

# Thai floods compound government's political problems

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The flooding that has engulfed much of Thailand over the past three months is now threatening to cut off the capital Bangkok from the rest of the country. The ongoing floods have impacted heavily on the Thai economy and are also taking their toll on the newly installed government of Prime Minister Yingluck Shinawatra.

The death toll from the flooding is over 550. At least two million people have been directly affected in 26 provinces and Bangkok. By the middle of the week, more than 800,000 Bangkok residents were living in 470 locations that were under more than 80cm of water, according to Bangkok Metropolitan Administration (BMA) head Sukhumbhand Paribatra.

Yesterday Science and Industry Minister Plodprasop Suraswadi warned that the Rama 2 Road, the main highway to the south, would be among the areas about to be inundated. This would effectively mean that the city was surrounded by flood waters.

The Yingluck government and the BMA have focussed this week on saving the city's commercial centre and two industrial estates, Bang Chan and Lat Krabang. Seven major industrial estates in Ayutthaya, to the north of Bangkok, have already been inundated, affecting 9,859 factories and 660,000 jobs.

Despite the BMA's efforts, flooding has already affected the Ratchaprasong intersection at the heart of the capital's commercial district. Retail sales for the 1,200 businesses have dropped 80 percent. Protests have erupted in several areas that have been flooded to protect industrial and commercial assets.

The Yingluck government, which was only installed in August after winning national elections in July, has already come under heavy criticism. An article in the *Wall Street Journal* on Thursday was entitled "Thai Crisis is Yingluck's Decisive Moment." As well as

inundating homes and industrial estates, it declared, the floodwaters "also threaten to consume the country's brand new prime minister."

Yingluck was forced to cancel her trip to the Asia Pacific Economic Cooperation summit in Hawaii this weekend to deal with the flood situation. Her critics accuse the government of underestimating the crisis, acting too late and failing to coordinate relief efforts. They point to the lack of a worked-out recovery plan, describing as inadequate the appointment of two committees to make recommendations.

Calls for the government to resign have been rejected at this stage by the opposition Democrat Party. Its leader Abhisit Vejjajiva again criticised the government yesterday for its poor handling of the floods, but added that the question of responsibility should be left until the situation improved. Having suffered a decisive defeat in July, the Democrats are in no position at this stage to fight a new election.

The situation could rapidly change, however. The election did not resolve the factional conflict within Thai ruling circles that has raged over the past five years following the ousting of Yingluck's brother Thaksin Shinawatra in a military coup in September 2006. Sections of the traditional Thai elites bitterly opposed Thaksin's right-wing populist appeals to the rural poor and his pro-market reforms that threatened their economic interests.

Yingluck was only able to assume power after backroom discussions between representatives of the exiled Thaksin and the military and monarchy struck a deal to guarantee the latter's power and privileges. If sections of the country's corporate elite decided to move against Yingluck, the mishandling of the flood crisis could be exploited as a pretext.

The economic cost of the floods is still being tallied.

Late last month, the Bank of Thailand (BOT) revised its estimate for economic growth for 2011 downward to 2.6 percent, from 4.1 percent the month before. Kasikorn Research predicts an even lower figure of 1.7 percent for this year. In 2010, the economy grew by over 8 percent.

The Thai government is already under considerable pressure from foreign corporations and investors to put a recovery plan in place. The closure of industrial estates and factories in Thailand has seriously impacted on the global supply chains in the auto and electronics industries.

Fifty percent of hard disk drives used by the world's computer companies are produced in Thailand, with the figure for Western Digital being 60 percent. Already the cost of drives has increased by 50 percent and industry experts predict the price will be at least 25 percent above the pre-Thai flood levels for some time. The estimated cost of repairing or replacing flood-damaged capital equipment is \$US1 billion.

Thailand is also the world's fifth largest production centre for cars and light trucks as well as being a major manufacturer of auto components. The worst hit corporations are Japanese which have increasingly shifted production to Thailand over the past three decades. Toyota announced on November 7 that it had cancelled its previous profit forecast until the impact of the Thai floods could be assessed. The company also cancelled plans for overtime in its North American plants due to the lack of parts. Honda's main facilities in Thailand are submerged, disrupting its global operations.

The floods in Thailand have renewed the discussion that emerged in the financial press following the Japanese earthquake and tsunami in March about the vulnerability of global supply chains. McKinsey & Co analyst Yogesh Malik told the *Wall Street Journal* that many companies have never considered the "big picture" in their tenuous supply chains "and this is especially true as these supply chains become more geographically dispersed."

However, the main criticism directed against Thai authorities is that they allowed a massive industrial development over the last 30 years in flood plains without taking into account the drainage problems. Industry analysts expect the Yingluck government to spend a large

portion of funds allocated to flood recovery on water management systems.

The government has already responded. Yingluck has installed the economist Virabongsa Ramangura to head long-term construction. Virabongsa, who played a major role in implementing the pro-market measures in Thailand after the 1997-98 Asian financial crisis, will certainly put the need to reassure foreign investors ahead of the two million people who have been affected by the flooding.

Virabongsa has announced that the government must complete floodwalls around the seven major industrial estates inundated to the north of Bangkok. "In the first year, the government's actions must be enough to convince insurance companies to agree to accept coverage for businesses in the seven estates." On November 8, the cabinet approved a finance ministry proposal to provide funds of 15 billion baht for these estates.

If it fails to meet the expectations of foreign investors and big business, the government could quickly confront moves to replace it with one that will.



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