

# Thailand

<b>Status Index</b> (Democracy: 6.85 / Market economy: 7.68)		<b>7.26</b>	<b>Management Index</b>		<b>5.24</b>
<b>HDI</b>	0.778		<b>Population</b>	63.1 Mio.	
<b>GDP p. c. (\$, PPP)</b>	7,595		<b>Population growth<sup>1</sup></b>	1.5%	
<b>Unemployment rate</b>	n/a		<b>Women in Parliament</b>	8.1%	
<b>UN-Education Index</b>	0.86		<b>Poverty<sup>2</sup></b>	n/a	
			<b>Gini-Index</b>	43.2	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003).					

## A. Executive summary

Superficially, Thailand is thriving under the leadership of Thaksin Shinawatra and his Thai Rak Thai Party (TRT). TRT won three-quarters of the seats in the February 2005 election, an unprecedented result that reflects the dramatic revival of the country's economy during Thaksin's first term. Yet, below the surface, Thailand has generally failed to move in a more democratic direction. Rather, the liberal political agenda epitomized by the 1997 constitution has been displaced by the increasing dominance of the Thai Rak Thai Party ("Thais love Thai"), centered on the personal authority of telecommunications billionaire Thaksin, who serves as prime minister. Thai politics has "normalized" in the sense that instability has been greatly reduced, and in the February 2005 elections, the number of political parties able to win parliamentary seats shrunk to only four.

Elections are certainly meaningful, though they have continued to be characterized by widespread vote buying and other abuses. Political institutions are stable and function with a façade of normality, though in practice independent monitoring agencies such as the Election Commission and National Counter-Corruption Commission are generally regarded as ineffectual. The period under review has seen a continuing trend toward the marginalization of parliament and an enhanced role for the executive power of the prime minister: indeed, Thaksin openly boasts that he runs the country much as he previously ran his businesses, serving as a chief executive officer. Thailand still has a vibrant civil society with numerous activist non-governmental organizations (NGOs), critical academics and some outspoken media outlets. Nevertheless, despite an increase in criticism of the administration since the beginning of 2004, the overall trend is toward a co-opted and less assertive civil society. The Thaksin government has particular problems in the areas of human rights. This was especially evident during the 2003 war on drugs, an apparently officially sanctioned campaign of extra-judicial killings. Another troubling area is the government's heavy-handed approach to low-intensity conflict in the Thailand's Muslim-dominated southern border provinces.

The government has continued to preside over an economic upturn that has followed the 1997 Asian crisis. Growth has been generally strong, though some optimistic estimates (projections of 7% growth for 2004, for example) have recently been lowered. Thailand's economic success remains closely tied to exports, and weaknesses include rising levels of personal debt and a very weak currency. Nevertheless, Thailand has achieved budget surpluses, and economic growth has been fuelled by very strong patterns of private consumption. Critics argue that companies linked to the Thaksin government have been the major beneficiaries of the economic revival. Thailand remains plagued by structural inequalities: bank deposits, political power and industrial capacity are overwhelmingly concentrated in Bangkok and five adjacent provinces. Secondary education participation rates remain very low. The government has declared a "war on poverty," pledging to eradicate poverty by the end of its second term in 2008. Though politically appealing, this policy does not appear to be supported by systematic redistributive measures.

## **B. History and characteristics of transformation**

Thailand's political order has demonstrated a range of contrasting tendencies since the end of the absolute monarchy in 1932. The 1932 coup makers were a small group of military officers and civil servants, many of them French educated, and who subscribed to a confusing mixture of democratic and authoritarian ideas. The result was a 40-year period of elite power play, alternating between limited parliamentary government and military rule, characterized by frequent coups and numerous constitutions. The first sustained challenge to military dominance came in October 1973, when a student-led popular movement, backed by the palace, toppled the ruling group. Although a right wing military government briefly returned to power in October 1976, since the late 1970s, Thailand has since enjoyed a hybridized political order.

