

Thailand's Economic
Recovery

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Thailand Update Series

Thailand's Economic Recovery

Edited by **Cavan Hogue**



Institute of Southeast Asian Studies
Singapore



NATIONAL THAI STUDIES CENTRE
Australia



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Preface

The Thailand Update 2004 was held at Macquarie University in Sydney with the strong support of the Vice Chancellor, Professor Di Yerbury, the Centre for International Communication and the Department of Anthropology. I would like to express our most grateful thanks for their support. May I also thank Ajarn Sripan Rattakittikachorn for help with arrangements and Genevieve Freys, without whose organizing talents we would never have made it.

I also wish to thank Thammasat University for funding Professor Bhanupong's presence and the Australian Department of Foreign Affairs and Trade for funding the participation of Ambassador Sawanit and Mr Paterson.

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Professor Tony Milner from ANU and Associate Professor Philip Hirsch from Sydney University chaired sessions and commented on papers with their customary eloquence and insight.

Last but certainly not least I would like to thank my colleagues at the National Thai Studies Centre for their efforts. Dr John Funston not only presented a paper but also helped with the organizing and editing of this book, as did Jason Hall and Ajarn Chintana Sandilands.

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Introduction

The theme of the Thailand Update 2004 was economics and business but it interpreted that theme very loosely and the papers were varied. We began with careful, scholarly examinations of the last year in economics and politics by Bhanupong Nidhiprabha and Michael Connors and then moved into a rather more free-ranging session on business where the emphasis was on how Australians should go about doing business with Thais. Tamerlaine Beasley looked at the cultural factors, Khun Suchart gave the Thai Government view and Glen Robinson looked at things from the perspective of an Australian businessman with extensive experience in Thailand. A feature of this session was the presentations by one Australian and one Thai of how they saw the Thai-Australian Free Trade Agreement (TAFTA) affecting both countries. The third session focused on how rural communities were being affected by economic and political changes. Yos Santasombat and Andrew Walker made stimulating and controversial presentations which questioned some conventional wisdom. Finally John Funston discussed the currently relevant topic of developments in Southern Thailand.

In this introduction, I will try to extract some themes from these diverse presentations as well as provide a summary of the main arguments.

OVERALL VIEW

If there is one common element in all these disparate papers, it is that of change. All see Thailand as a society in political, economic and social transition. Some stress the positive and some stress the negative aspects of change but all agree that it is happening. Some focus on the national picture and others on regional issues and some take a longer-term perspective than others. The political and economic analysts present a mixed picture, the business people

are generally upbeat while the anthropologists focus on the village level where results are also mixed. There is also a feeling of uncertainty in most of the analyses especially when attempting to predict the future.

The three chapters which discuss developments at a regional level provide some interesting contrasts. At the village level, Yos showed how what is variously called “modernization” or “globalization” is changing the lives of traditional people in northern Thailand whose traditional swidden cultivation is being attacked by environmentalists on the grounds that it denudes forests and creates flooding. Minorities are being pressured by government and by environmentalists to assimilate to the mainstream. However, Walker feels that mainstream Thai villagers he has worked with in Northern Thailand are adapting in a practical way to political and environmental changes. Unlike their minority cousins, they see change as positive. Selling new crops to large corporates gives them greater security and more money while attempts to make them return to traditional ways are not welcome. In the Muslim South, there seems to be a regression to the old (failed) tactics of force and assimilation which, in a more difficult post-September 11 environment, has led to a renewal of the violence that more tolerant policies had banished. Taken together, these three papers suggest that things vary from place to place depending on the circumstances so that you cannot sensibly speak of “the regions” as a whole.

In a way, this local-level conflict between change and the old ways is also found at the national level. Thaksin’s attempts to mould a new kind of Thailand do not always encourage the growth of liberal democratic sentiment. Thaksin himself is not always consistent in this regard. Connors rightly points out that Thaksin is not some kind of *deus ex machina* but is a Thai formed by Thailand; he both acts on events and is acted upon by them. So he is part of the process of change. There is a clash, at least in theory, between those who want to reject foreign influences in favour of a traditional Thai way of doing things and those who want to make basic changes in the ways of the Thais. This clash between modernizers and traditionalists is, of course, hardly anything new in Thailand and is not confined to Thailand. It mirrors the clash between the Slavophiles and the Europhiles in Russia and is to be found in one form or another in most societies.

The king’s ideas about rural self-sufficiency have some attraction but, as Walker shows, rural people are also interested in change. Thaksin’s controversial rural policies do seem to be having some success. Conditions are improving outside Bangkok, albeit slowly.

