



**SUPPORT
THAI ARMY
OPERATION**

Thailand,



Unraveling

BY VIKRAM NEHRU AND NADIA BULKIN

Thailand is at a political impasse.

First, the country's Constitutional Court removed Prime Minister Yingluck Shinawatra and part of her cabinet for seemingly minor offenses. Then the military intervened, replacing constitutional government with what it calls "the National Council for Peace and Order."

Thailand can't move forward without fresh elections, yet it can't seem to hold them, either. And its chronic electoral dysfunction is causing economic as well as political paralysis: GDP shrank at a 2 percent rate in the second quarter.

The origins of the crisis are widely attributed to rising inequality between the affluent, rapidly growing region around Bangkok and the country's largely poor, rural North and Northeast. The divisions go deeper, however, reflecting long-brewing resentment of the populous Northeast's lack of a voice in the power structure.

The split has surfaced before, sometimes violently. But the country's current impasse appears deeper and less tractable than in the past. And while one could imagine a formula for saving democracy, it wouldn't be easy to sell.

ORIGINAL SINS

Political turbulence is the rule in Thailand, not the exception. In eight decades of constitutional monarchy, there have been 19 coups, 9 prime ministers removed by force and another 3 ousted by court order. In the last eight years alone, four election results were thrown out and four prime ministers have gotten the boot.

Genuine democracy is a recent phenomenon, arriving only in this century. The military was in power from 1947 to 1992, except for two brief periods in 1973 and 1976. Reverence for the monarchy, fear of the armed forces and

the strength of the civil service – not the legitimacy of elected leaders – has been the glue that has held the country together.

Thailand slipped into gridlock in November 2013, when tens of thousands took to the streets to challenge the government's right to rule. In essence, the battle of Bangkok has been between elitists and populists. The ousted prime minister's Pheu Thai Party (the populists) and its previous incarnations have trounced the opposition Democrat Party in the four elections since 2000. In that time, Yingluck and her elder brother Thaksin (who was prime minister from 2001 to 2006) consolidated support in the vote-rich Northeast through bread-and-butter programs aimed at the rural poor.

The protesters, on the other hand, are predominantly from the middle class in Bangkok and southern Thailand, where the Democrat Party has strong support. They claim that the Pheu Thai Party has bought office with handouts. Led by Suthep Thaugsuban, a former deputy prime minister and veteran power broker, the protesters called for Yingluck to step down. When she ordered elections for February 2014, they simply changed tactics, disrupting polls in at least 28 districts.

Thailand's Constitutional Court declared the elections null and void in late March, and fresh elections were set for July. Then the same court accomplished what the protestors had not, forcing Yingluck out of office. That was followed by a move to impeach her by Thailand's anti-corruption commission. But the military chose to interrupt this legal confrontation with a coup. If the army chooses to back off, in the run-up to an election – presuming there is one – Suthep's happy supporters (called "yellow shirts" for their attire)

are likely to be challenged by their Pheu Thai Party “red shirt” counterparts.

The origins of the current crisis lie in the Northeast, which accounts for a third of the parliamentary seats in the country and holds the key to electoral victory. But it was not always thus. In fact, until fairly recently, those in power in Bangkok didn’t think much about the aspirations of the Northeast. The region, home to the Isan people, who incorporate a variety of ethnicities including Lao (the majority), Khmer, Suay, Phu Tai and Vietnamese, only came under control of Bangkok in the late 19th century, when local elites were replaced by central-government appointees.

The Northeast’s proximity to Laos and Vietnam gave Bangkok cause to worry about military incursions, especially after World War II when Thailand’s military regimes became the fulcrum of America’s strategy to contain communism. Under U.S. tutelage in the 1950s and ’60s, the generals managed the Northeast with a mix of repression and agricultural development – a policy foreshadowing the United States’ anti-insurgent strategy in Vietnam.

Taxes on the Northeast’s rice output were used to finance industrial and infrastructural development around Bangkok. Market reforms in the agricultural sector, together with rapid technological improvements in agricultural production in the Northeast, rendered much of the labor force redundant. The now-jobless young moved south to fill the growing demand for industrial labor in and around Bangkok.