Elected civilian politicians, working through a parliamentary system, have gradually displaced soldiers and bureaucrats from their traditional dominance. The palace has played an important extraconstitutional role in this evolving mode of politics, largely brokered by former army chief Prem Tinsulanond. Prem served as prime minister (1980–1988) before assuming a new role as the King's political point man and fixer. The anachronistic military coup of February 1991 was a setback for Thailand's political liberalization, yet was initially popular with many Thais. Nevertheless, when coup leader General Suchinda Kraprayoon used a flawed election process to make himself prime minister, the tide turned. An alliance of opposition parties and civil society groups forced him out of office in May 1992, after only 48 days. Suchinda's departure followed the massacre of at least 50 unarmed civilian protestors and coincided with a military retreat to the barracks. From September 1992, parliamentary politics resumed in Thailand: for six of the next eight years, democrat party leader Chuan Leekpai served as prime

minister in a series of wobbly coalition administrations. Chuan operated with the blessing of Prem and the palace, acting as a respectable front man for coalitions of corrupt and questionable politicians.

Nevertheless, the political upheavals of 1991 to 1992 had raised many questions about the stability and integrity of the Thai political system. Critics argued that the current system allowed money to have excessive political influence, excluded virtuous people from entering politics and supported weak coalition governments. A powerful if somewhat incoherent movement for political reform gradually emerged, drawing support from sections of the elite, as well as from many civil society organizations. This movement resulted in the 1997 “people’s constitution”, arguably the high-water mark of liberal politics in Thailand. Drafted by a constitutional assembly after extensive consultation, the new national charter established a set of independent agencies to regulate the political order (such as an election commission and a counter-corruption commission), strengthened civil rights and established a new parliamentary system. Under this system, multi-member constituencies were replaced by a mixture of single-member constituencies and a party list, while the senate became an elected body of “wise elders”, supposedly not involved in party politics.

Thailand’s economic development from an agrarian to an industrial economy, with its accompanying economic and social transformation, took place within a few decades. An initial phase of industrialization, primarily by state companies, lasted until the middle of the 1950s; this was followed by a second phase of import-substitution development, led by private enterprise, until the end of the 1970s; and a third phase of export-oriented industrialization strategy, from the early 1980s onward. By the late 1980s, Thailand had one of the world’s fastest-growing economies - yet much of the economic output was generated in the industrial and service sectors, a declining but substantial proportion of the population still worked mainly in the agricultural sector. Thailand was plagued by uneven development: large income gaps emerged 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 it hit Thailand’s economy hard. After the baht was devalued by 40%, the IMF agreed to allow the exchange rate to float. 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. This economic and domestic political crisis precipitated the fall of the Chavalit Yongchaiyudh government, which was replaced - without the benefit of an election - by a coalition led by the Democratic Party’s Chuan Leekpai. However, the crisis did not drastically shake the Thai population’s confidence in the institutions of democracy and a market economy. Efforts to manage the economic crisis, in close cooperation with the IMF, began to yield success in 1999. Nevertheless, the inept handling of the crisis by the

international financial institutions helped trigger a modest nationalist backlash, accompanied by a mood of national soul-searching.

In January 2001, the Chuan government was voted out of office. The new prime minister was the billionaire businessman Thaksin of the Thai Rak Thai party. The Chuan government had a twofold challenge: first, to consolidate the democratic constitutional order and implement the new constitutional provisions and, second, to implement the economic structural reforms agreed upon with the IMF, in order to lay the foundation for sustained growth of Thailand's economy. It quickly became apparent that Thaksin was not interested in either of these tasks. Rather, he aimed to consolidate his own political power and to pursue a more nationalist economic policy free from the oversight of the Bretton Woods Institutions.

## **C. Assessment**

### **1. Democracy**

The 1997 constitution appeared to offer a blueprint for democratic reforms in Thailand, introducing stronger checks and balances and a more representative and responsive political order. However, in reality the new constitution paved the way for the government of Thaksin's Thai Rak Thai Party, which appears dedicated to reversing many of the changes sought by the drafters of the constitution. One of their aims was to reduce the number of political parties and associated instability, but this trend has also curtailed political pluralism and concentrated power in a smaller number of hands.

