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Where is Thailand headed?

Bandid Nijathaworn From financial crisis to resilience

Chris Baker Elemental political conflict

Peter Warr Caught in the middle-income trap

Somchai Jitsuchon Fiscal cost and redistribution policies

Desmond Ball and Nicholas Farrelly Soldiers of political fortune

and more . . .

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From the editor's desk

In late 2011 Thais are cleaning up after devastating floods, caused by above-normal rains in the north of the country. More than 600 people have died, millions of hectares of farmland have been inundated, 20,000 factories and plants have been damaged, some never to reopen, leaving at least 1.5 million unemployed. Accusations of incompetence and corruption in the management of the floodwaters and the allocation of relief funds dominate the media and the Parliament.

Beneath the temporary gloom, there is good news. For the first time since September 2006, when a military coup deposed the government of Thaksin Shinawatra, the country has a leadership whose legal and electoral legitimacy is acknowledged by almost all Thais. This government has an opportunity to reduce, though presumably not eliminate, the severe polarisation of the last decade—Thaksin's five years of government and the five years of turmoil following his removal.

To do that, the government led by the Pheu Thai Party of Prime Minister Yingluck Shinawatra, Thaksin's younger sister, must implement the program of populist redistribution on which it was elected and for which it has an electoral mandate. But it needs to address the country's longer-term underlying economic and social problems as well.

The contributors to this issue set the scene for thinking about the challenges ahead. Most, but not all, of the essays are based on the Thailand Update Conference convened at the end of September 2011 by the ANU's National Thai Studies Centre.

The challenges include economic problems, some of which result from the difficulties of financing the Pheu Thai promises, but also deeper issues of competitiveness arising from the country's outdated educational system and its ageing population. There are also problems along the borders, especially the Cambodian border, and the very different problems of the Muslim-majority southern provinces bordering Malaysia.

Meanwhile, as the six-decade reign of the 84-year-old monarch, His Majesty King Bhumibol Adulyadej, approaches its end, uncertainty and disagreement about the royal succession cloud the future, and the law stifles public discussion about these matters.

The road ahead remains uncertain. What is certain is that it will not be smooth.

Peter Warr

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COVER: Activists reading newspapers in Bangkok in May 2010, after Prime Minister Abhisit Vejjajiva had ruled out a compromise—including an early election—with opponents of his government.
PICTURE: Apichart Weerawong / AP Photo / AAP.

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A nation caught in the middle-income trap

PETER WARR

THAILAND is caught in a middle-income trap of its own creation. How did this come about? Are current policies making it better or worse, and what needs to be done to escape the trap?

The 'middle-income trap' is an empirical generalisation based mainly on East and Southeast Asian experience: once a country reaches middle-income levels the growth rate often declines and graduation from middle-income to higher-income levels stalls.

During the decade of economic boom ending in 1997 Thailand's average annual growth rate of real GDP per person was a remarkable 8.4 per cent. Like most booms, this one ended badly. It collapsed with the Asian Financial Crisis of 1997-99. Since 2000 the corresponding growth rate has been 4.1 per cent. The immediate culprit was a contraction of private investment, which declined as a proportion of GDP from an average of 30 per cent to 18 per cent over the same two periods. The effect of lower investment was twofold: it reduced aggregate demand, lowering income in the short run; and it reduced the rate of capital formation, lowering long-run growth prospects.

A decline in this investment ratio occurred in all of the crisis-affected Asian economies, including Indonesia, Malaysia, the Philippines and South Korea. The decline in Thailand was one of the largest. The contraction of

investment occurred primarily among Thai-owned, rather than foreign-owned, firms. Put simply, after the crisis Thai firms became less confident about their prospects and hence less inclined to invest. An expectation of this kind is self-fulfilling. It reduces investment, which does indeed ensure that growth will be lower.

Beneath these short-term macroeconomic events lies a deeper and longer-term phenomenon. Between the 1960s and 1990s Thailand achieved the transition from a poor, heavily rural backwater to a middle-income, semi-industrialised and globalised economy. The transition was primarily market-driven and the

Progress from middle-income to higher-income levels requires a different kind of policy reform, addressing a market failure that the private financial system cannot resolve: the undersupply of human capital

central policy imperative was to avoid those policies that impeded absorption of low-cost labour into export-oriented labor-intensive manufacturing and services. This transition required some elementary market-supporting policy reforms: promoting a stable business environment (not necessarily meaning stable politics); open policies with respect to international trade and foreign investment; and public provision of basic physical infrastructure, including roads, ports, reliable electricity supplies, telecommunications and policing sufficient to protect the physical assets created by business investment.

THIS transition has now occurred in most of East and Southeast Asia and the pattern was similar in all countries that undertook the basic policy reforms listed above. During this transition average real incomes rose significantly, the share of the workforce employed in agriculture contracted and the incidence of absolute poverty fell.

The core of this growth process is expansion of the physical capital stock, resting overwhelmingly on private investment. The private financial system facilitates the link between private savings and business investment. But the process is self-limiting. As labour moves from low-productivity agriculture to more rewarding alternatives elsewhere, wages are eventually driven up. As wages rise, the profitability of labour-intensive development declines. As



Thai Prime Minister Yingluck Shinawatra, centre, with farmers as waters recede from rice fields in Sing Buri province in November 2011. Her party's policy platform is popular, but will it address the long-term issues that are needed to raise the country's economic and social development?

the return to investment in physical capital falls, the rate of private investment slackens and growth slows. The frontier for further expansion of labour-intensive export-oriented development soon moves to other, lower-wage countries. The result is the dreaded 'middle-income trap'. This describes Thailand and Malaysia today and China in the very near future.

Progress from middle-income to higher-income levels requires a different kind of policy reform, addressing a market failure that the private financial system cannot resolve: the undersupply of human capital. Human capital is a crucial

input, created primarily by investment in education, broadly defined. But it differs from physical capital in that it does not provide the collateral that can ensure repayment of loans. Unlike physical assets, human beings can walk away. The private financial system is therefore unable to support investment in human capital. Individual families can and do invest heavily in the education of their own children, but because their resources are limited and because the recipient of the educational investment reaps only part of the returns it generates this is insufficient to prevent the overall underinvestment in human

capital.

Increasing the supply of human capital is central to overcoming the middle-income trap. It raises labour productivity directly and raises the return to physical capital, encouraging greater investment in physical capital as well. In Thailand, as in many other middle-income countries, the problem lies in the quality of education and not just the bare numbers of total school enrolments. And the problem is primarily not at the tertiary level but at the primary and secondary levels. Massive public investment and reform of the education curriculum is needed to redress these problems, requiring

the raising of sufficient tax revenue to finance it and combating the backward and self-serving practices of the Ministry of Education and the teachers' unions. These are formidable obstacles.

DURING Thailand's boom almost everyone gained, including the poor, though not all at the same rate. Economic expectations rose, even among groups like lower-income rural people, who previously benefited only marginally from economic growth. But when the boom collapsed in July 1997, the new opportunities vanished and the newly-expanded expectations were crushed. A sense of economic and political injustice, latent for decades, then became more acute. For large numbers of people redistributive politics then became more appealing as a focus for their anger and as a vehicle for collective economic advancement. Opportunities arose for political entrepreneurs who could mobilise the frustration and use it to capture power.

Enter Thaksin Shinawatra. He had made a fortune by exploiting government-granted concessions in the telecommunications industry and had been a deputy prime minister under two conservative governments in the 1990s. But around the year 2000 Thaksin saw the political opportunity created by the frustrated expectations of many low- and middle-income people, especially those in the predominantly rural North and Northeast regions. He articulated the discontent felt by these people and offered hope. According to his new rhetoric, Thailand's problem was not a flawed macroeconomic strategy that had strangled growth, but injustice inflicted on 'the people' by their fellow Thais, 'the elite'. Thaksin would look after them. This was standard Latin

American-style populism and it worked. Thaksin's new party won an unprecedented election victory in 2001 and repeated the achievement in 2005.

What is wrong with that? At one level, it is simply democracy in action. But a problem remains, in that Thaksin's populism fails to address the sources of the middle-income trap and distracts attention from it. The policy platform successfully taken to the 2011 elections by the Pheu Thai Party, led by Thaksin's sister and in absentia by Thaksin himself, illustrates this point. There were two economic components: capital-intensive mega-projects and redistributive initiatives, each designed to attract new sources of political support.

Each of the mega-projects appealed to a significant segment

PICTURE: SAEED KHAN / AFP PHOTO / AAP



The port of Bangkok: in the decades after 1960, Thailand became a semi-industrialised, globalised economy.

of the population and, like all large construction projects in Thailand, offered the prospect of huge kick-backs for politicians, bureaucrats and others. The redistributive initiatives were similarly designed to appeal to specifically targeted groups. They included a three- to five-year debt moratorium for people owing 500,000 to 1 million baht; a 10 million baht minimum revenue guarantee for local administrative organisations; a farmers' credit card project, backed by the government; a 15,000 baht per month minimum salary guarantee for bachelor's degree graduates; a 1 billion baht education fund for state and private universities; a tax-cut for first-home buyers and another for first-car buyers; free wi-fi in public areas; a guaranteed price of 15,000 baht per tonne for unmilled rice; and an increase in the minimum wage to 300 baht per day.

ASIDE from the problem of paying for these initiatives, the important point is what the policy did not contain: anything about reforming Thailand's antiquated systems of primary and secondary education, the single greatest impediment to long-term economic progress in the country; anything else about raising the long-term productivity of Thailand's masses of unskilled and semi-skilled workers; anything about reforming the country's regressive and inadequate tax system; or anything about reducing corruption.

Thailand's version of economic populism wastes public revenue, feeds corruption, ignores the sources of long-term improvements in human productivity and diverts attention from them. Until this changes the jaws of the middle-income trap will surely remain closed. **EAFO**

Robust electoral politics, unstable democracy

PRAJAK KONGKIRATI

ON THE surface the general election of 3 July 2011 may look like any other Thai election, but both its timing and context set it apart as historically significant.

Incumbent Prime Minister Abhisit Vejjajiva called for elections on 11 March 2011, even though his government had until the year's end to finish its term. Reports indicate

that Abhisit believed going to the polls early would be more advantageous to his party. Crucially, he also wanted to avoid further confrontation with red shirt demonstrators, whose anger and frustration over his role in the April–May 2010 brutal crackdown and its stalled investigation remained. This is the context in which July's election took place, with wounds still fresh and society deeply divided by years of political turmoil.

