to consolidate his regime. Thus, the key short-term strategic task for reform-minded actors is a return to a democratically elected civilian government. Consolidating the rule of law, stabilizing democratic patterns of representation and attitudes, continuing reforms of market organization and competition, and insuring that economic development is sustainable and embedded in the social state are key mid-term strategic tasks. Key long-term strategic tasks include developing a sustainable solution for the two fundamental problems or contradictions of Thai economic and political development: (1) how to successfully integrate the rural hinterland and its population into the economic and political process, give them a political say, and achieve socioeconomic justice without alienating the urban middle classes; and (2) how to reach a balance between the population’s aspirations and demands for democracy and political participation on the one hand, and the political roles of the military and the monarchy on the other hand.