#### **1.1. Stateness**

The state monopoly on the use of force does not apply along the border with Myanmar or in the southern border provinces adjoining Malaysia. This is slightly diminished along the border with Myanmar as well as in the northeastern sections of the country by organized crime, incursions by Myanmar's security forces and ethnic "militias" allied with them, and locally entrenched political/economic/criminal structures. The military has recently been complicit in clearing prime real estate plots in Bangkok, on behalf of developers linked to criminal networks.

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), 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: more than 500 people were killed in politically related violence in the southern border provinces during 2004. 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 thousands of stateless peoples living in the border areas with Myanmar, mainly members of tribal minority groups. Thailand is a de facto Buddhist society; the constitution stipulates that the king must be a Buddhist. Other religious communities are not seriously discriminated against. The political process is secularized. An effective administrative system, public safety and order are largely assured.

## **1.2. Political participation**

There is universal suffrage. The elected government observes the principles of open and competitive elections. Since 2000, the senate (the upper house of Parliament) has also been popularly elected. The government has the effective power to govern. However, the new constitution severely limits the right to campaign for office, since parliamentary candidates must hold at least a bachelor's degree. Elections are free and fair, though tainted to some extent by electoral fraud, the vote buying and political pressures.

The Thaksin government has retained civilian control of the military. Nevertheless, the military remains an influential actor on Thailand's domestic political scene, and Thaksin has systematically promoted relatives and former classmates to senior military positions. As a former police officer, Thaksin has also begun politicizing the police.

Freedom of expression and freedom of the press are 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 have gradually disappeared from the airwaves—which remain controlled by the military under anachronistic cold war legislation—and people close to the ruling party have acquired formal or informal shares in various newspapers. Freedom of association and freedom of assembly have also been curtailed, notably during the 2003 Bangkok Asia Pacific Economic Cooperation (APEC) meeting, when the government sought to prevent demonstrators from expressing critical views. Ethnic cleavages play a subordinate role for the dynamics of association in civil society.

## **1.3. Rule of law**

The constitution guarantees the 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: Constitutional Court, Administrative Court, National Counter-Corruption Commission, Election Commission and National Human Rights Commission. However, these bodies do not all work as intended. Recent trends in the conduct of government suggest that the new control bodies' significance and powers are eroding. The Thaksin government has largely successfully captured these bodies by inserting appointees into key positions.

Political and bureaucratic corruption is endemic. Thailand's population views fighting corruption as the most urgent problem of 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 immunity from prosecution on corruption charges.

Civil rights are sometimes compromised by the discrepancy between government behavior and legal norms as well as by the authorities' selective application of established law.

#### **1.4. Stability of democratic institutions**

Subject to the above reservations about rule of law, democratic institutions are stable. Before 2001, parliamentary politics was highly factionalized and coalition administrations readily collapsed. After 2001, Thai Rak Thai was able to absorb variety of factions and parties. Only four parties seriously contested the February 2005 general elections, and only three of these gained a significant number of seats. Thai Rak Thai was then able to establish the first ever popularly elected single party administration. The administrative system is efficient and stable but suffers from severe corruption and exertion of influence by the political sector.

#### **1.5. Political and social integration**

Problems of institutional efficiency are related to the lack of stable organizational models for representation of political interests. In the 2000–2004 period, Thai Rak Thai emerged as a relatively stable if highly fragmented dominant party, popularly associated in the public mind with certain policies. Nevertheless, the party system still has very weak social integration and strong tendencies to focus on personalities and patronage. Thai political parties are predominantly personality-oriented voter mobilization networks. Individual candidates have strong local roots but little loyalty to parties, and they are prone to party hopping. The party system is minimally polarized and has a high potential for forming coalitions and governments. Under Thaksin, elect-able candidates have flocked to join the currently popular Thai Rak Thai - but this trend should not be confused with a genuine institutionalization of the party system.

Thailand has a well-differentiated landscape of interest groups, particularly in the NGO sector. 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 regulation.

Beginning at a low, gradually rising level, the differentiation of the civic organizational landscape continues. Civic organizations are quite willing to work cooperatively and strategically. Moreover, they help strengthen democratic attitudes and practices in society. In terms of active participation, however, the heterogeneous network of social organizations is highly concentrated in particular social strata and regions. The Thaksin government has offered civil society groups financial and other incentives to cooperate with projects advanced by the state, as part of a co-optation strategy.