Although several civilian governments had taken office since the 2006 coup, the military continued to play a dominant role in the country's political system, and a series of mass protests on both sides of the political divide disrupted economic activity and made it difficult for governments to implement important reforms. Against this background of continuous crisis, many observers questioned the election's potential to bring

PICTURE: RUNGROJ YONGRIT / EPA / AAP



Protesters march through central Bangkok in March 2006, demanding the resignation of caretaker Prime Minister Thaksin Shinawatra: in the past decade most Thai voters have opted for one of the two main parties, the Democrats or Pheu Thai.

peace and stability. Some thought it would exacerbate the conflict and lead to even more violence. Tellingly, members of the Election Commission asked the caretaker government to declare a state of emergency to cover the election campaign, as they expected violence of a kind that would be impossible to manage within the regular legal framework.

Yet the 3 July election was one of the most peaceful since Thailand's process of democratisation began in the 1970s. There were a few incidents of violence and a number of people were killed and injured, but the numbers were significantly lower than in any election since the 1980s.

THE July election witnessed a number of positive developments which suggest that electoral democracy is healthy. Voter turnout was 75 per cent — the highest in history. And voter enthusiasm was strong even in the troubled south, which suffers from insurgent violence. A high degree of electoral participation was also seen in the thousands of citizens who volunteered to observe and monitor the electoral process to guarantee it was free, fair and peaceful. Many civic organisations launched public campaigns and rallies encouraging all stakeholders to campaign peacefully and accept the electoral results. This phenomenon is unprecedented in modern Thai elections.

The nature of the electoral contest between the political parties provides a final example of the significant progress made in July. Previous elections were notoriously tainted by fraud, intimidation and vote-buying. These malpractices remain, but their effect on the electoral outcome has substantially diminished. Party performance, policy packages and

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political ideology were the dominant influences on voting behaviour this time around, and evidence suggests that parties and candidates who employed dirty tactics performed poorly in the polls.

It is also clear that polarisation and ideological politics benefited the two major parties—the Democrats of Abhisit and the Pheu Thai Party of Yingluck Shinawatra—and hurt smaller parties. Since the 2001 elections, in which party policy and campaigning started to matter more than sheer force of personality, the majority of voters have opted for one of the two main parties. From 2001–2007, for example, the two major parties won between 75 per cent and 95 per cent of parliamentary seats. The 2007 coup-installed constitution tried to reverse this trend by changing the electoral system and weakening political parties, but this attempt at institutional design had

only minor effects on voting patterns. The Thai people have shown they know how to use their votes to obtain political stability and effective policy implementation.

While the July election does not solve Thailand's underlying problems, it has brought the country out of a protracted crisis and the threat of deadly outcomes. Moreover, it has proven that parliamentary democracy could be re-established and has not been rejected by the majority of Thai people, even while they hold different ideologies and values.

YET the risk of democratic breakdown and instability continues. A tiny but powerful royal-military-bureaucratic alliance still wants to return the country to an old model of 'semi-democracy', in which the bureaucracy and military dominate politics under the auspices of the monarchy. This alliance does not accept the basic democratic principle of 'one man, one vote', as it supposedly goes against Thai society's traditional hierarchical structure. This conservative force is not willing to compete in electoral politics but still controls critical parts of the state apparatus, such as the army, courts and some parts of the bureaucracy. Consequently, it still has the capacity to destabilise elected government. While this state of affairs persists, a coup or some other form of political intervention from the traditional elites cannot be ruled out. A big challenge for Thailand is to convince all sides to acknowledge the equal political rights of Thai citizens and to uphold democratic ideals.

If traditional political forces are unwilling to play within the democratic rules, Thailand will continue to face uncertainty and instability in years to come. **EAFQ**



Elemental political conflict

A fiery protest in central Bangkok in May 2010.

CHRIS BAKER

LAST year, fire; this year, water. The largest demonstrations in Thailand's political history ended with over 90 deaths in April–May 2010, but 18 months later, with the country's biggest floods in half a century, some believed that togetherness in suffering would revive a mythical 'national unity'. Instead the floods soon became a new focus of conflict across the political divide.

In Thailand today, conflict seems elemental.

The country is currently in the middle of massive historical change. Over the past generation, the average per capita income has tripled in real terms. People at all levels of society—but especially those with

lower incomes—have acquired new assets, developed new aspirations, had more reasons to make demands on government and lost old feelings of deference. One of the telling slogans of recent protests is *ta sawang laeo*, 'our eyes are wide open now'.

The political system lagged behind these changes, and the bureaucracy, military and monarchy have continued to monopolise power and obstruct the parliament's development. The bureaucracy still conducts itself more like a ruling caste than a public service. The military ran the country for half a century and still claims the right to intervene in politics—through coup, through interfering with elections, and through manipulating the formation of governing coalitions. The monarchy has acquired greater moral authority

as the reign has lengthened, and has entered more and more into the political sphere through intervention at times of crisis, through the king's public commentary on political issues, and through Royal Projects of economic development. Until recently, parliament functioned principally as a means to co-opt rich businessmen into the networks laced between these three key institutions.

With social change outstripping political development, more people have come to resent the centralisation of power, the inadequate and uneven distribution of public goods, the seemingly elevated and untouchable nature of the powerful, and the continued permeation of traditional attitudes about social hierarchy. These resentments fed into support

for Thaksin Shinawatra in the early 2000s. Although he had not earlier shown interest in the downtrodden and seemed focused on swelling his own fortune, he became the first Thai politician to recognise the new social forces bubbling up from below. He offered some simple but highly effective social policies, and he positioned himself as a leader who would respond to 'the people' rather than an old elite. He was rewarded with rock-star-like popularity and a crushing electoral victory, winning 75 per cent of parliamentary seats in 2005.

THE backlash came fast and hard. Thaksin was deposed in September 2006 and driven into exile. His party was dissolved and his supporters treated to military campaigns of propaganda and intimidation. When these measures failed to destroy Thaksin's support, the retribution went further, modifying the constitution to lessen the importance of parliament and the executive in favour of the bureaucracy and judiciary, reviving the military's influence through a new internal security act, instituting new measures to control dissent, and questioning whether Thailand needed electoral democracy at all.

This backlash, in turn, created the red shirt movement. Like others of its kind, forged in the heat of social change, the movement contains many contradictory elements. The core consists of Thailand's less well-off, especially the more upwardly mobile among them, who have realised the potential of the vote to effect change. But there are also many business owners: they see Thaksin as a leader who can challenge the stifling bureaucracy and help the economy grow. And in the country's

The red shirt demonstrations had a single demand: to hold an election. When negotiations failed, the standoff between the government and the demonstrators deteriorated into violence . . .

northeast and upper north, the red shirt movement emerged as a route for peripheral regions to gain greater weight and respect.

The red shirt demonstrations had a single demand: to hold an election. When negotiations failed, the standoff between the government and the demonstrators deteriorated into violence, after which both sides talked brightly about 'reconciliation'—but their actions spoke otherwise. The government tried to focus public attention on arson attacks, labelling the red shirts terrorists, and put several hundred into jail or detention. The red shirts, by contrast, vaunted the dead as martyrs for democracy. The legacy was one of increased polarisation, and it was in this context that the 3 July 2011 election was called.

The old guard and much of the middle class believed that the Democrat Party could win the poll. The party had copied most of Thaksin's 'populist' policies and added others, notably on education. It allied itself

with minor parties that were ready to use money and official influence to win support in the opposition's heartlands. And it hoped that the violence of April–May 2010 had turned many away from supporting the Thaksinites.

In any case, Thaksin's side seemed in disarray. Many key figures were still in jail, and over 100 were still under a five-year ban from politics. Relations between red shirt activists and politicians in Thaksin's Pheu Thai Party were strained in many localities. Thaksin himself was overseas, and none of several possible caretaker figures had popular support.

BUT with the announcement of the election in early May 2011, the Pheu Thai Party promptly elected Thaksin's youngest sister, Yingluck, as leader, and Thaksin dubbed her as his 'clone'. Immediately, the election was 'about Thaksin,' and about people's attitudes to his achievements as prime minister and to the backlash against him and against parliamentary democracy.

At the 3 July poll, the Pheu Thai Party gained an absolute majority, winning 265 of 500 seats—the Democrats trailed with only 159 seats. Pheu Thai gained 15.8 million votes on the party list (a national vote by party), an increase of around 25 per cent on its 2007 result. Minor parties fared badly, especially those hoping to undermine Pheu Thai with money and influence. In short, the election mirrored a serious divide in ideology and allegiance in the country, and delivered a clear result.

But the forces responsible for the earlier backlash against democracy seemed to feel little obligation to respect this result. Suvit Maesinee, an academic close to the business community, commented: 'I don't think the fact that Pheu Thai won decisively

at the polls means much. Ultimately, Thailand might need to consider whether the system of one man, one vote is best for us or not'. The Bangkok press, which tends to reflect urban middle class opinion, barely veiled its hostility to the new government.

In the aftermath, observers hazarded four scenarios for the near future. The first envisions a backstairs deal to reverse spiralling polarisation. Under this deal, the Yingluck government would not be disrupted and Thaksin would be allowed to return to Thailand as long as the Thaksinite camp agreed to curb rising anti-monarchism. In the second, the government would survive because its opposition was an exhausted wreck: the army discredited by its interventions in politics, the Democrats defeated and demoralised, and the royalist yellow shirt movement dissolved in mutual backbiting. In the third, the opposition would temporarily lay low, waiting for the usual government failures and scandals to create the right conditions for attack, and politics would soon return to the fractious instability of recent years. Under the fourth scenario, an attempt to overthrow the government would provoke much stronger opposition than was evoked by the 2006 coup, shifting the political polarisation into a more violent phase.

Which scenario might prevail remains unclear, but stability seems unlikely. The rising floods have merely provided an opportunity, which critics seized with indecent haste and vehemence, to mock Yingluck for her inexperience, accuse her ministers of incompetence and disunity, and call on the government to resign or at least junk the policy platform on which it was elected.

Come fire or flood, Thailand's elemental conflicts will continue. **EAFQ**

Confronting inequality through fiscal reform

PASUK PHONGPAICHIT

THAILAND has become a wealthier but also more unequal society over the past few decades. Until recently inequality was not a burning issue—but Thailand's prominent political convulsions have changed this. Until recently the country's export-oriented strategy was defended on the grounds that it delivered growth. But as Thailand's growth rate has faltered, that argument has lost traction. More people than ever fear that Thailand faces a 'middle-income trap', and the issues of growth and inequality have been yoked together. The question now is, how can Thailand sustain growth and mitigate inequality at the same time?

Thailand has become a middle-income country. Its GDP per capita in real terms has tripled in one generation from 1980 to 2005. In 2009 Thailand's GDP per capita at current prices was about US\$4,000. The proportion of its population left in poverty has dwindled to around 7 per cent. But income inequality grew markedly worse over the boom years of the 1980s and 1990s, and remains high. The gini coefficient in recent years has hovered around 0.5 to 0.52, one of the highest rates outside Africa and Latin America. By contrast, neighbouring countries

such as Malaysia, Indonesia and the Philippines have shown trends toward greater equality. New data on the distribution of wealth in Thailand show even greater disparity, with a gini coefficient around 0.7.

