Under pressure from investors, Thai junta continues to back pedal on economic policy

John Roberts
16 March 2007

The snap resignation of Thai finance minister Pridiyathorn Devakula on February 28 reveals that the ruling military junta is lurching from one crisis to the next without any clear plan for dealing with the country's underlying economic problems.

Pridiyathorn offered no real explanation for his decision, but his comments pointed to the inner turmoil. "I don't want to work under the influence of some people whose behaviour is not entirely transparent, especially some ministers," he told the media. "People with links to the previous government still hold political office. I don't want to work under circumstances in which there are hidden agendas and influences."

Pridiyathorn was appointed as deputy prime minister, as well as finance minister, after the military led by General Sonthi Boonyarathkalin ousted the government of Prime Minister Thaksin Shinawatra on September 19 and dissolved the national parliament. The inclusion of Pridiyathorn, a former central bank chief, was aimed at reassuring international markets and nervous investors following the coup.

One of the key issues behind Thaksin's ousting was opposition to his turn to market reform, privatisation and restructuring, which was affecting the weaker sections of Thai business. Key sections of the Thai ruling elite launched a protest movement against Thaksin, denouncing his corruption and autocratic methods of rule. Amid growing political unrest, the military stepped in, with the sanction of the country's king, and announced it would protect Thai businesses and champion a "sufficiency" economy.

Pridiyathorn was handed the job of implementing what soon proved to be disastrous policies. On December 18 the government announced capital controls, designed to ease pressure on the appreciating baht. Investors were to deposit 30 percent of their investment with the central bank and faced a 10 percent penalty if they withdrew their money within one year. The announcement provoked an immediate stock market crisis that wiped off $US22 billion in share values in 24 hours, forcing Pridiyathorn to exempt equity investments from the controls.

On January 9 the cabinet announced plans to change the Foreign Business Act (FBA) to restrict foreign ownership in certain industries, by requiring foreign companies to sell off shares in excess of 50 percent and to give up voting rights exceeding 50 percent. The proposed measures exempted export-orientated manufacturers and financial institutions but did include the telecommunication sector and other areas considered "vital to national security".

Again Pridiyathorn had to beat a retreat, saying that the inclusion of the telecommunications sector had been a mistake. Last year's sale by the Thaksin family of its share in Thailand's largest telecommunications conglomerate, Shin Corp, to the investment arm of the Singapore government, Temasek, for $US1.9 billion had sparked the anti-Thaksin protests and was one of the stated reasons for the coup. The junta's back down was another obvious public humiliation.

Both economic controls were heavily criticised in the international financial press as being indicative of a trend towards national protectionism. Broader concerns were raised that other Asian countries might impose similar measures, undermining profitable investment opportunities in the region.

The junta attempted to defuse the growing crisis of confidence by appointing Somkid Jatusripitak, Thaksin's former finance minister, on February 15 to sell its policies of a more sustainable "sufficiency economy" to the markets. The London-based

Economist reported speculation in Thailand that Somkid was being lined up as a possible successor to Pridiyathorn.

Again the decision proved to be short-lived. Somkid's appointment provoked sharp opposition from the Thai media and the anti-Thaksin lobby, including from the People's Alliance for Democracy (PAD), which organised last year's protests. Clearly concerned about the potential alienation of one of its only bases of social support, the junta forced Somkid to resign—after just six days in office.

Pridiyathorn's resignation followed just a week later. In all likelihood, the junta has simply used the former central banker as a convenient scapegoat for the failure of its own economic policies. Shortly after his departure, the Bank of Thailand announced another retreat from its capital controls. The announcement ended most of the remaining restrictions on foreign investment—effective as of yesterday.

"Investors would be a lot happier and it's absolutely the right thing to do," Hugh Young, managing director of Aberdeen Asset Management Asia, told the *Bloomberg.com* web site. "But would it suddenly mean, great, we're off to the races again? No I don't think so." Such comments reflect the fact that the Thai junta is under pressure to make even greater concessions to restore the inflow of investment.

The new finance minister, Chalongphob Sussangkarn, a technocrat known for his opposition to capital controls, tried to further appease investors. After his appointment on March 7, he cautiously declared that some capital controls were necessary, but hinted further deregulation was on the cards. "There will be no policies that shock the market," he promised.

At the same time, however, Chalongphob sent another signal to investors, declaring he would cut government spending. He announced that only two of the government's five mass-transit projects would proceed. "I want to make sure the government has discipline in budget spending," he said. He also ruled out providing blanket protection for Thai firms.

Commerce Minister Krirk-krai Jirapaet immediately declared that his ministry was responsible for the Foreign Business Act and therefore had to approve any easing of restrictions. Everyone, Krirk-krai said, was entitled to his opinion, but Thailand needed more regulation to control foreign business. Foreign investors "have to respect the rules" and the government was confident most would accept the new regulation except those whose only concern "is short-term benefits".

Transport Minister Theera Haocharoen told the media he intended to talk to Chalongphob about all five transit projects proceeding. Transport official Pramote Suriya said the new finance minister had perhaps misunderstood a cabinet decision of February 6, which announced bidding for two projects under the current government, but laid the foundation for the remaining three under the next administration.

These continuing divisions demonstrate that the junta, like Thaksin, has no answers to the country's deepening economic problems. The downward movement of Thai interest rates and the relative cheapness of Thai stocks have seen equity investment pick up, but foreign direct investment has slowed. A number of major corporations have put plans on hold, including Ford's proposed $US1 billion small car plant. Foreign investors have not been encouraged by General Sonthi's crusade to return Shin Corp to Thai control.

The economic figures underscore the crisis. Ampon Kittampon, secretary-general of the government's economic advisory agency, announced last week that prospects for economic growth for 2007 were "limited", blaming poor investor confidence. The country's fourth quarter growth was 0.7 percent, the lowest in two years. Some predictions put growth for 2007 as low as 3.5 percent, compared with 5 percent for 2006.

Economic instability can only heighten social and political tensions. Just six months after seizing office, the military junta is facing open criticism in political and media circles. The English-language *Nation* warned on March 1: "The credibility of the government has sunk almost to the point of no return by now. There are increasingly strong rumours that Pridiyathorn's resignation marks the beginning of a far deeper crisis to come."