Buttressing the progressive dynamics of civic organizations is the fact that by international comparison, Thailand's citizens appear to have a high level of support for (or trust in) the institutional underpinnings of democracy. The impressive provisional voter turnout of more than 72% in the February 2005 general election topped the 69.8% turnout for the January 2001 house elections and marked an all-time high. However, high voter turnout in Thailand has traditionally been associated with extensive vote buying and is due in part to the compulsory voting introduced after 1997.

Human rights violations arising from the use of force by security personnel against protestors demonstrating for democracy in May 1992 have so far not been dealt with either in the courts or in the political arena. Nor have proper investigations been carried out into Thaksin's 2003 war on drugs - which resulted in between two thousand and three thousand extra-judicial killings - or into the use of excessive force by the military in the south during 2004.

## **2. Market economy**

Thailand has unquestionably made progress in transforming its economic order, yet not all of the recent transformation has been positive. Major transformation shortcomings remain concerning organizing competition, restoring the health of the banking and capital markets, establishing regional order, setting social and educational policy, developing infrastructure, and promoting sustainable economic development.

## **2.1. Level of socioeconomic development**

Thailand ranks high among the group of middle-income countries. Measured in terms of the HDI, the country's development status allows the majority of citizens' adequate freedom of choice. However, a considerable proportion of 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 disparities, poverty and income disparity (distribution of income is more unequal than in most other 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 and 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 channeling further benefits to them. In the fiscal year 2005, government spending plans involved the largest budget in Thailand's history, with projected expenditure of 1.2 trillion baht.

## **2.2. Organization of the market and competition**

The foundations of a competitive market economy are well established. The dense regulation of the economy has been reduced. Personal and financial interrelationships among politicians, bureaucrats and entrepreneurs create numerous distortions in the competitive system (which may be seen as crony capitalism). In restructuring 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.

In 2003, amid great fanfare, Thaksin invited Professor Michael Porter of Harvard Business School to undertake a research project on how to improve Thailand's competitiveness. The resulting report - which stressed the need to introduce more transparent bidding processes and challenge vested interests - was afterward discreetly shelved. Only first steps have been taken toward addressing fundamental problems of the business and financial sector.

Foreign trade, with pressure from the IMF and the WTO, has been liberalized. Special regulations exist for certain economic sectors, though not to the previous

extent. The restructuring of the banking and financial system was begun, but there are few signs of substantial progress. The banking sector remains burdened by bad debt. However, tax revenues have been greatly increasing, partly because of a stronger economy and more effective collection strategies.

### **2.3. Currency and price stability**

Inflation has been low during the period under review, in line with general global trends. While the inflation rate has crept slowly upward - and consumer price inflation has run ahead of general inflation, reaching around 2.5% in 2004 - levels remain well under control. The Thai baht has been relatively stable but rather weak throughout the period under review. A weak baht (reflecting the weak U.S. dollar) has contributed to the growth in exports and has therefore served government policy objectives. In the medium term, however, the baht looks likely to appreciate, with uncertain consequences for the Thai economy.

### **2.4. Private property**

Property rights and property acquisition are adequately defined. 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 in any case run counter to the public interest. Some critics argue that the main feature of "Thaksinomics" has been excessive concentration of wealth among special interest groups.

### **2.5. 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 insurance 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 has recently proposed purloining revenues from pledged 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, changes 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 continuing

education or integration measures, exists very minimally. Growth facilitated a gradual decline in unemployment between 2000 and 2004. 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.

## **2.6. Economic performance**

Macroeconomic fundamentals deteriorated in the wake of the Asian crisis, but the Chuan government responded with measures that initially achieved macroeconomic stabilization. The negative world economic situation, combined with some unsuccessful policies of the Thaksin government, brought a slowdown in economic development during 2001 and 2002. Economic growth failed to match its potential. Some sources of growth went untapped because the Thaksin administration did not complete its economic and political reforms; the sluggish world economy also hindered the utilization of growth potential, since the country's growth model was primarily export-oriented.