The main reason behind Thailand's inequality is the huge income gap between those few people with good jobs in the modern economy and the vast majority still stuck in the low-productivity sectors of agriculture and informal work. Manufacturing now contributes 85 per cent of total exports, but employs only about 10 per cent of the workforce—and well-paid, white-collar jobs employ only around 15 per cent. Conversely, agriculture contributes less than 10 per cent of GDP but still employs around two-fifths of the population. Another quarter is stuck in Thailand's growing informal sector, including vending, small business, personal services and casual labour. Altogether, those with insecure livelihoods comprise about two-thirds of the total population of Thailand today.

Economists have tried to explain Thailand's extraordinarily high inequality in two ways. First, they point to the country's development strategy. Thai governments have relied heavily on exports, first of agriculture, later of manufactures, to sustain growth. They have attracted

multinational companies that have brought in capital-intensive methods which require relatively little labour, keeping wages down in order to compete against other countries pursuing the same strategy. There has been little attempt to improve labour productivity or technical competence.

Second, analysts point to the low level and poor distribution of public goods, including physical infrastructure, education and social services. Education is a clear example. Until recently, it was difficult for the majority of children to progress beyond the primary level, while the minority in tertiary education enjoyed quite high subsidies. Across the range of public goods, much more was invested in Bangkok than in Thailand's outlying rural areas.

The fundamental reason for the low level of public goods is a low level of taxation. In Thailand, the ratio of tax to GDP is around 17 per cent. In many other middle-income countries with similar levels of development, the ratio is much higher: 25 per cent in Venezuela and 32 per cent in Turkey. Taxation is not only low, but it may also add marginally to inequality by weighing more heavily on the poor than the rich.

One result of limited government spending is the low level of education among the Thai labour force. In 2009, 57 per cent of employed workers had only elementary education or less. The share of those in secondary and tertiary education was 28 per cent and 8 per cent, respectively. This low education level makes it difficult for Thailand to climb the ladder to higher-tech production systems. Late industrialisers are now catching up with Thailand, while more advanced industrialisers are leaving her behind.

Thai governments have routinely said that they intend to tackle

To get out of the middle-income trap and to reduce economic inequality, Thailand needs to increase government spending on education, research and development, and other public amenities and services


inequality—but are yet to do anything substantial. In the last few years, however, there has been a significant change in tone. Improving equality has risen to the top of the political agenda, and has been linked with the broader issue of escaping the middle-income trap. Two trends have brought this about. First, it is widely agreed that the political conflict of recent years is linked to inequality. Second, Thailand's growth rate has declined since the 1997 financial crisis, at a time when many Asian neighbours have performed better. Moreover, the faltering of Western economies has led to a general realisation that reliance on export-oriented growth will no longer work. The new mantra is to boost domestic demand.

To get out of the middle-income trap and to reduce economic inequality, Thailand needs to increase government spending on

education, research and development, infrastructure, and other public amenities and services. How to raise the money for this? Thailand's low level of taxation to GDP reflects the long-term reluctance of successive governments to raise taxation. Even today Thai businesses complain about higher rates of corporate tax than in neighbouring countries, and the salary-earning middle classes complain that they bear the brunt of 'populist' policies.

A first step would be expanding the efficiency of tax collection within the existing tax structure. The personal income tax system has many exemptions which are manipulated to reduce liability. Huge numbers of businesses escape any taxation by simple accounting ruses. A World Bank and Bank of Thailand study showed that better collection alone could increase tax revenue by as much as 5 per cent of GDP.

Another study found that Thailand could increase its tax revenue further with simple tax reforms. Currently, property taxes yield only 0.2 per cent of GDP. The Abhisit Vejjajiva government proposed a tax on land and buildings which would have raised another 1.25 per cent of GDP, but the proposal was scrapped in the run-up to the July election. Raising value-added tax to 10 per cent from the present low rate of 7 per cent would increase revenue by another 1.25 per cent of GDP. Other possibilities include a net wealth tax, capital gains tax and environment tax.

The issues of inequality and boosting domestic demand are now on the political agenda, and there are clear examples of successful reform packages operating in neighbouring countries. The question now is whether the political will exists to tackle the problem. 

The crisis of the Thai monarchy

PICTURE: RUNGROJ YONGRIT / EPA / AAP



King Bhumibol Adulyadej: the constitution allows the monarch to amend the succession law, or the Privy Council to name the successor to the throne.

PATRICK JORY

THE 2006 coup put Thailand's monarchy in the political spotlight as never before. It was planned and executed by figures close to the monarchy, and many commentators argue that its real aim was to secure the primacy of the monarchy in the face of Thaksin Shinawatra's electoral popularity. Additional attempts at shoring up the monarchy against the danger of electoral politics have been evident since the coup. The dramatic increase in the budget and powers of the Royal Thai Army, the legal dissolution of two of Thaksin's parties, the five-year ban from politics for their leading politicians, and the drafting of a new constitution which curtails the powers of elected governments all point in this direction.

With King Bhumibol Adulyadej's advanced age and poor health, much speculation now surrounds the succession. The first issue is who should succeed the king. According to the constitution, the succession will take place according to the 1924 Palatine Law, enacted when Thailand was still an absolute monarchy. The Palatine Law rules that the monarch's eldest son, Crown Prince Vajiralongkorn, succeeds to the throne.

Yet it is no secret that the crown prince is deeply unpopular, with opposition extending to the highest levels of the Thai establishment. The Wikileaks cables have revealed that key figures close to the palace, including the Privy Council Chairman, General Prem Tinasulanonda, fellow Councillor Siddhi Savetsila and palace favourite and former prime minister Anand Panyarachun view Crown Prince

Vajiralongkorn as unfit to inherit the throne.

The concern is that if the succession were unsuccessful it could threaten the survival of the monarchy itself.

What is less widely known is that the constitution in fact does allow for a different succession scenario. The king may unilaterally amend the Palatine Law himself, or, should he choose not to name an heir and the throne become vacant, the Privy Council (the royally appointed advisory body) can choose the successor, and 'for this purpose the name of a princess may be submitted'. That the royalist drafters of the 2007 post-coup constitution retained these provisions strongly suggests they wished to keep open the possibility of someone other than the crown prince succeeding to the throne. All this points to the possibility of a succession struggle between Vajiralongkorn and his younger sister, Sirindhorn, who is considered close to her father and is known to have significant support in the military.

Yet there is a much more important issue at stake than the personality of the successor to the throne. The essential problem of the Thai monarchy today is its backward and deeply undemocratic nature. Symbolic of this backwardness are the feudal

If the monarchy is to play a role in Thailand after the current king's passing, fundamental reform of the monarchy's powers and culture will be necessary . . .


protocols that require commoners to prostrate themselves on the ground in the presence of members of the royal family and to refer to themselves as 'under the dust on the sole of the royal foot'. If the monarchy is to play a role in Thailand after the current king's passing, fundamental reform of the monarchy's powers and culture will be necessary.

Thai academics and activists are already discussing proposals for such reforms, although so far politicians are yet to take up the cause publicly. Potential changes include reforming Article 112 of the Criminal Code—the *lèse-majesté* law—which forbids criticism of the king, queen, the heir to the throne and the regent, with a maximum penalty of 15 years in jail. It is the harshest such law in the world, with hundreds of people currently in jail or awaiting prosecution because of it.

Other proposals include reforming or abolishing the powerful Privy Council, whose members are chosen by the king and which is rumoured to control senior military and judicial

appointments. The council's chairman is believed to have masterminded the September 2006 coup, and another privy councillor, General Surayud Chulanont, was installed afterwards as prime minister.

Also in the spotlight is the incessant and often ludicrous propaganda promoting the monarchy and members of the royal family; non-existent government oversight of the Crown Property Bureau whose assets, according to Forbes magazine, make the Thai king the wealthiest monarch in the world; and the lack of accountability for the thousands of Royal Projects whose activities are a staple of royalist propaganda, but whose finances and real achievements are effectively protected from scrutiny by the *lèse-majesté* law.

The disastrous floods of late 2011 have forced a pause in the ongoing cold war between the forces arrayed behind the monarchy and those supportive of Thaksin, the Pheu Thai government led by his sister, Yingluck Shinawatra, and electoral politics more broadly. It is likely, however, that political hostilities will resume as soon as the floodwaters recede. The stakes involved in this struggle are massive. Vested interests in the military, the judiciary, senior levels of the bureaucracy and certain business groups depend on the monarchy and will fight to preserve its leverage over Thailand's political system. On the opposing side, deep and widespread resentment against the monarchy exists among those who view it as complicit in the killings of red shirt protestors in the violence of April-May 2010. They are unlikely to tolerate another coup, and with uncertainty surrounding the succession, the monarchy's future looks precarious indeed. 

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**Ideas
from
India**

Immigration and the labour market

DILAKA LATHAPIPAT

THERE is a widespread belief among Thais that immigrants reduce local workers' job opportunities and depress wages. This is evident from an opinion survey study conducted in late 2010 by the International Labour Organization (ILO) Triangle Project on public attitudes to migration and migrant workers. An alarming 89 per cent of respondents agreed with the statement that 'Government policies to admit migrants should be more restrictive', while only 40 per cent believed that migrant workers make a net contribution to the economy. The results echo previous findings from another ILO/UN Women-commissioned study conducted by Assumption University in late 2006, which found that most respondents believed that migrant workers should not be able to apply for any job, and that Thailand did not need migrant workers to sustain its manufacturing and agricultural industries.

The negative attitudes revealed by that survey were fuelled by concerns over the sharp increase in the number of migrant workers, which nearly doubled from 2004 to 2007. As of 2007, immigrants represented around 5 per cent of the country's workforce of 36 million. Most migrant workers in Thailand come from the Greater Mekong sub-region; approximately 75 per cent come from Myanmar and 12 per cent each from Cambodia and the Lao People's Democratic



PICTURE: AAP

A cotton weaver at an opium-replacement development project near the Myanmar border. The Thai economy has a large labour-intensive informal sector.

Republic. These immigrants are largely young and low-skilled, and around three-quarters are unregistered or undocumented.

The fact that an increasing number of migrant workers—documented or undocumented—are demanded in key industries such as agriculture, fisheries and construction indicates that these industries now depend on foreign labour. Clearly, restricting migrant workers' ability to work in these industries would adversely affect the Thai economy. Recent estimates by Martin and Pholphirul suggest that the contribution of migrant workers to Thailand's real GDP is approximately 1 per cent per annum. Given that migrant workers constitute 5 per cent of the country's total workforce, their disproportionately low contribution to GDP reflects their lopsided presence


in low-productivity industries.

