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Abstract

Notwithstanding the unavoidable adverse impact on its export sector, Thailand weathered the Global Financial Crisis in the late 2000s better than many of its emerging-market peers, owing to structural adjustments and recovery dynamics in the aftermath of its crippling financial crisis a decade earlier. Thailand's political crisis also dampened what otherwise would have been a more exuberant risk-taking financial sector, thereby keeping exposure to the GFC relatively minimal. Instead, the Thai growth story in the 2000s was dominated not by financial crisis but by political polarization and turmoil arising from former Prime Minister Thaksin Shinawatra's wide range of policy innovations and adjustments that provide the basis for this paper. His government's pace of policy formulation and implementation with the aims of structural change and economic upgrading in the Thai economy amidst globalization challenges was bold and unprecedented. This paper sets out to examine the underpinnings, dynamics and implications of Thaksin's policy platform. Why were such adjustment and upgrading policies considered, formulated and implemented during the Thaksin years but not as much before or after? What were the roots and dynamics of this upgrading? A principal component among the host of such policy innovations and adjustments was Thaksin's preference for bilateral free-trade agreements. Thaksin's FTA strategy thus serves as a policy case study. It was instructive of Thailand's global trade constraints and of Thaksin's policy assertiveness. Ironically, it ended up providing a rationale for the coalition that deposed him. The overarching aim here is to show how the 1997-98 crisis augured well for Thaksin's rise, his policy innovations with particular reference to FTAs, and how the subsequent global economic crisis in 2008-09 was incidental to Thailand's political crisis surrounding Thaksin's fall.

Keywords: financial crisis, Free Trade Agreements (FTA), political polarization, Thaksin Shinawatra, Thailand

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Introduction

Juxtaposed next to its wrenching economic crisis in 1997-98, Thailand in the aftermath of the 2008-09 Global Financial Crisis (GFC) landed on a sound footing, with economic growth in 2010 registering 7.2 percent after a slowdown in 2008 and a contraction of 3.4 percent in 2009. By contrast, the Thai economy in 1997-98 contracted successively by 1.3 percent and 10.5 percent. The downslide in the more recent crisis was also made more manageable by robust macroeconomic adjustments taken in the aftermath of 1997-98, resulting in record-high international reserves and space for fiscal stimulus programs to cushion the adverse impact of GFC.

This paper examines the reforms implemented during the inter-crises period in order to assess how instrumental they were in Thailand's successful coping with the GFC. The paper focuses especially on the trade policies of the Thaksin administration. The Thaksin government, born of the national agony and disgrace in the aftermath of the AFC, attempted to strengthen the competitiveness of the national economy and in the process challenged numerous vested interests within the political regime. During 2001-06, the Thaksin government indeed implemented a wide range of policy innovations and adjustments. The pace of policy formulation and implementation with the aims of structural change and economic upgrading in the Thai economy amidst globalization challenges was bold and unprecedented. This paper sets out the underpinnings, dynamics and implications of Thaksin's policy platform. Why were such adjustment and upgrading policies considered, formulated and implemented during the Thaksin years but not as much before or after? What were the roots and dynamics of this upgrading? A principal component among the host of such policy innovations and adjustments was Thaksin's preference for bilateral free-trade agreements. Thaksin's FTA strategy was instructive of Thailand's global trade constraints and of Thaksin's policy assertiveness. Ironically, it ended up providing a rationale for the coalition that deposed him. The overarching aim here is to show

how the 1997-98 crisis augured well for Thaksin's rise, his policy innovations with particular reference to FTAs, and how Thaksin's economic reforms and the subsequent political crisis affected Thai response to global economic crisis in 2008-09.

1. AFC and post-AFC reforms

Thailand's 1997 crisis was characterized by financial sector instability, compounded by a shoddy and futile currency defense to maintain a pegged exchange rate, underpinned by the politicization of key macro-policy institutions, particularly the Bank of Thailand and the Ministry of Finance. The crises in the bank and non-bank financial sector and exchange rate management were then transmitted into the "real economy" and became a full-blown economic crisis (e.g., Pasuk and Baker 2000). When the baht peg gave way to a forced flotation and effective devaluation in July 1997, it sparked a region-wide tumult that ravaged East Asian economies in general, and Thailand's, Indonesia's and South Korea's in particular.