From 2003 onward, however, the economy has shown clear signs of strong performance in a wide range of areas. Private sector investment rose by 17.9% in 2003, and the bulk of GDP growth that year came from the industrial sector. Thaksin 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 adjoining provinces, however, and was not so pervasive in rural areas. Thaksin has also used public sector investment to help stimulate the economy. There is some evidence, however, that Thailand's growth may have peaked in 2003 at 6.8%, and estimates for 2004 are around 6.2%.

Many of the successes of the government 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 attempted unsuccessfully to conceal from the Thai public, and the December 2004 Indian Ocean tsunami, which devastated Phuket and other tourist areas. Lost tourist revenues from the tsunami and political unrest in the deep south could undermine Thailand's overall economic performance.

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 suggested that the average level of household debt is equivalent to six months' salary - and considerably more for those with lower income levels. This is a potentially serious issue, especially given that the banking system has yet

to resolve all the outstanding non-performing loan (NPL) issues from the post-1997 period (though NPLs are now down to around 12% of bank lending, from a high of 50%). Thaksin has also pledged that Thailand will never again borrow from multilateral lenders.

## **2.7. Sustainability**

Efforts have been made in recent years to expand the state social policy, above all health care and anti-poverty measures. Social and economic disadvantages in effect limit equal opportunity and equal access to public services. There are hardly any mechanisms to assist the advancement of women, people with disabilities or the socially vulnerable. Women are clearly disadvantaged regarding access to post-secondary education, income and public office.

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

Thailand has a well-developed state system of primary and secondary education. However, participation rates in secondary education are below those of less-developed neighbors such as Vietnam. There is an urgent need for education reform, an issue Thaksin failed to pursue during his first term in office. The university system is inadequate and plagued with serious quality shortcomings. The state's expenditures for education for the years 1995 to 1997 averaged 4.8% of the GNP. In the year 2000, they represented 19.3% of the central government's total expenditures.

The average expenditures for research and development from 1990 to 2000 amounted to a mere 0.1% of the GNP. Furthermore, state infrastructure projects suffer from extended "planning and negotiation" phases (usually a cover for large-scale corruption), which often prevent the completion of important projects or greatly increase their costs. As a result, significant deficiencies in infrastructure development persist. During the period under review, 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.

### 3. Management

#### 3.1. Level of difficulty

Thaksin's government from January 2003 to January 2005 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 poor 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. Also impeding the course toward a deep and stable democratic transformation were the ambivalent role of the military and hostility to reform on the part of government officials. At the same time, Thaksin 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: never in recent Thai history had any prime minister held so much power in his hands.

#### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	3
System of government:	<i>Parliamentary</i>	Electoral system disproportionality:	53.3
		Effective number of parties:	1.6
Head of State:	<i>King Rama IX. Bhumibol Adulyadej</i>		
1. Head of Government:	<i>Thaksin Shinawatra</i>	Cabinet duration:	<i>02/2002- 02/05</i>
Type of government:	<i>oversized coalition</i>	Parties in government:	3
2. Head of Government:	<i>Thaksin Shinawatra</i>	Cabinet duration:	<i>03/05- present</i>
Type of government:	<i>single party majority</i>	Parties in government:	1
		Number of ministries:	20
		Number of ministers:	21
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: <math>\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}</math>; <math>v_i</math> is the share of votes gained by party <math>i</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

#### 3.2. Steering capability

There was a curious discrepancy between the durability of the Thaksin government, which saw out an unprecedented full four-year term without any serious threat to its authority, and Thaksin's constant cabinet reshuffles, most of which have seen lackluster ministers swap places with no particular rhyme or

reason. Commentators have suggested that under Thaksin, ministers serve more as executive assistants to the prime minister than as policymakers in their own right: they are thus inherently interchangeable. No coherent transformation strategy is 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 first term. Because of various statements and measures on the part of the Thaksin government, international and domestic actors have lost confidence in its will to reform. The administration's market economy transformation strategy features surprising changes of course. Short-term strategies oriented around self-interest and retention of power dominate the considerations of a medium- to long-term policy of expanding democracy. The government emphasized the courting of political popularity through populist programs such as the Village Development Fund (under which 1 million baht was assigned to every village in the country), the 30 baht health care scheme, the war on drugs and the war on poverty.