The notion of change was also stressed by Tamerlaine Beasley. She noted that, while many traditional features remained important, Thai ways of doing

business were changing. Many business people had been affected by their contacts with foreign business. This view is consistent with Bhanupong's comments on how Thais had learned economic and business lessons from the 1998 crisis which had led to a stronger long-term economy. Similarly, Walker's paper showed how peasants were willing and able to adapt to changing circumstances; they were taking advantage of offers from large firms to grow new products and they were making good use of the government's subsidies. Yos, however, suggested that the minority people were closer to the traditional stereotype of the conservative villager who resists change. Change in the Muslim south was for the worse and looked more like a return to methods that had failed in the past.

Participants were left with the impression that although the Thaksin government had been a mixed blessing and there remained many uncertainties, Thailand seemed to be moving forward in economic and social terms. The next elections will be an interesting indication of the popularity of the Thaksin government.

In his survey of the economy, **Bhanupong Nidhiprabha** argued that the Thai economy was resilient and would continue to recover from the 1997 bust. He felt there were structural factors which ensured that Thailand would bounce back and that lessons had been learned from the crisis. He presents detailed arguments and statistics to support his case.

He notes that unemployment has declined since 1998 and that inflation remains subdued, leading to a fall in interest rates which enabled Thai firms to restructure their foreign debts. Agricultural output responded positively to high prices for world commodities while the agricultural sector generates demand for manufactured products and provides a steady pool of labour for the manufacturing and service sectors. Open investment policies have led to inflows of FDI and export-oriented industries are performing well. International reserves have increased since 1998. The banking sector has restructured and solved the problem of non-performing loans.

Nevertheless, Bhanupong concludes that while the economy seems resilient, some structural problems remain. Public enterprises must be reformed to make them more competitive and other monopoly industries must be forced to compete with imports as a means to compel them to restructure. Free trade agreements are useful in this regard. Thailand is also vulnerable to oil price shocks and exchange rates must be made more realistic so as to cushion the economy from external disturbances. However, should another shock occur, Thailand is much better placed to handle it than it was in 1997.

Michael Connors argued that the Thaksin government was characterized by control of the state agencies by big capital and by his attempts to restructure

the bureaucracy to make it more efficient and more like a business. He is populist and nationalist. In the economic sphere Thaksin wants to create a nation of small and middle entrepreneurs and to alleviate rural poverty. Some of his critics argue that he confuses the interests of the nation with the interests of his cronies and he has certainly not managed to wipe out factionalism or patronage politics.

The chapter considers in some detail the future of liberal elements in Thai society as well as discussing what Connors calls the “Thaksin project”. He argues that there are inherent weaknesses in the Thaksin camp that limit the possibilities of a complete transformation of Thai politics. He concludes that inasmuch as there is now a tendency to speak of “Thaksin’s Thailand”, it is useful to bear in mind that Thaksin is subject to the dynamic of change and conflict that emerges in the contest between multiple interests. In highlighting these limiting factors, we can also speak of “Thailand’s Thaksin”, which suggests “a man who is as much determined as he is determining”.

Tamerlaine Beasley discussed the cultural factors that influence doing business in Thailand with emphasis on the approach of Australians. While acknowledging that an understanding of Thai culture made life much easier for foreigners in Thailand, she questioned common myths about the importance of politeness and the complexities of Thai culture. She noted that there are far greater business risks than being impolite and that the basics of Thai culture can be learned by outsiders. However, it was important to remember that cultures do not always stand still and that some Thais who talk about Thai culture do not always practise what they preach.

Khun Suchart gave an upbeat presentation on the opportunities for foreign business in Thailand and defended the Thaksin government from what he saw as misunderstandings on the part of people who do not live in Thailand or really understand what is happening there.

Bill Paterson identified the advantages for both countries in the TAFTA and argued that Thailand would benefit more because it had higher barriers to trade than Australia did. He said that ASEAN was in danger of developing into a two- or three-track grouping with three fast moving countries (Singapore, Malaysia, Thailand) and four developing countries. Those which had reverted to nationalist rhetoric instead of embracing the global economy were not getting FDI and were going backwards. Thailand’s positive approach to the market economy was bringing benefits in the form of greater trade and investment which were leading to increased standards of living for the Thai people.

He went into some detail on trade and investment opportunities, providing figures to back up his arguments. Both governments are now discussing how

to put in place the detailed regulatory arrangements to implement the agreement but, ultimately, it is up to the private sector in both countries to take advantage of the opportunities offered. The changes being made in Thailand would make it easier for Thailand to negotiate agreements with other developed countries like the United States.

