

# Economic Review

## Thailand's Restoration of Civil Government and Future Issues

On February 6, a coalition government was inaugurated in Thailand, with the PPP's party leader Samak as the Prime Minister, realizing the restoration of democratic rule after one year and five months from the coup d'état in September 2006. It can be said that the political confusion that had continued for two years since the dismissal of the House of Representatives in February of the same year, following the rise of the anti-Thaksin movement triggered by the former Prime Minister's family's stock sales scandal, is finally coming to an end.

Based on the election results, this report will give an outline of the new government and the future issues.

### 1. Restoration of civil government after a year and five months

#### (1) General election results: Former Thaksin party members come strong

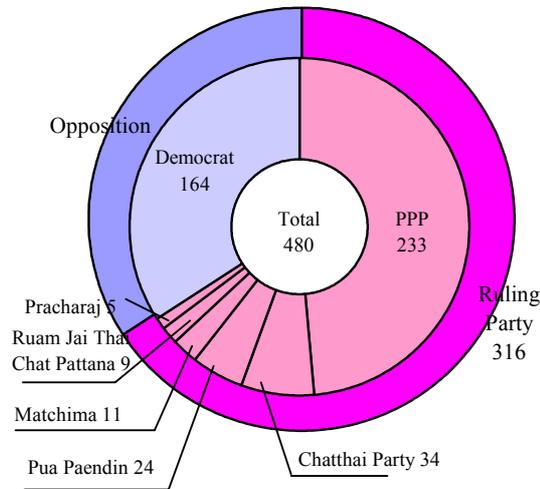
In the general elections (total of 480 seats) held on December 23, 2007, the People's Power Party (PPP) consisting mostly of supporters of the coup-ousted former Prime Minister Thaksin became the first party by gaining 233 seats, coming close to a majority (Note). This general election was the first to be held based on the new constitution established last August under the interim government, and received much attention because it would be considered the public verdict on the coup d'état.

The PPP advocated that it will follow the policies of the former Thai Rak Thai Party, such as large public investments for mass transportation projects and measures addressing rural areas and poverty, and came out strong centering on the rural areas in the north and northeast regions where support remains strong for former Prime Minister Thaksin. On the other hand, the former major opposition, the Democrat Party, was unable to gain as many votes because, despite their anti-Thaksin flavor, the main economic policies they pledged such as mass transportation projects and healthcare subsidies were similar to the PPP and lacked originality. After the elections, six parties excluding the Democrat Party agreed to form a coalition led by the PPP, resulting in the formation of a coalition government occupying two thirds of the House of Representatives seats.

The election results were generally received calmly by the military and anti-Thaksin citizens, and the chances of another coup appear to be unlikely. The country is finally moving towards political normalization after two years from the February 2006 dissolution of the House of Representatives, following the rise of the anti-Thaksin movement earlier that year triggered by a scandal regarding the Thaksin family's stock disposals.

Note: The PPP was previously a small party, but a large number of parliament members of the former Thai Rak Thai Party (dissolved by Constitutional Tribunal order in May 2007) transferred to the PPP and have realized an effective take-over. Some of the former TRT members have formed new parties in order to distance themselves from the pro-Thaksin camp, such as the Pua Paendin (For the Motherland), the Matchima Thipataya, and the Ruam Jai Thai Chat Pattana Party.

Figure 1: Result of the Election



Note: As of January 28, 2008.

Source: Compiled by BTMU Economic Research Office based on various reports

**(2) Outline of the new government: A coalition government led by the PPP**

On February 6, the new government was inaugurated with PPP Leader Samak as the Prime Minister. Prime Minister Samak will concurrently serve as the Defense Minister, and significant posts such as the Finance and Foreign Ministers were also secured by Mr. Thaksin’s close aides. The government line-up enables Mr. Thaksin to retain strong influence, with other cabinet posts also held by Mr. Thaksin’s aides and former Thai Rak Thai Party members or their relatives. Prime Minister Samak himself, having entered politics from being a political columnist and serving posts such as the Interior Minister, Deputy Prime Minister, and Governor of Bangkok (2000-2004), publicly claimed himself as a proxy for Mr. Thaksin at the general elections late last year.