The industrial base of the Bangkok metropolitan region grew rapidly, as it offered an international port, superior infrastructure and massive in-migration. Meanwhile, the rest of

the country remained largely agricultural, providing little opportunity for upward mobility. To be sure, after the threat of communism faded the government encouraged development in the North and Northeast, providing an array of incentives to encourage firms to locate there. But to little avail: these



incentives were inadequate to overcome Bangkok’s self-reinforcing locational advantages.

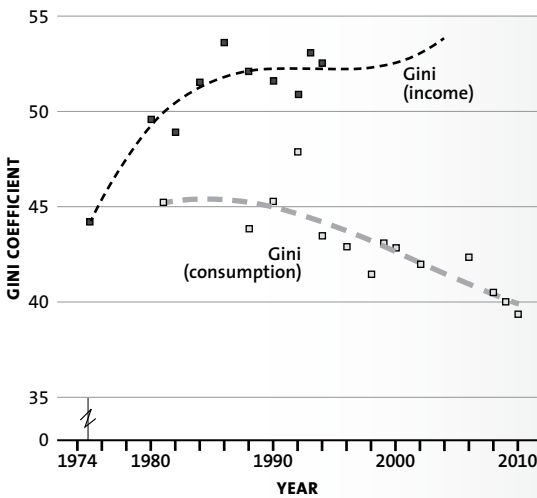
Since the 1980s, Thailand’s average real per capita income tripled, earning it a place as a charter member of the Asian Tiger Cubs. But over the decades, its income inequality has become the highest in Asia, reaching levels seen only in Latin America and Africa. At the same time, rural-to-urban migration caused

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the difference in average per capita incomes among the regions to narrow. So rising national inequality was the result of rising intra-regional inequality, not rural-urban income differences. At the rural end, the inequality can be traced to growing concentration of land holdings; at the urban end, it was linked to the flood of unskilled migrants.

The impact of widening intra-rural inequality was somewhat blunted by the burgeoning flow of remittances from migrants to their families back home. But the money also led to a growing sense of grievance, as poor families were connected to the rest of the world via the Internet and satellite TV. Long-neglected Northeasters demanded a larger share of government spending, in particular for health care and education.

RISING INCOME INEQUALITY, FALLING CONSUMPTION INEQUALITY



SOURCE: World Bank; Thailand National Economic and Social Development Board

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ENTER THAKSIN, STAGE LEFT

Notwithstanding these economic sea changes, the politics hardly changed until 1997; power remained confined to the Bangkok-based elite. But two critical factors broke the dam.

The first was the Asian financial meltdown of 1997. That crisis tested Prime Minister Chuan Leekpai of the Democrat Party, who accepted IMF financial support with unpopular strings attached, including initiatives to prioritize foreign investment and reduce the size of government.

Virtually all segments of society found something to dislike here. Business leaders, who blamed the crisis on the flight of foreign capital, were upset to see the foreigners welcomed back. Representatives of the poor were upset by the austerity policies demanded by the IMF. They blamed the crisis on the concentration of growth (and wealth) in Bangkok. More than 3 million Thais had slipped into poverty in 1999, with the most severe increases in the Northeast (from 19 percent in 1996 to 31 percent in 1999). The rural poor were hit not only by declining income from agriculture but also by lower remittances from their relatives in Bangkok.

A second factor also played a critical role. Thailand had introduced a new constitution in 1997 that changed the electoral rules. Earlier, each district elected three representatives, so candidates had every incentive to emphasize personal characteristics rather than party policies and programs. The 1997 switch to single-member districts meant that not only were candidates now more accountable to their constituents, but they were driven to emphasize national policies that would hold broad appeal and capture a majority in parliament.