The Thai economy is characterised by the coexistence of a capital-intensive formal sector and a large labour-intensive informal sector which employs mostly low-skilled and temporary workers. Employers in this sector usually offer lower wages without benefits or job security to their workers. The Thai labour force's rapidly increasing education levels mean that younger Thais are now turning away from informal so-called '3D' (dirty, dangerous and demeaning) jobs. This growing void has been filled by incoming foreign workers, the majority of whom have attained less than a lower primary education.

Greater inward migration over the three-year period from 2004 to 2007 caused only minor adverse effects on the least-skilled local workers' job

opportunities. Even in the presence of a large number of migrant workers, the Thai labour market continued to tighten and the unemployment rate for the least-skilled workers declined further over the following three years to 0.35 per cent in 2010. The aggregate unemployment rate was also at a very low level, at roughly 1 per cent. A tightening labour market at the low end of the skill distribution is also evident in the large increases of hourly wages for workers at the bottom end of the wage percentile which were observed over the period from 2007 to 2010. It is clear that the availability of migrant workers is buying firms in the less-productive industries more time to adopt labour-saving technologies or to relocate if required.

Consistent with previous studies, there appears in fact to be a small negative impact of 0.69 per cent on local workers' average wages, the wages of those who have at most a primary education. The wage effect of new migrants on existing migrant workers is larger by comparison, at roughly negative 2 per cent.

Due to their complementarity in production, the inflows of low-skilled immigrants are found to raise the productivity and hence average hourly wages of native workers with a high school or college education by 0.56 per cent and 0.57 per cent, respectively. Due to the larger share of high school- and college-educated workers in the Thai labour force, and the higher wages commanded relative to the less-educated groups, it is clear that there is a net gain in the wages of local workers from immigration. The positive effects on the wages of skilled workers (high school and college graduates) outweigh the negative effects on the wages of native low-skilled workers. 

The floods: a message for regional business

MARK CARROLL

AS THE muddy floodwaters in Thailand recede, one of the truths to emerge will be just how important the Thai economy is in both regional and global terms. Thailand is a manufacturing powerhouse. Countless small and large factories churn out a broad range of finished consumer goods for export, as well as component products vital to global supply chains.

But, as an exception to broader regional attitudes toward Thailand, Australian business has largely failed to recognise the importance of the Thai economy to international commerce. Instead Thailand is seen through the narrow prism of beaches and bars. The US, China, Japan and Korea—among others—have all moved past this perception, and for them Thailand is now a serious business destination.

While the worst of the Thai floods is slowly passing—and putting aside the tragic human toll—the disaster's economic impact is becoming clearer. The central bank has slashed economic growth expectations for 2011 from 4.1 per cent to 2.6 per cent. Despite frantic efforts to protect the many purpose-built industrial parks dotted around the country (which are largely the product of Thailand's highly effective Board of Investment promotion activities), many remain inundated.

An estimated 1,000 factories are submerged in a quagmire the size of Australia's island state, Tasmania, or otherwise shut down due to supply-chain shortages, labour absences, transport roadblocks or other flood-related factors. Approximately 20,000 businesses and 780,000 jobs within Thailand are said to be affected. And there are many top-tier multinationals among them, highlighting Thailand's quiet emergence into the world economy. Overseas, big-name buyers from Thai factories have been hit by supply shut-downs, including Hewlett Packard, Dell and Apple. Global output of hard drives, for example, is projected to fall by 30 per cent.

Equally, with Thailand manufacturing over 1.6 million vehicles in 2010, the floods are expected to induce a production drop of between 6,000 and 10,000 units per day—not to mention dramatic shortages of auto component parts for export. The latter has seen production delays in Japan, the United States, the United Kingdom, the Philippines, and elsewhere. In the current international economic climate this latest blow to the region is an unwelcome setback for Thailand's export-dependent economy. That some analysts are comparing the Thai floods' economic impact with that of the Japanese tsunami is hardly surprising.

Australia will celebrate its 60th anniversary of diplomatic relations

with Thailand next year, a feat which underscores the relative stability of Thailand's place in the region and relations with its allies. But while the Australian diplomatic presence in Thailand is one of the largest globally, the same cannot be said for the business relationship with its Southeast Asian partner. Merchandise trade is strong—Thailand is Australia's sixth-most-important merchandise trading partner—but investment tells a different story. Thailand's A\$4.99 billion of investment in Australia in 2010 was almost two-and-a-half times greater than the A\$1.9 billion flowing the other way. The disparity can partly be explained by several large one-off Thai investments, but this tells only part of the story.

Each year there are over 700,000 Australian visits to Thailand. Yet some estimates put the Australian business community there at less than 3,000.

Thailand's economic fundamentals remain strong . . .

To be fair, Thailand's protectionist tendencies—particularly the Foreign Business Act—stymie participation in areas where countries like Australia excel, such as professional services and mining. And corruption, political instability and graphic scenes of violence in Bangkok do not help investor confidence. But many other nations have chosen to focus instead on Thailand's strengths. As a place to do business Thailand offers a strategic location, world-class infrastructure, cheap business inputs and a cost-competitive labour force with good skills potential. And the World Bank

has positioned Thailand 17th in ease of doing business—only Singapore ranks higher in Southeast Asia.

The US, China, Japan, Korea and increasingly others have identified Thailand's commercial potential. They have invested significantly and—despite the floods' heavy toll—stand to make a very positive return.

THAILAND'S economic fundamentals remain strong despite suggestions that the floods reveal an infrastructural weakness. Such suggestions ignore the fact that these floods are a once in 50 year event. Given the huge amount of water this year, the fact that Thailand's infrastructure—and logistics—has stood up so well says a great deal. Also, the eastern seaboard, where much of the heavy manufacturing occurs, has not been affected by water at all. Any shut-downs or reductions in that area have been because of supply shortages from factories up north. Some of the major roads are also designed to be flood barriers and have worked very effectively. Other major highways are elevated above flood level.

Thailand's role as a production base is certain to increase, and bold infrastructure projects (largely financed by overseas interests) are set to take advantage of Thailand's central geography. It has great potential as a transport and logistics hub for goods moving south from China into Southeast Asia and the Pacific. And with modest Burmese overtures to normalisation there is increased potential for an East-West economic corridor through Thailand.

Australian companies have been slow to identify the business prospects in Thailand, and for them the receding floodwaters should reveal a new terrain of opportunity. **EAFO**

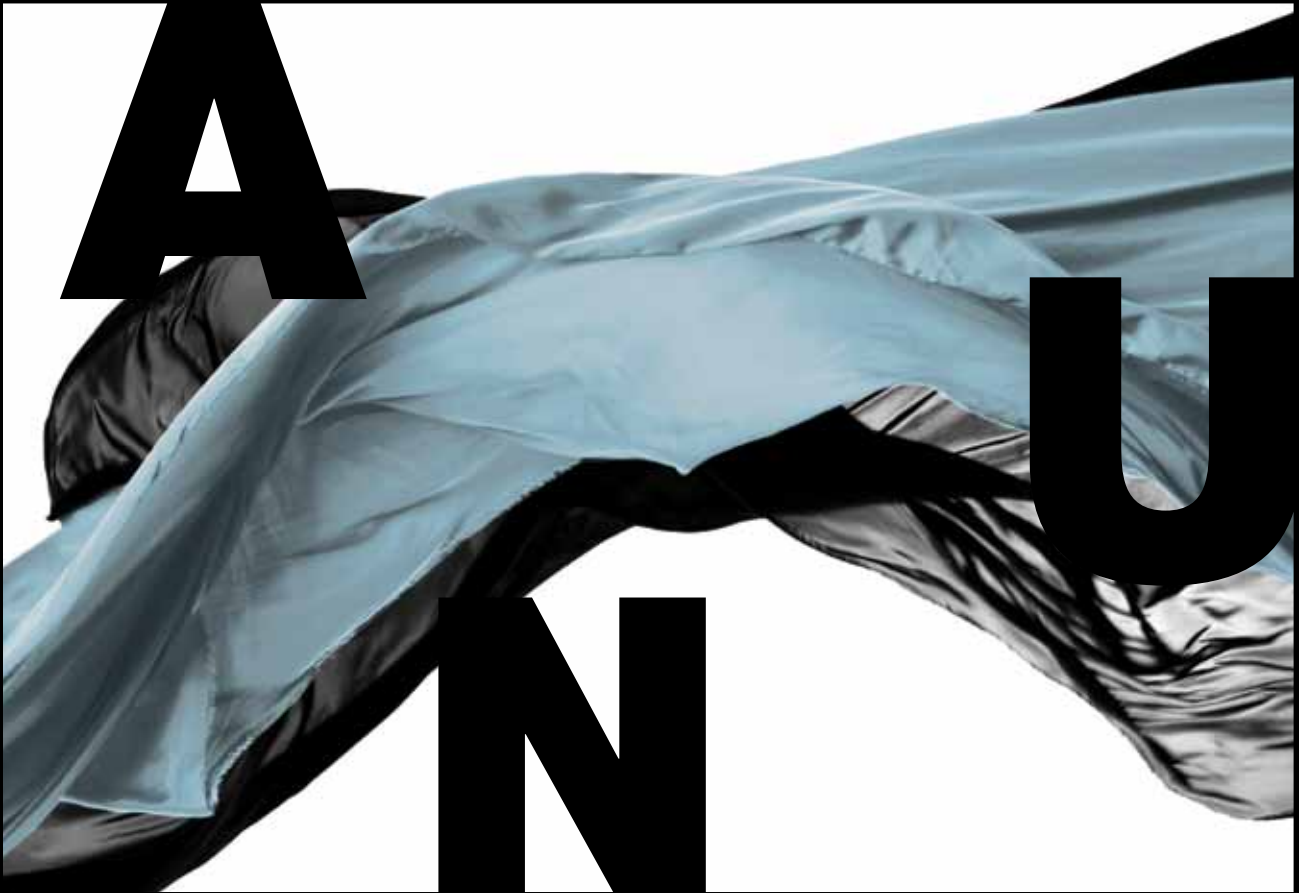
PICTURE: NICOLAS ASFOURI / AFP PHOTO / AAP



Traffic moves through Bangkok's Lat Phrao district in November 2011. Yet Thailand's infrastructure and logistics have stood up well to a once in 50-year event.



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The fiscal cost of redistribution policies

SOMCHAI JITSUCHON

THAT the Pheu Thai (PT) party won Thailand's general election was hardly a surprise, even to its principal political opponent, the Democratic Party. What was surprising was the overwhelming majority it won.