Khun Sawanit thought that TAFTA would benefit Thailand and that it fitted well with Prime Minister Thaksin's desire to restructure the Thai economy. In particular, by beginning an FTA with a developed but relatively small economy, Thailand could gain the experience that would enable it to handle FTAs with larger and more important countries like China, Japan, India and the United States; in some ways this was the most important aspect for Thailand. However, he noted that there was some doubt in the private sector about the benefits of the agreement, particularly from those who had been burnt by some dubious Chinese practices.

Andrew Walker looked at how people in a rice-growing village near Chiang Mai perceived environmental issues and how they were linked with lifestyles. He suggested that we should focus less on the idea of environmental crisis and more on environmental risk and the way people adaptively manage risk. People in this village grew garlic during the dry season and their harvests had been getting worse because of poor seasons and poor soil quality. They complained about environmental changes but, in fact, statistics showed that there was nothing unusual about the current drought if you looked at rainfall figures over the last hundred years.

Walker examined theories put forward by the king (implemented by EGAT), NGOs, Buddhist environmentalists and others, all of which focused in one way or another on traditional wisdom and traditional methods of agriculture. However, the peasants were not impressed by these theories and were far more interested in finding new ways of adapting to problems. Prime Minister Thaksin's much criticized scheme for giving money to villagers was in fact quite effective because people used the money effectively even if not traditionally.

The failure of the garlic crop had led to indebtedness but people had now turned to growing other crops on contract for large companies. While this upset some traditionalists, the villagers were very happy with the arrangement because it transferred the risk to the company.

Walker concluded that there has been a long history of farmers managing variability and risk, so some idea of experimental and adaptive knowledge is perhaps a lot more useful to talking about environmental management in Northern Thailand than some idea of traditional or indigenous knowledge. The key to environmental sustainability in Northern Thailand is supporting

and encouraging these processes of adaptation, innovation and diversification rather than going back to some idealized traditional practices.

Yos Santasombat also dealt with Northern Thailand but he made a hard-hitting attack on how government environmental policies were disadvantaging minority forest dwellers like the Lua. In contrast to Walker's account of a classic lowland Thai village, Yos dealt with people whose traditional practices had been identified as bad by conservationists. Government discourses on the environment identified the forest dwellers as enemies of the environment and they were constantly bombarded with material that denigrated their traditional way of life.

He described the Royal Forestry Department's relocation and reforestation as *spatial technologies of domination* and argued that the way in which the created spaces and boundaries in the name of conservation amounted to *spatial practices of oppression*. He said that "in addition to these technologies of domination, the RFD also uses brutal tactics to suppress the expression of cultural identities or opposition by indigenous groups." The tactics used to do this include the machinery of fear, surveillance, border guarding, controlling movement, dividing and ruling, pitching the lowlanders against the ethnic highlanders and through the imposition of a system of values which stress forest conservation for the entire nation, forestry protection for the common good and so on.

For the marginalized people, it is not just a question of agricultural practices but of their whole identity. Ethnic identity is more than a by-product of language, culture and genetic transmission; it is relationally and situationally constructed and reconstructed and formed by a network of social relations over time. Yos concluded with some comments on the wider implications of this local situation. "The essential point about understanding ethnic identity as relationally constructed is that there is no personal ethnic identity apart from a relationship with other identities. A post-modern concept of ethnic identity embraces consciousness of other worlds. It also calls for social action which requires a constant reflective monitoring of motivations and reasons that programme groups. The process of ethnic identity formation moves substantially beyond the notion of the autonomous *oneself* and embraces the notion of ethnicity as a contested cultural terrain; a ground for cultural struggle whose borders are constantly drawn and redrawn. This assumes a considerable degree of conflict over values. The increasing recognition of ethnicity on a global scale through the politics of identity challenges the conventional notions of a political structure. It also provides the social space within which the marginal local groups can effectively challenge and destabilize it.

John Funston argued that the resurgence of instability in the Muslim South since 2001 was essentially sparked by domestic factors. Organizations like JI almost certainly used the border regions for planning and organizational activities but their contacts with local Muslim leaders were minimal. The long-standing unrest in the South had eased greatly in recent decades because of more tolerant and realistic policies by the central government but the police had begun to take a tougher line which, in a more difficult international environment, had increased the problem. However, the South remained a region of complex and often interlocking ethnic, ideological, political and criminal groups.

By definition, Thai Muslims cannot get support outside their small geographical region and it is not clear how interested outside extremist bodies are in Thailand. While the future is cloudy, it seems certain that harsh police repression will only create an aggressive reaction which will make things worse. (Events after this was written have borne out Funston's prediction. — Ed.)

Cavan Hogue
Editor
December 2004

POSTSCRIPT

In the months since the Thailand Update 2004 the security situation in the South further deteriorated, the economy slowed, and southern Thailand was devastated by the Boxing Day Asian tsunami. These developments did not, however, result in any fundamental change to Thailand's political trajectory — as overwhelming support for Prime Minister Thaksin's Thai Rak Thai (TRT) party in the February 2005 election indicated.