Appearing to grasp the depths of public discontent following the financial crisis and the opportunities presented by the new constitution, Thaksin Shinawatra, a politically

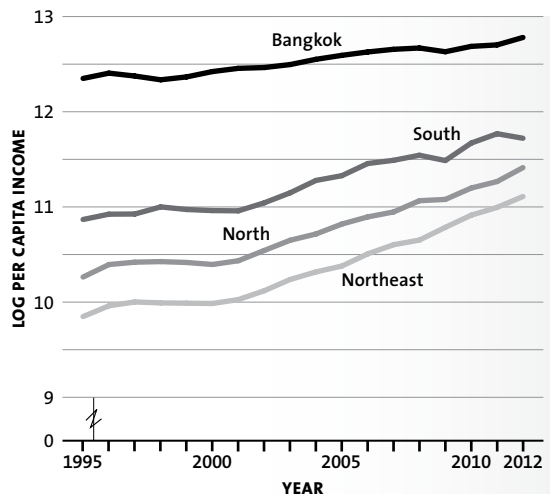
pragmatic media mogul, formed the Thai Rak Thai party in 1998. He was shrewd enough to realize that he would need to build broad support in the populous North and Northeast to win – an unprecedented electoral strategy in Thailand. To secure that support, Thaksin recruited the brain power of grown-up radical students whom he had met as a ministerial aide during anti-junta protests of the 1970s, along with non-governmental health advocates and activists working for urban labor.

While hardly antibusiness, Thaksin's political platform directly addressed the problems of the poor, advocating a debt moratorium for farmers, below-market loans for community development and a universal health insurance program. Just three months before the 2001 elections, the Thai Rak Thai Party unveiled a subsidized healthcare program guaranteeing physician visits at a cost equivalent to \$1, and made it the central plank of its electoral strategy. These proposals offered a striking contrast to the Democrat Party, which subscribed to the IMF-inspired policies and appeared disconnected to the routine hardships of ordinary people.

Thaksin and the Thai Rak Thai Party won the 2001 elections with the largest majority enjoyed by a Thai political party to date. Indeed, it was the first time that a single party had ever won a majority in the Thai Parliament. Thaksin ran a tight ship, reshuffling his cabinet no less than eight times over the next four years, increasing the power of the prime minister's office and sending the clear message that he expected competence and unwavering loyalty from his ministers.

Thaksin took little time in implementing his party's campaign promises. His government redirected the budget toward the inexpensive health care program, created a National Health Security Office to bypass the

CONVERGING AVERAGE PER CAPITA INCOMES BETWEEN BANGKOK AND THE NORTHEAST



SOURCE: Thailand National Economic and Social Development Board (<http://eng.nesdb.go.th/Default.aspx?tabid=96>)

Ministry of Public Health and allocated hospital funding in proportion to the number of patients treated. The number of uninsured fell to 5 percent of the population by 2002. Although the poor benefited disproportionately, others were helped, too. Indeed, civil servants benefited handsomely from increased funding for medical benefits and even the middle and upper classes enjoyed improved public services.

Thaksin also polished his populist image with a locally managed village-development fund that doled out microcredit to rural Thais at below-market interest rates.

These policies substantially boosted the standard of living of the poor, although benefits were uneven and indebtedness may actually have increased due to the easy availability of credit. More important, the poor *felt* they benefited, and most credited Thaksin's policies – not only through health care and village loans, but also through higher prices for farm crops and lower prices for farm supplies.



The Yellow Shirts

The Red Shirts and the Yellow Shirts

Officially termed the United Front for Democracy Against Dictatorship, the red shirts challenge the existing Thai social order, which offers little chance for social mobility. They are not just poor farmers bused in from the North and Northeast, but are also drawn from a growing class of “urbanized villagers” with aspirations to join the middle class. Many work in market-oriented farming and small non-farming business ventures, with multiple sources of income and a few acres of land. All have used the low-cost health care program and most have received business loans from Thaksin-era programs. Policy reversals since the 2006

coup hit their aspirations hard. They believe in the democratic process as the means to defend their rights, and strongly oppose coups and interventions as antidemocratic.

The yellow shirts—as the People’s Alliance for Democracy has come to be known—are typically middle-class professionals. They view corruption as rampant among poor rural voters and argue that Thaksin and his political allies subvert democracy through vote-buying. For yellow shirts, tampering with election outcomes is acceptable because elections can be manipulated to yield undemocratic outcomes. Yet they offer little by way of an alternative.

Thaksin, it appeared, offered the poor a chance not just to get by, but to get ahead.