The Deputy Prime Minister post went to the former Deputy Minister for Justice and Mr. Thaksin’s brother-in-law Somchai; the Deputy Prime Minister and Finance Minister is doubled by Mr. Surapong (PPP secretary general), formerly a doctor and an aide to Mr. Thaksin; and the Thaksin family’s legal advisor Mr. Noppadon was appointed to Foreign Minister. In addition, Prime Minister Samak will concurrently serve as Defense Minister himself due to the importance of the relationship with the military that led the coup d’état. Mr. Thaksin’s aide Mr. Yongyut (former PPP Deputy Party Leader) was elected to be the House of Representatives Speaker.

While the inauguration of the first formal government in nearly two years is a positive development, there are more than a few uncertainties to realizing political stability. First of all, despite the government being likely to be strongly influenced by Mr. Thaksin, if this Thaksin flavor comes to the forefront, it may well spark conflict between the anti-Thaksin camp. In addition to the possibilities of confusion coming up regarding the return of Mr. Thaksin, the treatment of granting clemency to the 111 former Thai Rak Thai Party members who are under a five-year ban from public positions imposed by the interim government will be another issue of debate. Secondly, there are scandal allegations regarding Prime Minister Samak himself. The National Counter Corruption Commission is currently continuing with investigations on contracts regarding fire trucks and waste disposal during his Bangkok governor days, and there is a risk of his forced resignation due to prosecution.

Table 1: The Major Cabinet Line-up in the new Government

Post	Name	Party
Prime Minister	Samak Sundaravej	PPP
Deputy Prime Minister	Somchai Wongsawat	PPP
	Mingkwana Saengsuwan	PPP
	Surapong Suebwonglee	PPP
	Suwit Khunkitti	Pua Paendin
	Sahas Banditkul	PPP
	Sanan Kajornprasart	Chatthai Party
Minister Attached to the Prime Minister's Office	Chusak Sirinil	PPP
	Chakrapob Penkair	PPP
Minister of Defence	Samak (double as PM)	
Minister of Finance	Surapong(double as deputy PM)	
Minister of Foreign Affairs	Noppadon Patama	PPP
Minister of Tourism and Sports	Weerasak Kohsurat	Chatthai Party
Minister of Social Development and Human Security	Sutha Chansaeng	PPP
Minister of Agriculture and Cooperatives	Somsak Prissanantakul	Chatthai Party
Minister of Transportation	Santi Prompat	PPP
Minister of Natural Resources and Environment	Anongwan Thepsutin	Matchima Thipataya Party
Minister of Information and Communication Technology	Mun Pattanathai	Pua Paendin
Minister of Energy	Poonpirom Litapanlop	Ruam Jai Thai Chat Pattana Party
Minister of Commerce	Mingkwana(double as deputy PM)	
Minister of Interior	Chalerm Yoobamrung	PPP
Minister of Justice	Sompong Amornwiwat	PPP
Minister of Labour	Uraivan Thienthong	Pracharaj Party
Minister of Culture	Anusorn Wongwan	PPP
Minister of Science and Technology	Wutthipong Chaisang	PPP
Minister of Education	Somchai(double as deputy PM)	
Minister of Public Health	Chaiya Sasomsap	PPP
Minister Industry	Suwit(double as deputy PM)	

Source: Compiled by BTMU Economic Research Office based on various reports

## 2. Policy issues for the new government

For the new government, the issues with the highest priority for the time being are in restructuring the economy through quickly implementing measures to boost the economy and regaining external credibility.

### (1) Recovering domestic demand by early realization of economic measures

Domestic demand has struggled under the interim government following the coup d'état due to remaining a negative attitude for consumption and investment in the private sector, and delays in large-scale public projects.