The escalation of violence in the South that began in January 2004 continued in subsequent months. Killings occurred on an almost daily basis, targeting particularly low ranking officials and members of the security forces (including defence volunteers), but also affecting innocent by-standers. A judge was killed in September, the first fatality among high-ranking officials; a car bomb was first used in February 2005, with six fatalities; and in April 2005 the conflict expanded geographically when bombs exploded in Hat Yai at the airport and near a Carrefour store, and at a hotel in Songkla. However, the incident that attracted most attention — both domestically and internationally — was conflict at Tak Bai in Narithawat on 25 October 2004.

Police fired on a large crowd protesting the detention of six village defence volunteers whose shot-guns had been stolen, killing seven; 1,300 protestors were then detained, and 78 suffocated during transportation in crowded trucks to an army camp in Pattani.

The government looked largely to security measures to contain this conflict. It continued to use martial law, despite unanimous opposition from Muslim groups in the south. In early October Thaksin reconstituted the army-led Southern Border Provinces Peace Building Command, which had suspended activities after the Kru Se incident, giving it authority over all security actions. In mid-September the government announced the deployment of nine more army battalions (7,000 troops), nearly doubling troop numbers in the three southernmost provinces; in January Thaksin announced a new 12,000 strong army division would be established to deal with insurgency in these provinces. Finally, a week after the February elections Thaksin proposed classifying villages by colour (red, yellow and green), based on the extent of insurgent influence, stopping all government aid to red villages and reducing it to yellow.

In the face of strong public opposition Thaksin eventually moved away from this colour scheme, and in March agreed to appoint an advisory National Reconciliation Commission (NRC) under respected former Prime Minister Anand Panyarachun. The 48-member group has been handpicked by Anand, and includes several prominent Muslims. It has been well-received, with a widespread expectation that its recommendations will result in new policies emphasizing political over security measures.

On the economic front the growth rate dipped only slightly to around 6 per cent in 2004, but by early 2005 forward estimates were generally less than 5 per cent. Oil price increases, a potential problem identified in Professor Bhanupong's presentation, were part of the reason for this. In addition, however, global economic slowdown, rising interest rates, drought and southern unrest contributed. To maintain momentum the government is relying on new mega projects costing up to B1.5 trillion (around US\$35 billion) over the next four years. However, since announcing such projects in late 2003 none has yet been started. And with current plans to achieve balanced budgets analysts are beginning to conclude that the projects may have to be trimmed. The situation is not yet approaching a crisis, and as Professor Bhanupong observed, Thailand is now in a better position to deal with economic adversity having learnt the lessons of the 1997/98 crisis.

The Asian tsunami did not hit Thailand as badly as some of its neighbours. Parts of the tourism sector were affected, along with infrastructure in six southern provinces that bore the brunt of the disaster. Fortunately it did not

strike provinces already beset by security problems, and estimates of the overall impact on the economy were for a decline of around 0.5 per cent.

The tsunami was a humanitarian disaster with some 5,300 casualties, half of them foreign tourists. Thailand was, however, able to turn this to diplomatic advantage. The government worked quickly to address the humanitarian needs of tourists, cooperating closely with foreign governments and aid agencies. Thais from all walks of life rallied selflessly behind this effort, in a manner that gained wide international appreciation.

Coming just weeks before the general election the tsunami also worked in the government's favour. It concentrated media attention on Prime Minister Thaksin, who led the relief operation from the front. And in the face of such a tragedy the opposition, and their particular concerns, were given little prominence. The tsunami did not determine the election result, but probably did make the government win more emphatic.

The election was the first in which a government had completed a full term in office, the first where a governing party was returned to power by democratic election, and the first in which a single party was able to gain an absolute majority in its own right. The TRT gained 377 seats, the Democrats 96, Chart Thai 25 and Mahachon 2. The TRT swept all before it in all parts of the country, except in the 14 southern provinces where it gained only one of 54 seats. In the Muslim southern provinces the TRT entered the election holding 10 of 11 seats but lost all, 10 falling to the Democrats. Nonetheless there was a positive message in this for the government — against widespread expectations that voters would stay away in protest or because of security fears the voter turnout was higher than it had been in 2001 and above the national average.

The new cabinet announced after the election demonstrated continuity, with mainly familiar faces. However, only eight of the 35 cabinet members were elected representatives, unlike Thaksin's first term when more than half were — perhaps a further sign of the prime minister's determination to stamp his personal authority on Thailand's political future.

*John Funston
May 2005*