That said, Thaksin was no enemy of neo-classical economic policies. Indeed, he accepted and implemented the reforms dictated by the IMF. He promoted foreign investment in export-oriented manufactures (while protecting domestic industries). He tried to privatize state enterprises including the Electricity Generating Authority of Thailand, but encountered stiff opposition from unions. Domestic firms were able to increase their competitiveness by shedding labor, but the Thai Rak Thai Party and Thaksin retained the broad support of urban workers because their rural families were benefiting from the party's policies.

It shouldn't have come as any surprise, then, that Thaksin won his re-election bid in 2005 with a resounding margin and a large parliamentary majority.

THE FALL

The scale of Thaksin's second electoral victory scared the Bangkok establishment. Thaksin had won a people's mandate and became even less concerned with his critics. He even stopped consulting Gen. Prem Tinsulanonda, the 80-something president of the Privy Council (the council of advisors appointed by the king). Defenders of the monarchy became genuinely concerned that Thaksin would supplant the king's influence and power – which is a bigger deal than one might think. By making the king and queen symbols of Thai national identity and judiciously using the *lèse-majesté* law to silence critics of the status quo, monarchists and their supporters had maintained power ever since Thailand became a constitutional monarchy in 1932.

General Prem, a formidable figure in Thai politics and *éminence-grise* among the monarchists, was reported as saying that power had gone to Thaksin's head and that he

should remember that Thailand already had “a No. 1” (namely, the king). In 2006, the general told graduating cadets of the Royal Military Academy that they should obey the king, not the government.

Prem's ire was understandable. Thaksin had eroded the general's support among powerful constituencies including the Bangkok-based business elite, whose proxies were included in his cabinet. He centralized the levers of power – the media and the bureaucracy – at the expense of the old guard.

In the early years of Thaksin's administration, the monarchists and the military appeared helpless against Thaksin's political savvy. He effectively countered an attempt by the Constitutional Court to indict him in 2000 for failing to report his assets correctly in the mid-1990s, saying, “Who should I be more loyal to? The people? Or to the Court? I love people.” The Court acquitted him.

But the empire fought back. A coalition of anti-Thaksin groups formed in 2006 – the People's Alliance for Democracy – and organized huge public rallies. They pointed to the \$1.9 billion tax-exempt sale of Thaksin's telecom conglomerate to Temasek (Singapore's sovereign-wealth fund), as further evidence that Thaksin was abusing power for his personal benefit. Thaksin was also vulnerable to criticism about deteriorating security in the South and the military's use of excessive force. Finally, the slowing post-2004 economy rekindled urban opposition, especially among the middle class.

At first, Thaksin claimed that his opponents were just “jealous” of his family's riches, brushing aside charges of corruption. He decided to cement his mandate, calling an election in April 2006. But the opposition parties parried the move by boycotting the vote.

In September 2006, Thaksin was ousted in a bloodless, royalist-led military coup – the

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first since 1991 – while he was addressing the UN General Assembly in New York and he subsequently went into exile. Thaksin had trusted the military, in part because of his family ties, but also because he had given the military latitude over arms spending. The military, however, was ultimately an instrument of the monarch and answered to General Prem, who had reminded them a few months earlier that while the elected government might be the jockey, the monarchy owned the horse. King Bhumibol was also sending clear signals that he was concerned with Thaksin's political leadership. In his birthday address, he noted that in Thailand "everything is getting worse and worse."

The military's justification for the coup was that Thaksin had "caused an unprecedented rift in society." The intelligentsia argued that, while temporarily anti-democratic, the coup was necessary to save Thai democracy's long-term prospects. Others called for a return to "clean politics," accusing Thaksin of corruption and praising the unshakable moral authority of the king. In 2008, Thaksin was convicted in absentia of corruption relating to a land deal and sentenced to two years in prison by the Supreme Court.

The military junta relinquished direct control, but not before promulgating a new constitution in 2007 that reduced the power of political parties and the elected government. The express purpose: undercutting the Thai Rak Thai Party and Thaksin, and strengthening the role of the military and monarchy.

But as the elections held later that year showed, this was an exercise in futility. The People's Power Party, successor to the now-banned Thai Rak Thai Party, swept the vote and propelled Samak Sundaravej to leadership as head of a coalition government. Under pressure from hundreds of thousands of

street demonstrators in Bangkok and accused of being a Thaksin proxy, he, too, was forced to leave office after eight months, when the Constitutional Court found him guilty of conflict of interest for hosting cooking shows on television.