The shock of the 1997 collapse clearly did not provide the impetus needed to effectively eliminate structural deficiencies and to make painful inroads into the political and economic elite's network of interests. Thai Rak Thai engaged in populist politics throughout the period under review, appealing to "national" values and traditions and pointing the finger of blame at foreign actors. Thaksin presided over a celebration of Thailand's "independence" from the IMF in August 2003. There is little evidence that the Thaksin government is now seriously interested in pursuing the reform agenda of the 1990s, which appears increasingly to have been the product of a specific historical episode.

Those reform programs adopted are anchored weakly, if at all, in the administrative system and in society, raising doubts about whether the process can continue. The slow but steady spread of democratic standards previously achieved now threatens to recede; an example is the civilian control of the military. Thaksin appointed his cousin Chaisit Shinawatra as army commander in 2003, a clear indication that the government aimed to use the military as a tool to secure personal claims to power. Ironically, Thaksin found Chaisit's performance wanting and moved him to the largely ceremonial position of commander in chief of the armed forces in 2004. The trend toward growing politicization of the military was nevertheless quite apparent.

### **3.3. 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 restoring 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 in support of 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 so far been thwarted by the continued existence of close ties among the political and economic elite, extending into the highest circles of government. The provision of state social services is seriously inadequate.

In theory, the institutional structure is in place for a successful anti-corruption policy. The National Counter-Corruption Commission receives large numbers of complaints (852 complaints of local government corruption in 2003, for example). At the same time, investigation of these complaints has been slow, and few officials have been punished or prosecuted. Tendencies evident include hierarchical thinking, nepotism, use of the law as a tool for special interests, and only embryonic readiness to assume political responsibility and engage in long-term processes of consensus-building. Responsibility for this lies not with the government alone, but with all those who wield influence in the political and economic arenas.

### **3.4. Consensus-building**

Reform agendas were broadly supported in the second half of the 1990s, when steps to implement the new constitution met with broad support. Thaksin, however, has openly questioned the desirability of democratic reforms and has been highly critical of the post-1997 independent agencies. In August 2001, Thaksin himself narrowly escaped being barred from office by the constitutional court, when he was charged with failure to declare his assets properly. His response was to question how a court could seek to overturn the popular will of 11 million voters who had supported him to become prime minister. This response illustrated his lack of respect for the rule of law. The military, the civil service, corporations and components of the party system can in effect block the market economy reform process via their strategic positioning in the political system, their *de facto* political or economic power, or their representatives in the government and parliament. The policy of throwing up blockades has significantly slowed the pace of reform. Even leading advocates of reform such as Dr. Prawase Wasi became, for a time, supporters of Thai Rak Thai, believing that the new party was introducing pro-poor policies and would end political instability.

As a result, large segments of the electorate turned to the populist promises of “strong personalities” advanced by Thaksin in the 2001 and 2005 general elections. Many voters apparently accepted Thaksin’s curious claim that a prime minister who was already extremely rich would be very unlikely to engage in corruption. Cooperative strategies, realistic standards for success and credible timelines have given way to a confrontational political style and populist promises. It must be recognized that both Thaksin’s style and policies are

immensely popular, as seen in his February 2005 landslide election victory. In the meantime, the reform process appears largely to have come to a standstill. For the most part, existing social and political conflicts do not threaten the cohesion of state and society. The exception lies in the south, which voted overwhelmingly against Thai Rak Thai in the 2005 election. Thailand is now divided as never before, with all the other major regions of the country supporting the government, yet the southern region giving an unprecedented level of electoral backing to the opposition democrats. Tensions are especially acute given the heightened unrest and political violence in the southern border provinces of Pattani, Yala and Narathiwat.

### **3.5. International cooperation**

As a founding member of the Association of Southeast Asian Nations (ASEAN) and other regional groups such as APEC, the Asia-Europe Meeting (ASEM) and the Asian Resource Foundation (ARF), Thailand works toward stronger regional cooperation. Bangkok hosted the very successful APEC summit in 2003, and Thaksin has initiated the Asian Dialogue Cooperation (ADC), in moves to create a broader alliance of Asian countries. Thailand has taken in a large number of refugees from Myanmar, though their treatment is 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 has also allowed the military to resume a special role in policies toward Myanmar. Thaksin has demonstrated a determination to reject the intervention of the IMF in Thailand's economic affairs, and his nationalist posturing has alienated some foreign investors. Thaksin has been critical of international pressure for investigations of human rights issues such as the war on drugs and treatment of southern Muslims, threatening to walk out of the 2004 ASEAN summit if Malaysia or Indonesia raised the latter issue. 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. The role of external actors in the democratic transformation process during the period of review is negligible.