That Thailand was the epicenter and East Asia the main theatre of crisis in 1997-98 produced wide-ranging scholarly diagnoses of causes and cures. This scholarly navel-gazing took off in two main directions, claiming that the crisis had been either largely externally-driven or else had been critically internally-induced. On Thailand, the proponents of external causes lamented the lopsided nature of global finance, capital mobility with fixed exchange rates, excessive speculation by exploitative actors such as hedge funds, misguided and exacerbating prescriptions of the International Monetary Fund and so on (e.g., Bullard, Bello, and Malhotra 1998). The critics focusing on domestic risks and culpabilities fingered corruption, collusion, cronyism, and other unscrupulous clientelist practices and infractions that eroded systemic stability and brought on enabling crisis conditions (e.g., Sor Por Ror 1998; Duenden and Rajitkanok 2001). As major East Asian economies wilted, the rest of the world's economies, especially those of Europe and the United States, felt significant but limited aftershocks in both scale and scope.

In the immediate aftermath of the crisis, the Thai government implemented several policies for structural adjustment. The Thai baht was freed from the prior fixed-rate system while a restructuring of the financial sector was attempted although, as Okabe's paper (2013) demonstrates, the process was slow in comparison with South Korean's experience. In the Thai case, the private banks and market adjustments, much more than the role of the state and state authorities, were responsible for conditions before and after the earlier crisis. This meant that Thailand's banking sector adjustments were sticky and slower to reform because bankers resisted incurring losses from an expeditiously short but more painful adjustment process, unlike in South Korea where state-led approaches were instrumental in both the sharp contraction and Korea's rapid "V-shaped" recovery. Slow though it was, the banking sector, after all, was streamlined, with more than half of Thailand's domestic banks either wiped out altogether or rationalized and recapitalized by foreign partners. On the other hand, 56 of 91 finance and securities companies, the equivalent of two thirds of the non-bank financial sector, were folded. Non-performing-loans were separated into one "bad bank" and dealt with subsequently, whereas performing assets were put into a "good bank," restructured and returned to profitability.

In addition, Thailand's macro-policy institutions that were tainted and compromised in the run-up to the earlier crisis, particularly the Bank of Thailand, had regained credibility and institutional autonomy. Thus prudential regulation like capital adequacy in the financial sector was tighter and more effective, while moral hazards, such as cozy ties between bankers and politicians and weak laws and law enforcement, had been addressed.

2. Thaksin and economic upgrading

Thaksin's rise to power

Thaksin's rise to power was a political byproduct of the AFC. The crisis led to the downfall of the government of Chavalit Yongchaiyuth in November 1997, succeeded by the Chuan Leekpai administration. The recovery phase under Chuan featured the IMF's bailout program, which was bitterly received at home. Chuan was accused of kowtowing to the IMF, his government's recovery programs seen as unduly favorable to the financial sector at the expense of the real sector. This recovery period during 1998-2000 provided a conducive environment for the rise of Thaksin Shinawatra and his Thai Rak Thai party to campaign on an economic nationalist platform. Thaksin and his TRT were catapulted into power after the January 2001 general election. The elections were held under the new, reform-oriented 1997 constitution, which was promulgated just prior to Chavalit's resignation.

After securing a near-majority victory in the January 2001 general election, Thaksin consolidated his electoral numbers by taking over smaller parties. When the next general election took place in February 2005, his TRT won a thumping majority, setting records for completing a full term, being the first re-elected leader and leading a one-party government (e.g., Pasuk and Baker 2009; Thitinan 2003, 2006).

The policymaking flurry under the Thaksin administration was helped by his TRT's overnight status as a dominant political party in a hitherto fragmented party system. As the TRT became a political juggernaut, Thaksin's centralization of political power solidified correspondingly, eliminating familiar "veto players" in the bureaucracy and legislature (Hicken 2006). His "CEO" management style refashioned the Thai economy as a company, analogous to Thaksin's erstwhile leadership of Shin Corp, his family-owned telecommunications conglomerate (Pran 2004a). The dizzying and dazzling array of policy innovations that stemmed from Thaksin's premiership was breathtaking, and became the highlights of his popular weekly national radio talk shows to public audiences (Thaksin 2001). It included the overhaul of the bloated bureaucracy, the promotion of small- and medium-enterprises, state sponsorship of provincial business schemes for entrepreneurship, inexpensive national healthcare, small scale micro-credit (known as "village fund"), and farm debt suspension, among others (e.g., Thaksin 2001; Pasuk and Baker 2009). Even in foreign policy, new schemes, particularly the Asia Cooperation Dialogue, were mooted to remake intra-Asian regional cooperation, setting the stage for Thaksin to emerge as the new regional leader after the previous generation dominated by Singapore's Lee Kwan Yew and Malaysia's Mahathir Mohamed (Pran 2004b).