Samak's successor, another People's Power Party stalwart and Thaksin's brother-in-law, lasted just two months in office before being axed by the Constitutional Court for electoral fraud. Not only did the Constitutional Court remove the prime minister, it dissolved the People's Power Party and stripped party executives of their political rights for five years.

For the time being, then, monarchists, with the support of the military and the Bangkok elite, had prevailed over Thaksin and his proxies. With some coercion from the military, Parliament now appointed the leader of the Democrat Party, Abhisit Vejjajiva, as prime minister. The Eton- and Oxford-educated Abhisit served the two remaining years of Samak's term.

Unsurprisingly, Abhisit's tenure proved difficult. It lacked legitimacy in the eyes of many, coincided with the global financial crisis and had to deal with devastating floods in late 2010. But most of all, it was buffeted by violent protests by Thaksin supporters – the aforementioned red shirts, who clashed daily on Bangkok streets with the yellow shirts.

WHY YINGLUCK HAD TO GO (TOO)

Abhisit dissolved parliament in May 2011, seven months before he was obliged to, and elections were held two months later. He led the Democrat Party in the campaign. His principal opponent was Yingluck Shinawatra, Thaksin's youngest sister and the leader of the Pheu Thai Party – yet another avatar of Thaksin's original Thai Rak Thai Party. Yingluck was an ingénue in the truest sense. She had no experience in politics, and was marketed as an extension of the exiled Thaksin.



The Red Shirts

Once again, though, a Thaksin proxy won a thumping majority at the polls – by a margin even bigger than Thaksin managed in 2005. Although the Pheu Thai Party had a majority of seats in Parliament (265 of 500), it formed a coalition with five smaller parties, leaving the Democrat Party as the sole party in opposition.

No sooner did Yingluck assume office than she faced her first crisis: the worst floods in 50 years. It took more than a year before her administration announced massive investments in water management (which the World Bank confirmed had a high economic and social rate of return). In the interim, the Pheu Thai Party reverted to the Thaksin formula for winning popular support: increased credit to farmers, a three-year debt moratorium for small borrowers and tax and subsidy giveaways to corporations, car buyers and homeowners. Her administration also announced a 35 percent increase in the minimum wage, which proved problematic because it forced thousands of small enterprises (including many in the

North and Northeast) to close or downsize.

But perhaps the policy for which she will be most remembered was the rice-price guarantee for farmers. Not only did it depart from previous rice-buying support programs in Thailand because of the exceptionally high price guarantee (50 percent above international levels), it failed to set any limit on government purchases. The government was obligated to buy from anyone who was prepared to sell. And sell they did: the cost exceeded \$22 billion, more than 3 percent of GDP.

The government had hoped that the withdrawal of Thai rice from the global market would drive up the international price, leading to a handsome public profit. Instead, international prices plummeted, in part because Indian and Vietnamese rice exporters filled the gap to become the world's No. 1 and No. 2 rice exporters.

The fiasco made the government the world's largest rice trader, left to deal with virtually the entire marketable crop in the country. By the end of 2013, the government's

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stockpile reached 18 million tons, roughly equal to Thailand's annual output. Rice farmers in neighboring countries were quick to see the advantage in smuggling their rice into Thailand to benefit from the high procurement price. Efforts at government-to-government sales to reduce the surplus came to naught. When the government's budget allocation for rice purchases was used up, it turned to reluctant banks to help finance overdue payments to farmers.

The law underpinning the rice subsidy expired earlier this year, and no government can extend it without permission from the National Election Commission – which is very unlikely to agree. Ironically, the subsidy failed the very people it was designed to benefit; less than 20 percent of the money reached poor farmers. The rest helped millers, corrupt bureaucrats and large farmers. The final irony: most small rice farmers consume more rice than they produce, which made them net losers when the government drove up the price.

While Yingluck's economic policies were problematic to say the least, her political maneuvers seemed more successful. She appeased the military, assuring high-level commanders that they would not be transferred. She was even successful in managing a partial rapprochement with General Prem.