PT's win was attributed to many factors, one of which is the party's credibility in delivering on its election promises. As some, if not most, of their policies are considered 'populist', critics are quick to point out the problems associated with this kind of policy strategy. For example, it is argued that these policies will not help the Thai people in the long run. Instead, populist policies like subsidies encourage Thais to wait for government assistance rather than increase productivity. Resources are allocated away from sustainably increasing the general welfare into securing the political popularity of the ruling party. The latter criticism highlights the importance of fiscal sustainability in PT policies, an issue that warrants special scrutiny because most of the resources involved come from public monies.

While a significant and legitimate concern, the fiscal burden of populist policies is not the only thing on which the critics should concentrate. Like it or not, populist policies would be present regardless of who won the election, as all the major parties had such policies in their platforms during the campaign. What is more important

is whether PT populist policies can fundamentally reduce inequality in Thailand. An examination of these policies suggests they cannot.

Consider the PT campaign policy on rice pledging. Under this scheme, the PT government will buy practically all rice from farmers at prices at least 50 per cent higher than pre-election market prices. The fiscal cost is estimated to be very high, perhaps the highest among all PT policies. It is popular because of the common myth in Thailand that all farmers are poor. But the policy does not really benefit the poor farmers. Studies of rice pledging under Thaksin's government found that only a small fraction of the government's spending under these schemes went to farmers, and that among them the rich farmers benefited the most. A larger portion went to rice millers, rice

exporters, and corrupt politicians and bureaucrats. These groups are among the richest in Thai society. Rice-pledging is thus likely to make income distribution worse, not better.

The first-car and first-house tax subsidies are also clearly not redistributive. Only the richest 25 per cent of Thai families can afford an automobile and most of them own cheaper second-hand cars, not the brand-new ones the PT government subsidises. Even fewer families can afford newly-built houses. These policies are obviously benefiting rich Thai consumers and the entrepreneurs of the two industries involved. The large associated tax credits—100,000 baht for first-car scheme and up to 500,000 baht for first-house subsidy—make these two policies even worse at reducing inequality.

The most redistributive policies are proposed hikes in the minimum wage and minimum salary for new bachelor degree graduates. For example, if the minimum wage hike to 300 baht per day for unskilled workers is enforced perfectly, the unskilled workforce overall will get 250 billion baht more, equivalent to 2.5 per cent of gross domestic product. This is certainly a huge wealth transfer from the rich to the poor. One important thing to note is that the policy might end up hurting the poor workers if the hike forces firms, especially small ones, to lay off less-productive workers.

Other noteworthy policies are additional transfers to village revolving funds, the 'one-tablet-one-child'

... in contrast to PT's rhetoric during the election campaign, its policies hardly favour the poor, and some are clearly designed to benefit the rich and urbanites



A farmer carrying rice for planting in Thailand's Yala province: under the Pheu Thai rice pledging scheme, the government will buy practically all rice from farmers at prices at least 50 per cent higher than pre-election market prices, but the fiscal cost is estimated to be high.

policy, and the increase by 20 per cent or more in monthly payments under universal elderly income transfers. The first two policies pose one-time costs to the government, while the last one could account for up to 3 per cent to 5 per cent of total government spending annually. These policies are biased towards neither the rich nor the poor, as they are universal in nature.

The above examples show that, in contrast to PT's rhetoric during the election campaign, its policies hardly favour the poor, and some are clearly designed to benefit the rich and urbanites. Why did the party choose this approach, and why do

poorer voters, especially in the North and Northeast, remain faithful to the party?

On the first question, it is possible that the party was confident in securing the votes of the poor anyway, so the current round of populist policies was aimed at increasing PT's popularity among middle-income groups and urbanites.

On the second question, it might be that those casting votes for PT did not do so with a particular interest in any single policy, including populist or non-populist ones, but with a general trust in PT as representing their needs, both economically and politically.

The irony is that even if the PT government intends to fulfil its voters' expectations, it might find its hands tied as there is no fiscal space left for the poor after spending on these rich-biased policies. Relying on the accumulation of public debt is no answer either, as the additional fiscal cost of keeping its campaign promises alone could be as high as 3 per cent to 5 per cent of GDP annually. The last resort is reforming the tax system to provide more revenue by increasing the tax base and some tax rates. But doing so would jeopardise PT's short-term political popularity, something it holds close to its heart. **EAFO**

Finding a formula to pay for higher education

BRUCE CHAPMAN

A SUSTAINED effort to upgrade human capital is needed for countries in Southeast Asia to increase living standards to those of the advanced economies. Higher education and access to it are essential in boosting long-term productivity and supporting economic outcomes that are crucial to a country's ability to integrate into the increasingly knowledge-based global economy.

Public investment is one element in improving higher education, but fully subsidising higher education has been shown to be inefficient and expensive. Why should the public pay all the cost for individuals to attend universities when much of the gain from higher education is captured by graduates who, over their lifetimes, earn much higher-than-average salaries because of the payoff from educational investment? Yet it is well known that, left to itself, the commercial banking market will not provide students with loans to help them finance their higher education. The disincentive for a bank lending to students is that there is no saleable collateral in the event of default, such as would be the case for the housing capital market. As well, investment returns from higher education are highly variable and uncertain.

The public spillovers and private benefits from higher education suggest that a combination of a market-based approach and government intervention will best correct the

market failure involved.

In Thailand, as in practically all countries, governments have intervened to help ensure that students have access to loans. But the Thai experience with student loans over the last 15 years or so has been very unusual, even unique. The recent change of government in Thailand is likely to encourage further debate about, and reform to, student loans. The issue is a live one in Bangkok.

There are essentially two types of student loan schemes, with Thailand the only country to have experimented with both. The first is for a government to act as a guarantor for student loans provided by banks (or, equivalently, loans provided by the government) to be repaid within fixed time periods (and often with the government paying

... it is becoming increasingly apparent that student loan policy in Thailand is in need of considerable improvement, perhaps even radical reform

the interest on the debt for the period before the borrower's graduation). This type of scheme is used in the United States and Canada, and was the essence of Thailand's Student Loan Fund (SLF), initiated in 1996.

The second type of government intervention is known as an income-contingent loan, in which repayments are collected through the income tax system, with repayments dependent on borrowers' future economic circumstances. Such a policy was implemented in Australia in 1989 as the Higher Education Contribution Scheme (HECS). Variants of this approach now operate in New Zealand, the UK and Hungary. With the encouragement of then-prime minister Thaksin, Thailand introduced its own version of an income-contingent loan scheme in 2006, based on HECS, and known as the Thai Income Contingent Allowance and Loan (TICAL) system. TICAL was discontinued after one year of operation, after which a new version of the SLF was reintroduced, in 2007.

It is useful to compare the two types of loan schemes that are relevant to the contemporary Thai higher-education funding debate. The SLF, being a mortgage-type loan, means that borrowers are obliged to repay their debts over a given time period. This means that former students who have low incomes will find it relatively difficult to repay their debts. Research suggests that, for a small but significant minority of student debtors in Thailand, the so-called repayment

burden—the proportion of a graduate's income that has to be allocated to debt repayment—can be as high as 70 per cent. In most of these cases the former student will default on their debt and as a consequence face difficulties in securing loans in the future.

Another concern with mortgage-type loans such as the SLF is that, in order to minimise potential problems with repayments, governments typically offer interest rate subsidies, and these can constitute a high cost for the government. With respect to the SLF, it has been calculated that the implicit subsidy inherent in the interest rate arrangements effectively means that at least 65 per cent of the loan is in fact a grant rather than a loan. This might not matter if the goal is to help the poor to gain access to higher education, but it needs to be recognised that the SLF in essence is not a student loan.

TICAL also had its problems. One was that, due to the interest rate and repayment conditions, it was also associated with very large subsidies, perhaps similar in magnitude to those from the SLF. It is also not clear that the income tax authorities were both willing and able to collect an income-contingent loan. Sorting this out in administrative and political terms is a critical issue for contemporary debate.

There are two reasons why TICAL is likely to be back on the policy agenda in the near future. One is that it is becoming increasingly apparent that student loan policy in Thailand is in need of considerable improvement, perhaps even radical reform. The second is that the SLF was brought back in 2007 in part because of the demise of TICAL's main political support, it being arguable that this support has reappeared in a different form. **EAFO**

Thai-Cambodian conflict: a problem rooted in history

KIMLY NGOUN

THE conflict between Cambodia and Thailand has made headlines around the world over the past few years. The latest dispute was precipitated by Thailand's failed effort to block Cambodia from unilaterally nominating Preah Vihear Temple—an ancient Khmer temple located within a disputed border area—as a World Heritage site. But this latest dispute is the result of much broader tensions between the two neighbours, rooted in an historical legacy of hostility and mistrust. It is also the result of divergent constructions of history by today's Cambodian and Thai elites, each of which has tried to promote a sense of national identity based on the concepts of defined territorial sovereignty, a glorified past, and cultural and ethnic superiority. And given half the chance, Cambodian and Thai politicians retreat back into this narrative rallying people around the idea of territorial defence—or ancient temples—to provoke nationalist sentiment and marshal popular support.

There have been several phases to the conflict. From 2008 to mid-2011, relations between the two neighbours deteriorated greatly. Both countries recalled their respective ambassadors;

Cambodian and Thai leaders engaged in harsh verbal attacks; people were arrested and accused of spying; the Thai government revoked the 2000 Memorandum of Understanding after Cambodia appointed former Thai prime minister Thaksin Shinawatra as an economic advisor to Cambodian Prime Minister Hun Sen; the Thai Deputy Prime Minister, Suthep Thaugsuban, threatened to close the Cambodian-Thai border; and both countries reinforced their military presence in contested border areas. This led to a major outbreak of fighting, most seriously over several days in February and April 2011, causing many casualties, destroying houses, and sending tens of thousands of people living near the combat zones into evacuation centres.

The border dispute escalated as Thailand's domestic politics became increasingly polarised between those who supported Thaksin (the red shirts) and those who opposed him (the yellow shirts, who are also supported by the Democrats, the military and the palace). After UNESCO endorsed Preah Vihear Temple as a World Heritage Site under the sole management of Cambodia in 2008, the yellow shirts, unhappy with the decision, launched protests in Bangkok and in the border province of

Cambodian troops on morning patrol around Preah Vihear Temple in July 2008.



Sisaket. Three protesters also gained access to Preah Vihear Temple and subsequently refused to leave, at which point Thailand stationed troops in the temple's surrounding area—under the pretext of ensuring the protesters' safety.