## **4. Trend of development**

### **4.1. Democratic development**

With the adoption of the 1997 constitution and the implementation of many new constitutional provisions, the institutional infrastructure for democracy and rule of law was expanded clearly and significantly. However, there was no *de facto* improvement in the existing shortcomings with respect to an assured state

monopoly on the use of force, a properly functioning administrative system and the effective rule of law. The same is true as regards elections.

By all accounts, the elections of 2001 were the dirtiest in many years, while major problems of vote buying and other abuses in 2005 challenge the fairness those elections. Despite Thai Rak Thai's dominance in parliament, the efficiency of the government remains low. The stability of many recently introduced constitutional institutions is also low. Increasingly often, even from the highest government offices, their competence is called into question.

Progressive tendencies are apparent in citizens' options for organizing, the free activity of social organizations, and the relative freedoms of opinion and the press. The enforceability of civil rights advanced. However, shortcomings persist. The battle against corruption has stalled, and perceptions of corruption have risen again among domestic and foreign observers. Efforts to develop cooperative and consensus-oriented patterns of interaction between labor and capital associations have languished. The landscape of civil society groups and organizations shows some positive development, though many groups are now being co-opted through inducements to participate in government-funded programs.

#### 4.2. Market economy development

The institutional environment for the market economy has improved greatly since the aftermath of the 1997 crisis, and the Thaksin government has engendered Thais with a much greater economic confidence. Paradoxically, this stronger economic performance took place despite considerable deficiencies in the organization of the economy and competition. The momentum for reform slowed quite significantly during the period under study. The Thaksin government has not been pursuing a conventional path of transformation as understood by international analysts. Rather, it has built a dynamic economy in which business interests are intimately associated with the prime minister, the ruling party and its close associates—a new form of Southeast Asian corporatism. This market is not a level playing field, but one on which certain actors loom much larger than others. In the short term, this experiment looks rather successful; serious questions exist, however, about the extent to which it can be sustained. The Economist has argued that Thaksin's model is flawed, mainly because of the structural tension between his role as head of Thailand's richest family and his position as prime minister.

**Table: Development of macroeconomic fundamentals (2000–2004)**

	2000	2001	2002	2003	2004
Growth of GDP in %	4.8	2.1	5.4	6.7	n.a.
Export growth in %	25.2	4.1	1.3	14.0	n.a.
Import growth in %	31.3	-3.0	4.6	17.1	n.a.

Inflation in % (CPI)	1.6	1.6	0.7	1.8	n.a.
Investment in % of GDP	22.8	24.1	23.9	25.2	n.a.
Tax Revenue in % of GDP					
Unemployment in %	2.4	2.6	1.8	1.5	n.a.
Budget deficit in % of GDP	- 2.2	- 2.4	- 1.4	0.4	n.a.
Current account balance in billion \$					

Source: Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 2004 [[http://www.adb.org/Documents/Books/Key\\_Indicators/2004/](http://www.adb.org/Documents/Books/Key_Indicators/2004/), accessed February 18, 2005]

#### **D. Strategic perspective**

The assessments in this report underscore many observers' estimations that Thailand's transformation has come to a halt and is essentially incomplete. The successes and failures of the transformation can be attributed quite substantially to the performance of "internal" actors. The key strategic tasks for democratic and market economy reforms over the medium term lie in consolidating the rule of law, stabilizing democratic patterns of representation and attitudes, continuing to reform the existing organization of the market and competition, and assuring that economic development is sustainable and embedded in the social state. At present, it seems unlikely that the country will regress to authoritarianism or turn from its chosen path of market economy transformation, not least because alternatives are lacking. Seen in perspective, the most likely development scenario appears to be the stagnation of Thailand's transformation process.