But all that changed in 2012, when the Pheu Thai Party presented a bill to provide a blanket amnesty for all those involved in political offenses from mid-2005 to mid-2010. This would have forgiven Democrat leaders, including Abhisit and Suthep as well as General Prem, for violence against red-shirt protesters. But it would also have pardoned Thaksin and permitted his return from exile.

The bait was rejected. Democrat Party members and yellow shirts used physical violence to obstruct discussion of the bill in Par-

liament. And, in typical fashion, they took their case to the Constitutional Court, which suspended consideration of the bill in order to prevent “escalating political tension.”

The return of Thaksin is abhorrent to the Bangkok elite, not only because they object to his policies, but also because they fear he would control the next king. Crown Prince Vajiralongkorn is heir, but his scandalous personal life has made him unpopular. Moreover, when Thaksin was in power, the crown prince was suspected of accepting funds from the state lottery to pay off gambling debts. Monarchists and the military thus live in dread of a weak king in the thrall of Thaksin.

Crown Princess Sirindhorn, on the other hand, is widely admired for her charitable work and dutiful support of her father. Most in the elite would probably prefer her succession, if for no other reason than to ensure the monarchy remains a politically legitimate, unifying force. The Palace Law of Succession, incidentally, makes succession the sole prerogative of the reigning king. (If King Bhumibol never appoints an heir, the Privy Council decides.)

Now that the military has intervened, Thailand faces international opprobrium; worse, the coup could generate a secessionist movement in the North and Northeast.

SAVING THAI DEMOCRACY

For reasons hopefully now clear, the monarchists and their supporters weren't willing to let a popularly elected government stay in power. Nor, apparently, could they beat the Pheu Thai Party in a fresh election. The military has now stepped in, announcing it will engineer a political reconciliation, stabilize the economy, and rewrite the constitution so that similar political crises can be avoided in the future. They will find this to be like threading a needle in a hurricane.

The military suspended the constitution,

imposed martial law, initiated measures to stabilize the economy, re-started government services, and took steps to review, and in some cases resume, government infrastructure projects. They also detained many politicians and activists from both sides of the divide, but have since released a number of them. A committee has been appointed to advise on political reforms, including revisions to the constitution.

vices, especially health and education, with an aim to ensure equality of opportunity. Any constitutional change should therefore consider devolution of many government functions to regions within a federalist-style political arrangement. Regional development should be pursued by connecting the provinces to Bangkok with better transport and telecommunications infrastructure. Market

Unstable government and a deteriorating economy are likely to exacerbate the tendency toward violent confrontation, and this could feed back to the economy in a vicious circle.

A key objective of the junta is to reconcile Thailand's opposing political forces. To do so, the military authorities would be wise to involve the king. He may be old, but the reverence he commands still gives him considerable influence. The king could show his impartiality by insisting on major concession from both sides of the political divide. The king could also reduce tensions by naming his successor. No matter whom he chooses – the crown prince or the crown princess – the monarchy will be unlikely to wield the power it has in the past. While the monarchy has long been seen as a stabilizing force in Thai society and polity, its fading increases the chances that a more resilient democracy may emerge in which regional compromises are thinkable.

The military should also consider policy reforms from a medium-term perspective to get Thailand back on a Tiger Cub growth path. Constitutional amendments could include provisions to constrain governments from using the budget primarily to project (and protect) political power. Along with adopting a fiscal rule that forces the government to eschew unsustainable deficit spending, emphasis should also be on delivering public ser-

incentives, not government subsidies, should guide the industrialization of rural regions.

Finally, in the long term, it is important the military authorities ensure that countervailing institutions – especially the Constitutional Court and the National Anti-Corruption Commission – are not just independent, but are seen to be independent.

Both were created under the 1997 constitution and were quickly captured, initially by Thaksin and later by the military and the monarchists. Confirming the reality as well as the perception of independence would be no small matter, however.

Time is not on the side of the military. The longer the National Council of Peace and Order remains in power, the likelier violent confrontation. Their proclamations of impartiality notwithstanding, most people in Thailand, especially those in the North and Northeast, view the military and its actions as biased in favor of the monarchist network. It would be most unfortunate if they are proved right. The military, and Thailand's political elite, should recognize that in the long term, while democracy is an imperfect form of government, it still beats the alternatives. **M**