The Cambodian and Thai governments held meetings at different levels in an effort to reduce the tension, but these attempts failed. Prime Minister Hun Sen also sought assistance from ASEAN before proceeding to the UN Security Council in February 2011 when the situation degenerated further. In its decision, the Security Council allowed Indonesia, as chair of ASEAN, to mediate the dispute. Consequently, Indonesia was expected to send 30 unarmed observers to the

disputed border area. While both governments agreed to the plan, the Thai military defiantly opposed any such deployment, claiming it could threaten Thai security. Hence, on 28 April 2011, as the fighting escalated once more, Cambodia's government filed an application with the International Court of Justice (ICJ) to have the international judicial body interpret its decision of 15 June 1962 about the ownership of Preah Vihear Temple and the land surrounding it. While the judges deliberated, Cambodia also asked the ICJ to order the withdrawal of Thai troops and an end to all military activity in the temple's vicinity. The ICJ issued its decision on 18 July 2011, ordering both countries to withdraw troops immediately from the temple and

the contested surrounding areas. The ICJ's decision included a map which flagged a provisional demilitarised zone. The court asked both sides to cooperate with ASEAN, in particular by allowing Indonesian observers into the demilitarised zone.

Relations between the two countries have improved significantly since Yingluck Shinawatra—Thaksin's sister—and her Pheu Thai Party won the July 2011 elections. Yingluck and her foreign and defence ministers made various trips to Phnom Penh in September, and leaders from both countries have promised to allow observers into the demilitarised zone and to honour the ICJ's ruling. The Regional Border Committee meeting, chaired by commanders from Thailand's Second Army Region

and Cambodia's Fourth Army Region, resumed on 23–24 August 2011 in Thailand's Nakhon Ratchasima Province. The General Border Committee meeting, chaired by defence ministers from both countries, has been delayed by the flood crisis in Thailand.

The general tone of relations between Cambodia and Thailand is improving. But the underlying roots of the conflict continue to threaten neighbourly ties, and have not yet been addressed. The historical legacy of hostility, different constructions of history, and the coupling of domestic politics with the defence of sovereignty, territory and ancient temples all need to be dealt with. Otherwise, the potential for future conflict remains. **EAFO**

PICTURE: MAK REMISSA / EPA / AAP



Monks entering Preah Vihear Temple.

RULE OF LAW

Impunity and the neglect of human rights

TYRELL HABERKORN

COUPS are not uncommon in Thai politics—September 2006 saw the tenth successful coup since the country's transformation from absolute to constitutional monarchy in 1932—but the aftermath of Thaksin Shinawatra's deposition has been exceptionally bitter and violent.

Many observers hoped the newly elected Yingluck Shinawatra government would begin to consolidate the rule of law and respect for human rights in Thailand. While it is too soon to know whether her government will succeed in implementing systemic change—or even whether it is interested in doing so—Thailand faces many challenges to ensuring greater protection of human rights.

When the Council for Democratic Reform under the Constitutional Monarchy (CDRM) launched the September 2006 coup, one of its first actions was to abrogate Thailand's 1997 constitution. The council then released a temporary constitution comprised of 39 articles, including two that ensured the CDRM's protection from criminal prosecution. On the fifth anniversary of the 2006 coup seven progressive law lecturers at Thammasat University, a group known as the Khana Nitirat, issued a statement taking up Articles 36 and 37 of this constitution, which secured impunity for the coup's leaders. They began by noting: 'The 19 September 2006 coup was an illegal act. The coup destroyed the rule of law and democracy. The coup remains the primary cause of political conflict from then until the present.'

THE Khana Nitirat argued that the coup and its effects should be 'nullified', by which they meant voided and the resulting legal actions and consequences overturned. Their goal was not to pave the way for Thaksin's return, as some critics charged, but to facilitate a return to the rule of law. On the issue of accountability for wrongdoing during the Thaksin government, the Khana Nitirat also noted that their suggestions 'do not constitute an amnesty or a pardon or an absolving of those individuals accused of wrongdoing ... Therefore, new cases can be started against those

relevant individuals in accordance with the standard legal process.' In the remainder of the statement, the Khana Nitirat called for a review of the country's lèse-majesté laws, protection of the rights of all detainees and prisoners and for a new constitution. The statement was harshly criticised by some segments of the armed forces and the opposition Democrat Party.

The instigators of the 2006 coup enjoy a level of impunity that is particularly startling when considered alongside the recent prosecution of Suderueman Malae, a victim of torture. Suderueman was sentenced in August this year to two years in prison for having spoken out against his alleged torturers. Suderueman and four others were accused of stealing guns in Narathiwat province on 4 January 2004, detained under the terms of martial law and initially charged with 'attempt to kill'. While under detention, they were tortured and pressured to confess. Suderueman's lawyer, Somchai Neelaphaijit, prepared a complaint detailing their torture, which he submitted to the Department of Special Investigation (DSI) on 11 March 2004. The next day, Somchai disappeared.

Not only is it difficult to hold state security officials to account . . . but attempts to do so may even result in further ill-treatment



A Thai police officer stands guard over Thai-Muslim students at an Islamic school in Pattani province in July 2005. Human rights officials said civil liberties were compromised by laws giving authorities sweeping powers to quell an Islamic rebellion in the southern provinces.


Lèse-majesté: an anachronistic but potent weapon

While the initial ‘attempt to kill’ charge against Suderueman was eventually dropped, Thailand’s legal framework provides few options for lodging formal complaints against state security officials. Thailand’s National Anti-Corruption Commission (NACC) in the end dismissed Suderueman’s complaints against Police Lieutenant General Bhanupong Singhara Na Ayuthaya and 18 other police officers involved in his arrest and detention.

But in a development emphasising the distinct shortcomings of Thailand’s current human rights framework, two police officers chose to bring legal charges against Suderueman for allegedly filing a false statement to the DSI and NACC.

Based partly on the NACC’s investigation, Thailand’s Criminal Court found there was no evidence to support Suderueman’s complaint against one of these officers, Police Major General Chakthip. The court convicted Suderueman and sentenced him to two years in prison for maliciously giving false information to inquiry officers.

Suderueman has been freed on bail while he files an appeal against the decision. But his case draws attention to the clear sense of impunity with which Thailand’s elite sometimes act—and the impact this has on other citizens’ basic human rights. Not only is it difficult to hold state security officials to account under Thai law, but attempts to do so may even result in further ill-treatment.

As long as military officers can launch coups without sanction and torturers cannot be held to account, the prospects for human rights in Thailand will remain bleak, regardless of who holds government and occupies the position of prime minister. 

PAVIN CHACHAVALPONGPUN

THE increasing frequency of lèse-majesté cases over the past few years suggests that Thailand’s claim to be the ‘land of the free’ no longer rings quite true. There are many reasons behind the law’s application. Propping up a weakened monarchical institution and disguising the uncertainty of the royal succession is one rationale. Attempts to control society, conserve elitist privileges, prolong the military’s role in politics, obstruct democratisation and cope with the technological revolution in cyberspace also play a significant role.

But the more Bangkok’s elite employ the law for political purposes, the more they weaken the monarchical institution. Its usage highlights a sense of desperation, not authority, as the old establishment clearly exploits the law to maintain its position of power.

After the coup . . . the royalists began to target virtually anyone with different political leanings

That many accept the monarchy has a legitimate role to play in Thai political life, and has the right to intervene in times of crisis without sanction, underscores the existence of absolutist elements within the state. In fact, a ‘prerogative state’ now seems to coexist with regular Thai society, in which a handful of elites operate above the rule of law and where democratic accountability is no longer robust.

The lèse-majesté law is used to protect the monarchical institution, but also a much broader system known as the ‘network monarchy’. The law serves to obscure the special prerogatives enjoyed by members of the network monarchy and defends them from public scrutiny—so long as their actions are justified by the pretence of safeguarding the monarchy. This process runs parallel with the unending re-sacralisation and re-glorification of the monarchy. The strategy allows political opponents to be accused of disparaging the centuries-old institution and be labelled ‘enemies of the state’.

Interestingly, before the 2006 coup, allegations of lèse-majesté primarily served as an inter-elite means to eliminate one’s enemies. For example, Thaksin Shinawatra’s Thai Rak Thai Party accused the Democrat Party of committing lèse-majesté by exploiting the monarchy in its election campaign. Similarly, Thaksin and Sonthi Limthongkul, a leader of the People’s



Academic and activist Ji Ungpakorn calling for the abolition of the *lèse-majesté* law during an appearance at Chulalongkorn University in 2009.

Alliance for Democracy (PAD), also pointed the finger at each other for not respecting the royal institution. After the coup, with the political space much more open—and with the prerogative state coming under threat—the royalists began to target virtually anyone with different political leanings.

Thirty-three charges of *lèse-majesté* came before the Courts of First Instance in 2005, and the number increased almost fourfold to 126 in 2007. This number jumped to 164 in 2009, and then tripled to 478 cases by 2010. The most dramatic increases came under Abhisit Vejjajiva's Democrat government. According to one estimate, there may have been hundreds jailed for *lèse-majesté* in this post-coup period. The dramatic spike in cases seems to have occurred after a pro-elite group—consisting of the PAD, the Democrat Party

and the military—urged all Thais to display their absolute and unwavering loyalty to the monarchy. In this line of thinking, treason seems to lurk around every corner, and the *lèse-majesté* law is a powerful device to silence political dissent.

While objectives like these clearly explain the law's misuse, the reason for singling out particular enemies is more elusive. As one example, Thailand's Centre for the Resolution of Emergency Situations drew up a stupefying 'mind map' that presented an obscure and convoluted chart supposedly mapping linkages between the monarchy's enemies—but without any clear explanation.

The chairman of the Truth for Reconciliation Commission of Thailand stated that all trials connected to political conflict before and after the 2006 coup should be halted and reviewed. He also suggested

the government should reconsider whether to prosecute cases that expand the law's interpretation too broadly, such as those dealing with a so-called conspiracy to overthrow the monarchy.

The only way for the monarchy to survive in Thailand's changing political environment is for members of the old establishment to consider reforming, or even abolishing, this anachronistic law. So far, they have failed to acknowledge the devastating effects that come with exploiting it. These reforms could be undertaken in the larger context of amending the current 2007 constitution. This would not be an easy task, and Yingluck Shinawatra's government may yet prove to be more interested in building a 'working relationship' with the palace—rather than challenging it—as a means of securing its own political interests.

EAFO

Bearing the consequences of population policy

GAVIN JONES

THAILAND went through its fertility transition more quickly than almost any other country, with the average number of children born to the average woman declining from about six to two in little more than two decades, between about 1970 and 1990. Fertility rates have since gone still lower, now standing at around 30 per cent below replacement level (the level that would lead to long-run population stability). This does not mean that the population has stopped increasing. Population momentum—resulting from a continued relatively high concentration of people in the childbearing ages—may result in slow population increases for up to 10 more years. But after this the country's population will begin to decline unless fertility rates increase substantially from their current level, or there is net immigration.