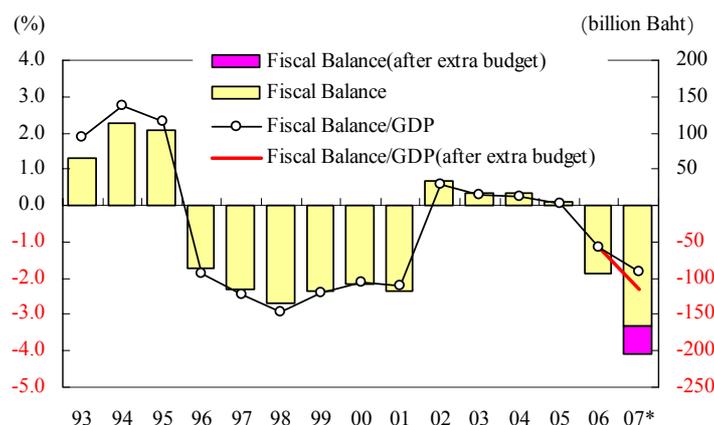
While Prime Minister Samak is expected to formally announce the new government's policies in his first policy speech scheduled in mid February, he has already indicated his plan to follow many of the former Thai Rak Thai Party's policies. Some of the specific policies indicated have been the implementation of: 1) a low-cost healthcare system of 30 baht per person, 2) a rural fund to improve the lives of farmers, 3) grass-roots policies such as lending 1 million cows to ten thousand farmer households, 4) large-scale infrastructure improvement projects such as a railway network construction project in the Bangkok metropolitan area and irrigation facility improvement ("Mega-Project") (Note). In regards to the train network construction plan, Prime Minister Samak has expressed his intention to expand the total project budget to 500 billion baht from the 250 billion baht planned by the interim government, and to increase the number of train lines to nine lines from the five the interim government downsized.

The government has claimed that funding of the "mega project" will mainly be through government expenditures and domestic borrowing, but it also plans to obtain financing from

overseas. As such, successful financing will be important since it will affect the outcome of the project. The current year's fiscal budget (October 2007-September 2008) is ▲165 billion baht (▲1.8% of GDP) and is already a record deficit, but Vice President and Finance Minister Surapon has suggested possibilities of an additional supplementary budget of around 0.5-1.0 percent of GDP (Figure 2).

Note: The "Mega-Project" is a large-scale infrastructure development plan (totaling 1.8 trillion baht) spanning five years until 2009 set forth under the Thaksin government, and the economic effects from the project were expected to push up GDP by about 0.2 percentage points per year when implemented as initially planned (according to government estimates).

Figure 2 : Fiscal Balance



Source: Compiled by BTMU Economic Research Office from CEICdata

## (2) Restoring international credibility

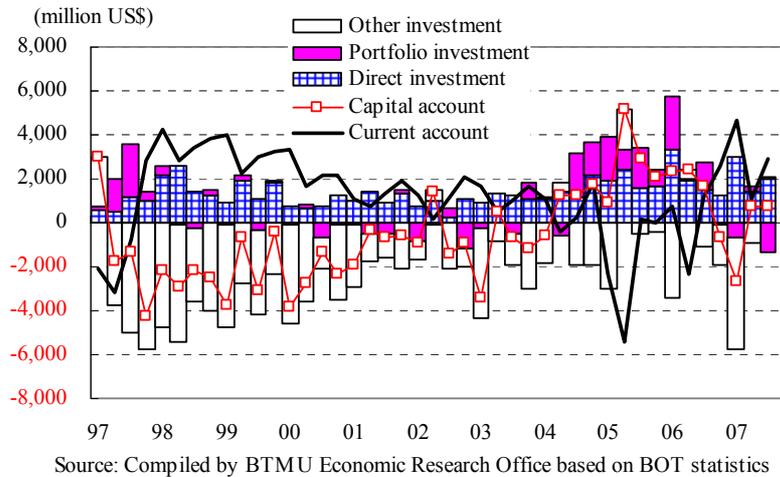
The interim government had announced a series of policies that strengthened restrictions on the activity of foreign investors, such as the increased capital control (with a 30% reserve requirement on short-term capital inflows) and the proposal to revise the Foreign Business Act, which fueled international distrust toward the interim government. The business confidence of Japanese companies present in Thailand shows signs of improvement after the elections due to some easing of the political uncertainty, but many also express hopes for the sustainability of open and coherent investment policies.

Prime Minister Samak is willing to promote the introduction of foreign capital in pursuing his economic policies, and has expressly stated that he plans to drop the revision proposal to the Foreign Business Act. The handling of the capital control introduced in December 2006, aimed at suppressing the high exchange rate of the baht, is also expected to be discussed between the government and the central bank in the future (Note).