What are the issues, then, that Thailand faces in relation to population change? One is rapid population ageing, and another is urbanisation. The latter is concentrated on Bangkok and its surrounds, but increasingly also on regional cities such as Chiang Mai, Korat and Hat Yai. Equally, the international migration balance appears to be lowering the labour force's average education and skill levels, as Thais moving abroad tend to be better-educated than migrants coming to Thailand from neighbouring Myanmar, Laos and Cambodia.

Still, Thailand has profited in recent



PICTURE: PORNCHAI KITTIWONGSAKUL / AFP PHOTO / AAP

Thailand has enjoyed a demographic dividend in recent decades, but population growth has now fallen below replacement level, the point that would lead to long-term population stability.

decades from a demographic dividend, where its earlier decline in fertility has subsequently led to a population age structure in which the proportion of working-age people is very high. Such an age structure is favourable to rapid economic growth, something which the nation has certainly achieved over recent decades. This demographic dividend is now drawing to a close, and the proportion of working-age people is beginning to decline, albeit slowly.

Thailand is fairly well placed to deal with the additional challenges this transition will pose for economic growth in coming years. Its education system has (rather belatedly) managed to achieve a much higher proportion of students completing their upper-

secondary education. But the situation is not yet satisfactory. The National Economic and Social Development Board reported that in 2008 that the retention rates in primary education, from entry to the highest grade, and in upper secondary from entry to the highest grade, were 88 per cent and 53 per cent, respectively. A further problem will be the ageing labour force, with a declining number and proportion of workers under the age of 29.

Considerable domestic publicity has been given to the ageing issue. The proportion of those aged 60 and above will increase from about 13 per cent at present to about 24 per cent in 2030. Most of Thailand's elderly are healthy and able to look


after themselves. Though the overall proportion living with children is declining, the proportion living with children or in close proximity to children remains quite high—71 per cent in 2007. Therefore, despite a substantial flow of younger adults to the cities, the proportion of the elderly living alone is not high, and close contact can be maintained with absent children through the ubiquitous cell phone. Material support from children has declined only modestly, some workers are insured under the social security system, and the new National Saving Scheme is designed to provide a government contribution if fund members save until they reach retirement age.

The greatest challenge is the provision of long-term care for severely disabled people and those suffering from serious chronic illness,

especially in view of the increasing share of never-married Thais in the elderly population—a group that will become more apparent over the next two decades—who will have no children to rely on.

Population policy focused on reducing fertility from high levels for almost three decades. Now Thailand must consider following the example of its low-fertility East Asian neighbours—Japan, South Korea, Taiwan and Singapore—in introducing policies designed to encourage marriage and childbearing. Though the policies elsewhere in East Asia do not appear to have been particularly successful, some have been in place for too short a time to make much impact. At a minimum, Thailand should be considering more generous maternity-leave provisions than are provided at present, more flexible working hours

and improved subsidised childcare. Merely copying other countries' policies is unlikely to serve Thailand well, as its circumstances differ considerably from its neighbours.

Population projections for Thailand suggest that fewer than five million people, and very likely only one million (less than 2 per cent), will be added to the population before growth ceases. Bearing in mind continued population movements from rural to urban areas, this means that some regions will witness a drop in population because the growth of towns and cities in these areas will not fully compensate for rural depopulation. Planning for population decline is important to any country's future, and Thailand can profit from the experience of European and East Asian countries that have had to manage population decline in rural and regional areas. 

ADJUSTMENT AND RENEWAL

From financial crisis to financial resilience

BANDID NIJATHAWORN

THE development of Thailand's financial sector has been a story of restructuring, adjustment and renewal, following the devastating effects of the Asian financial crisis in the late 1990s. The crisis was very costly to the Thai financial system, with an estimated gross fiscal loss equivalent to about 33 per cent of 2006 GDP. At the peak of the crisis, the Thai banking sector had large net losses, a declining net interest margin, low capital levels and a non-performing loan ratio that peaked at 43 per cent of

total loans in 1998.

But the manner in which the Thai banking problem was tackled, beginning in 1998, shows how authorities might successfully overcome a systemic banking crisis. The government embarked on a comprehensive restructuring of the financial sector, intervening in weak banks and focusing on recapitalisation, debt restructuring, reform of the regulatory and supervisory framework, strengthening corporate governance of banks, and introducing initiatives to deepen and broaden the capital market.

Thai authorities then proceeded aggressively with regulatory and supervisory reforms aimed at moving Thailand's financial regulation and supervision towards a risk-based framework on par with international best practice. Key elements of the reforms centred on risk-based supervision under Basel II (an accord on banking regulations), consolidated supervision and the phased implementation of IAS 39 (a more rigorous method of measuring financial transactions). Financial institutions were also restructured to rationalise and consolidate the

financial system under a 'One Presence' policy. These reform efforts were coordinated under the broad agenda of the Financial Sector Master Plan Phase I (2004–08) which aimed to improve the financial system's efficiency, broaden access to finance and improve consumer protection.

By mid-2007, when the global financial crisis erupted, many weaknesses in Thailand's regulatory and supervisory framework had been reduced. Consolidation in the financial system brought the number of deposit-taking institutions down to 45 from 124 before the 1997/98 crisis, while the process of deleveraging in the private sector was more or less complete, with the debt-to-equity ratio declining from 1.2 in 1998 to 0.7. The domestic capital market also grew rapidly in response to the funding needs of Thailand's government and firms, further strengthening the system's resilience. Importantly, these improvements resulted in much stronger balance sheets for firms and banks.

The immediate impact of the global financial crisis on the Thai economy and the financial sector was limited, due to the funding structure of Thai banks and the low exposure of the Thai banking sector to subprime assets. This structure was based on domestic deposits that helped insulate Thai banks from the tight liquidity conditions abroad. The second-round effects from the decline in economic activity and deleveraging were slightly more pronounced, and a policy response was required at the macroeconomic and finance-sector levels. The key challenge for Thailand has been to help small and medium enterprises adjust to the impact of the global slowdown while maintaining confidence and ensuring a normally functioning financial sector.

By 2010 the Thai economy was on a firm path to recovery, supported by fiscal stimulus, low interest rates and a fully functioning banking sector. Lessons from the global financial crisis point clearly to the importance of

having a sound and resilient financial system to prevent the risk of crisis and help the economy adjust to shocks. Reflecting this, reforms to strengthen the financial sector continue under the broad agenda of the Financial Sector Master Plan Phase II. The plan focuses on improving the financial system's efficiency through greater competition, reducing the financial system costs, expanding access to financial services, and strengthening banks' risk-management capacities by developing better and more complex financial markets and infrastructure.

In parallel with domestic reform, the landscape for the global regulatory and supervisory framework is also changing rapidly in the wake of the global financial crisis. The most important item here is the introduction of the Basel III standards, to be implemented in 2013. The aim of Basel III is to make banks resilient to stress through stronger capital bases, better liquidity positions and more comprehensive risk management. Although the capital position of Thai banks is robust, the industry's longer-term strength will benefit from a continued improvement in capital, liquidity, governance and risk management.

The key future regulatory issue for Thailand, therefore, is how to adapt to the new global regulatory process without harming economic recovery. This must happen while also ensuring the finance industry is contributing to the economy's efforts to address post-crisis challenges, which are expected to be different and more complex. Important in this context is the role the financial system must play to promote domestic demand as a key engine for growth, and the task of more successfully transforming the country's high rate of savings into productive investment. **EAFO**

PICTURE: SAKCHAI LALIT / AP PHOTO / AAP





Thai Muslims pray beside the bodies of some of those who died in the Tak Bai incident in Narathiwat province, southern Thailand, in October 2004.

No resolution to the conflict in the south

ANDERS ENGVALL

ON THE evening of 25 October 2011 the southern Thai town of Yala was shaken by a string of 30 explosions that caused great terror and loss of life. The following day the neighbouring province of Narathiwat saw a similar sequence of attacks. This latest bombing campaign was a stark reminder from southern Thailand's insurgency movement of the seventh

anniversary of the Tak Bai massacre.

The violent conflict still ravaging southern Thailand has claimed more than 5,000 lives since violence broke out in 2004, and is concentrated in the three Malay-Muslim majority provinces, Pattani, Yala and Narathiwat, as well as four districts of neighbouring Songkhla.

This historically rebellious region has seen a succession of uprisings against the Thai state since it became

part of Thailand through the 1909 Anglo-Siamese treaty. Many of the armed movements that have fought for independence over the years have emerged as reactions against recurring efforts by Bangkok to exert increased authority over the region. The 1970s and 1980s saw an extended separatist campaign by the Patani United Liberation Organisation (PULO), which relied on traditional guerrilla warfare conducted from jungle bases.

This was effectively suppressed by a combination of conventional military campaigns and amnesty programs. Following the decline of PULO, BRN-Coordinate (BRN-C) emerged as the main insurgent group, and the movement made a number of strategic shifts away from its predecessors' failures. BRN-C also focused on initially conducting a systematic mass-indoctrination of the local southern population in order to build a solid political base before eventually launching its violent struggle.

Maintaining separate political and militant cells in villages throughout the Malay-Muslim south, BRN-C has built a strong base and effectively undermined state control in the region. Rather than relying on a regular guerrilla force, the movement relies on part-time fighters organised in autonomous cells acting in their own communities. This mode of operation provides a challenge for state security agencies employing traditional counterinsurgency tactics. The largely Thai-Buddhist police and military is simply incapable of separating friend from foe when operating in the 'Deep South'.

The current violence began in 2004, with a bold raid on the Chulaporn military camp, where the separatists made away with a large haul of weapons. The security agencies initially tried to counter the insurgency using cruel repression: the infamous massacres at the Kru Se mosque and later at the police station in the small town of Tak Bai are two clear examples. While outside attention has largely focused on these symbolic events, the bulk of casualties have been caused by a drawn-out campaign of daily acts of violence using small arms, explosives and arson attacks. The security agencies' mismanagement of the initial round of violence has also

Economic disadvantage also adds to the sense of exclusion, as the region is among the poorest in the country, and significantly less developed than Thai-Buddhist provinces


contributed to its steady escalation.

The spread of violence has pushed state power back from the south, leading to increased lawlessness and secondary violence in the form of revenge killings, settling of scores among criminals and extra-judicial executions at the hands of rogue elements within Thailand's security agencies.

Instances of violence tend to follow linguistic and religious patterns, reinforcing the view that southern insurgents rely on ethnic and religious identities for mobilisation. While the Thai state has maintained an inclusive policy toward religious minorities, language policies are extremely conservative. Standard Thai is the sole medium of communication with government officials, for example, leaving the south's Malay-speaking population feeling largely alienated. Economic disadvantage also adds to the sense of exclusion, as the region is among the poorest in the country, and significantly less developed than Thai-Buddhist provinces to the immediate north.