Opinions vary on the impact of the capital control in suppressing the appreciation of the baht. Although it has controlled the excessive inflow of speculative funds to some extent, strong pressure for buying the baht due to real demand continued, reflecting the steady expansion of direct internal investment and exports. With the following gradual expansion of exceptions, the regulation is viewed to have limited effect as a whole. On the other hand, portfolio investments have turned to a trend of a net outflow from the 2006 4th quarter (Figure 3); so the policies to control the appreciation of the baht by promoting external capital outflow such as the easing of regulations on foreign currency holdings and on outward investments can be said to have made some impact.

Note: On February 29, Governor of the Bank of Thailand announced the lifting of the reserve requirement on short-term capital inflows, effective March 3, 2008.

Figure 3: Capital Account Balance



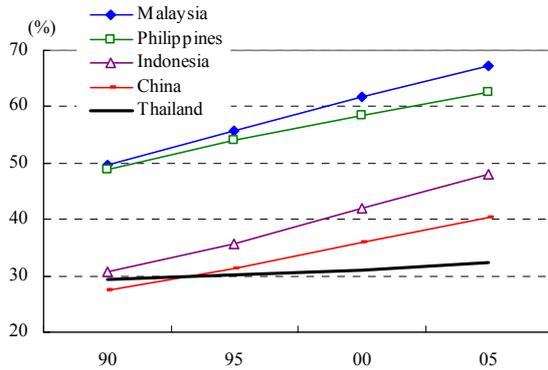
### 3. Conclusion

The inauguration of the Samak government can be assessed positively in that the political confusion that continued for two years since the dissolution of the House of Representatives in February 2006 following the rise of anti-Thaksin movements earlier that year is finally moving towards an end. But until political stability is realized this still remains to be seen. Possibilities remain for the conflict with the anti-Thaksin camp to reignite over the new government's policy management and the return of Mr. Thaksin.

In terms of the economy, domestic demand is expected to recover through the improvement in business confidence and implementation of large scale public investment projects following the start of the official government, but the recent rise in oil prices and the outcome of the slowing U.S. economy needs to be kept in mind as a downside risk to the economy.

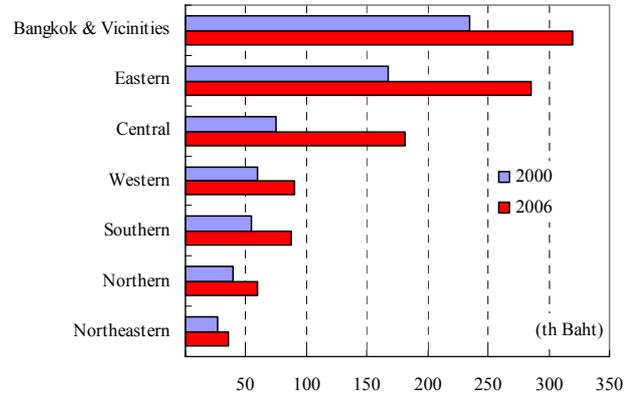
One of the issues for the mid-to-long term is the restructuring of the social economic system towards eliminating the gap between the urban areas and rural villages. The strong support for the coup-ousted former Prime Minister Thaksin in the rural areas re-exposed the urban-rural gap. Even though Thailand's urban population ratio is gradually rising, the pace is very slow at 30 percent (2005), remaining at a low level compared to surrounding Asian countries. About 40 percent of the population is engaged in agriculture (Figure 4). The income gap between the urban and villages is on an expanding trend in recent years. While there is a rapid rise in the income level in the eastern and central regions where industrial production is increasing due to the presence of foreign capital and the capital city Bangkok, the increase in income levels in the rural northeastern regions has been mild (Figure 5). In terms of 2006 per capital GDP, Nong Bua Lamphu province in the northeast has the lowest income level at 18 thousand baht, as opposed to Bangkok's 320 thousand baht. The gap between the two regions has expanded from 1 to 18 from 1 to 13 in 2000. In order to achieve sustainable economic growth and political stability, it will be essential to alleviate this disparity between the urban and rural areas through revisions in social security and healthcare systems, including tax and finance reforms, and not by relying on short-term economic boosting measures through lavish spending policies.

Figure 4: Advancement of Urbanization



Source: Compiled by the BTMU Economic Research Office based on United Nations statistics

Figure 5: Per Capita GDP



Source: Compiled by the BTMU Economic Research Office from CEICdata

*Aki Fukuchi,*

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The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
 Economic Research Office  
 2-7-1, Marunouchi, Chiyoda-ku, Tokyo 100-8388, Japan

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