The central Thai government has been largely ineffective at handling the violence in the south. Efforts to mediate in the conflict are hampered by the hyper-secrecy maintained by BRN-C leaders and the state's unwillingness to make any concessions. Consequently, serious proposals for handling the conflict have principally been found outside this bloc, and include academic blueprints for increased self-determination. Researchers at the Prince of Songkla University in Pattani have suggested that autonomy through the creation of a Pattani Metropolitan Administration could allow space to pursue local identity within the bounds of the Thai state—and undermine local support for the armed uprising.

In the recent July 2011 election, several parties floated policies for autonomy or decentralisation, with the pro-Thaksin Pheu Thai Party adopting the Pattani Metropolitan Administration proposal as party policy. In the end, the pro-establishment Democrat Party triumphed in the Deep South, taking nine of 11 parliamentary seats. The party benefited from a split of the Malay-Muslim vote between large numbers of candidates contesting the elections after the break-up of the Wadah faction, which had dominated Malay-Muslim politics for decades.

The failure of Pheu Thai to gain any seats in the south leaves the party without clear electoral support to pursue autonomy. Back-tracking on their election promises, the party has recently floated alternative ideas for preserving strong central government control over the south, even while increasing the army's role in handling the situation. The lack of meaningful effort at decentralisation can only prolong the conflict. 



Political players: Army Commander in Chief Sonthi Boonyaratklin, left, greets General Surayud Chulanont, right, shortly after the latter's appointment as Prime Minister in October 2006.

Soldiers of political fortune

DESMOND BALL AND
NICHOLAS FARRELLY

IN THE lead-up to Thailand's July 2011 election the tough-talking army chief, General Prayuth Chan-ocha, weighed into the political debate, insisting that voters should defend the king and elect 'good people'. General Prayuth hoped, no doubt, that his efforts to sway popular sentiment would lead to a victory for the embattled Democrat Party.

But when Thais went to the polls they passed a very different judgment, determining that Prime Minister Abhisit Vejjajiva and his Democrat-led coalition government deserved electoral oblivion.

The election of Yingluck Shinawatra, sister of deposed former prime minister Thaksin Shinawatra, to the nation's highest political office would have come as a shock. General

Prayuth may, at least for a day or two, have wondered whether a coup would be a reasonable response.

Despite persistent claims to the contrary, Thailand's army is still in the coup-making business and, since toppling Thaksin Shinawatra in September 2006, has shown a dogged commitment to political intervention.

This reality contradicts the army's stated goals. Over the past two decades the army has sought to professionalise its image and develop a leaner, better-educated and more technologically proficient force—and professional soldiers will theoretically avoid political entanglements.

Better training and non-partisan indoctrination will encourage them to 'stay in their barracks', leaving politicians to take care of political matters.

But Thailand's increasingly professional army is yet to disentangle

itself from politics: it remains a potent political force and has proved willing to make abrupt interventions to protect its role.

What explains this situation?

A big part of the answer lies in the relationship between the palace and the army. Even in 2011, Thai generals still ostentatiously prostrate themselves in front of King Bhumibol Adulyadej and claim a supreme role in the defence of the royal institution.

The monarch—who carries the title 'great warrior' (*phramahakasat*) and who still regularly wears his military uniforms—has reigned since 1946 with the reciprocal consent of generations of army commanders. His inner circle is dominated, even today, by some of Thailand's most famous military men, including privy councillors and former prime ministers like General Prem Tinsulanonda and General Surayud Chulanont. These senior generals

are keepers of the army influence that works in tandem with palace prerogatives. The professionalisation of Thailand's armed forces is also one of their long-term preoccupations.

Observers agree that in many respects Thailand's army has become more professional over the past two decades. It has more resources than ever before, with consistent access to overseas training, especially at prestigious institutions like West Point, the Virginia Military Institute and the Australian Defence Force Academy. It also enjoys grand investments in cutting-edge technologies and is now one of the best-equipped armies in Southeast Asia, arguably second only to high-tech Singapore. Thai army units that were deployed to East Timor for the United Nations peacekeeping mission demonstrated respectable standards and were well regarded by other foreign forces.

Yet there is little sign that this investment in professionalism is reflected in the army's organisation or many of its operations.

One reason for this is that the best-endowed and most influential army units are still based in Bangkok and its surrounding provinces. The 1st Division (King's Guard), 21st Regiment (Queen's Guard) and the 9th Division, which are all based in or near the capital, are the key units for political contingencies. Both General Prayuth and his predecessor as army chief, General Anupong Paochinda, are former commanders of the Queen's Guard Regiment. The 9th Division's mission, for example, includes explicit responsibility for Thailand's 'internal security'.

This means that for recent operations in the restive southern provinces and along the Cambodia and Burma borders, the army has relied

not on these elite divisions but on paramilitary *taharn phran* (rangers) and a smorgasbord of quasi-civilian security forces. These are the least professional of Thailand's security elements and have been implicated in a wide range of criminal and political activities.

At the same time, the increasingly professional cadre of technologically competent and foreign-trained officers is still largely captured by the culture which has consistently dragged the Thai army into the heart of national politics.

Why is this situation allowed to persist?

THERE are three reasons why greater investment has not created an entirely depoliticised and professional army.

First is the army's role in the uncertain palace transition when 84-year-old King Bhumibol dies. The army still considers itself the primary defender of palace prestige and position, and it will be looking to provide leadership in the aftermath of the king's passing. The army will prove crucial to whatever happens next and, in the meantime, will not surrender any of its hard-earned status or resources. Army commanders feel, perhaps with a certain justification, that they must be ready for anything.

Second, Thailand continues to allow professional officers to take on explicitly political roles, both before and after retirement. Part of the attraction is certainly financial, but the trend is also born of a culture that sees no problem with army involvement in national politics.

Third, civil society and the media are not currently forcing the army into ever-greater professionalisation, since the latter is adept at hiding its political activities; it has seemingly mastered

the dark arts of public-relations spin. As a result, opposition is relatively meek by historical standards, and even in the wake of the army-led crackdown on popular protests in April–May 2010 there was, all things considered, surprisingly little critical attention of the army's role. Official efforts to investigate the crackdown have also stalled.

Thailand's new professional soldiers have become very adept at old political games, but in an era when most major military operations are necessarily joint (army, navy, air force, police) there are operational implications that must be considered. Thailand's stated ambitions to deploy drones or use cyber-warfare capabilities will remain unconsummated until there is a concerted effort to develop joint-headquarters structures that have real capacity. Politics often gets in the way of being truly ready to fight.

For now, what matters most for the senior army leadership is that at the end of the current king's reign the army is inexorably tied to the palace transition and the defence of the dynasty. This means attention will remain focused on the central region and priority will go to the Bangkok-based units which guarantee dynastic control. In this context, serious security threats—such as the border disputes with Burma, Cambodia and Malaysia—are relegated to lesser importance.

General Prayuth and other senior army officers are entrusted with the sacred protection of the royal family. They want to control a political future where the roles of the royal family and the army are secure beyond doubt, so they will continue to play a political role for as long as required. Professional soldiers are, in Thailand, still defined by political fortune. **EAFO**



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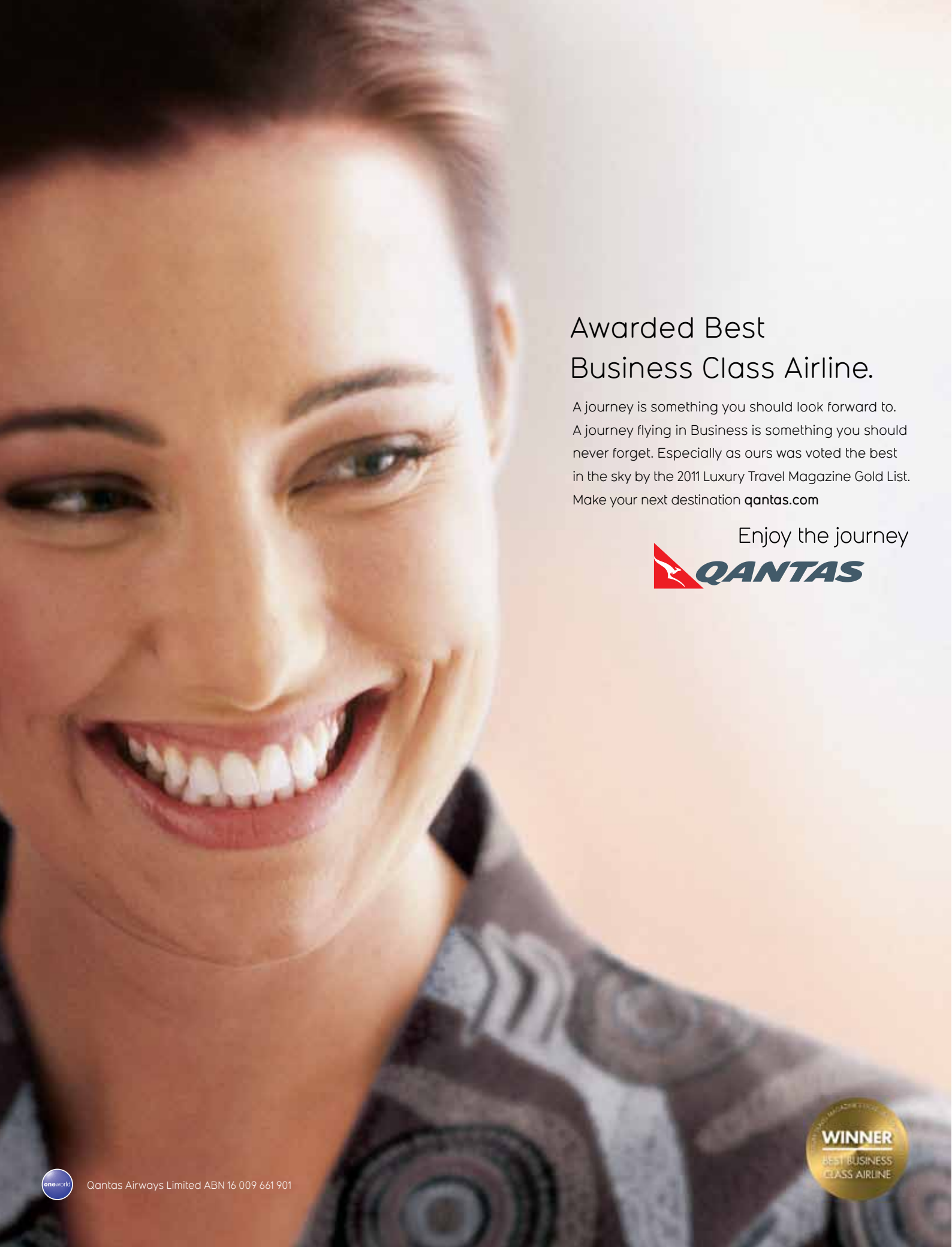
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