Drive for greater competitiveness

Most striking was the Thaksin government's drive for greater competitiveness in all facets of the Thai economy. Industrial upgrading and adjustment efforts were central to this drive, spearheaded by the newly created National Competitiveness Committee (NCC) in early 2002. With a THB 17.6 billion off-budget fund, the NCC promoted strategic niche sectors in an attempt to turn Thailand into a regional manufacturing hub. The clutch of identified niches were processed food, automobiles and auto parts, fashion, tourism, and software, accompanied by catchy names such as "Detroit of Asia," "Kitchen of the World," and "Bangkok Fashion City" (Lauridsen 2008). These strategic niches came together around an earlier notion of "business clusters" as formulated by the National Economic and Social Development Board, the country's economic planning agency. It was a grand attempt to move Thailand from "third world to first world," from industrialization towards a "knowledge-based" economy (Suvit 2005), focusing on not just "catch-up" but "leapfroging" (Suranand 2010). It also faced more opposition from bureaucrats than from labor and business (Suranand 2010). Its logical conclusion would have engendered a "liberal-developmental" framework of active state promotion of targeted industries as seen in varied shades among other East Asian economies. However, the policy schemes under Thaksin envisaged the creation of enabling conditions for industrial upgrading more than the direct promotion of handpicked firms. To this extent, the policy platform resembled more a "liberal," rather than a "mercantilist," sort of developmentalism. Ultimately, it proved to be long on vision but short on formulation and shoddy in implementation.

After the initial burst of policy momentum based on upgrading ideas during 2001-03, Thaksin's industrial policy platform began to lose steam. Confusion over objectives, interagency conflicts, and bureaucratic vested interests hounded many of the projects in the formulation stages, whereas corruption and graft allegations beset implementation. It all became developmentalism of an "ersatz" variety (Doner 2009, 130-140), apparently promising and on the right track but ultimately dashed and derailed. That Thaksin's upgrading ventures fell short was unsurprising in view of his own family's and associates' inherent interests in many government schemes. The first half of his rule looked as if "Thailand Inc." was indeed on the horizon, but in the end "Thaksin Inc." carried the day. Yet it must be noted that many of the cluster of ideas and upgrading efforts tried and tested during the Thaksin years did address structural questions confronting the Thai economy which had long been squeezed between competing economies with lower labor costs and those with higher skills. The Thaksin period opened Thailand's competitiveness window into the globalized world economy, leaving a lasting legacy that is likely to be revisited time and again in the foreseeable future.

Sources of ideas

While the outcomes of the Thaksin policy platform have been widely studied, what have been less clear are its sources. Where did these upgrading and cluster ideas come from? It is known that Somkid Jatusripitak and Pansak Vinyaratn were key members and advisors in Thaksin's policy inner sanctum. Somkid later occupied the ministerial portfolios of commerce and finance as well as deputy prime minister in the Thaksin cabinets over 2001-06, whereas Pansak was Thaksin's chief policy advisor through the same period. Although Thaksin was networked with many nodes of contacts and associates from business, politics and civil society, Somkid and

Pansak were public intellectuals brimming with ideas. Both were intellectually inclined, interested in the competitiveness literature, and accomplished writers in the media and academe. Somkid had co-authored *The Marketing of Nations* with his renowned professor from Kellogg Business School (Pasuk and Baker 2009, chap. 3). But these upgrading ideas had been incubating for more than a decade prior to Thaksin's rise to power, harking back to the mid-1980s when Somkid co-authored *The New Competition* with Philip Kotler and Liam Fahey (Kotler, Somkid, and Fahey 1985). It delved into the successful marketing practices of Japanese firms, with implications for developing countries like Thailand. By the time the elected Chatichai Choonhavan government took office in 1988, Somkid's ideas through Pansak's role as senior government advisor found a ready audience at the top, and played a part in the policy of "turning battlefields into marketplaces" with regard to Thailand's relationships with the Indochinese countries and Burma.

Such competitiveness ideas were further developed in the 1990s between Somkid and Pansak at Manager media group, this time including Somkid's protégé Suvit Maesincee, who was earlier sent to study with Philip Kotler at Kellogg just as Somkid did. After his doctoral graduation, Suvit worked for Booz Allen, a management consultant firm, which was commissioned to study and publish *Vision Korea*. It later developed into *Creative Korea*, focusing on niche industries, including film and cinema. The objectives were not about reform in search of a "new economy" but they were aimed at a complete "transformation" of the economy (Suvit 2010). In 1998, Pansak and Somkid became founding members of Thaksin's Thai Rak Thai party. When it took power, some of the ideas focused on Thailand's competitiveness such as clusters and upgrading were circulated by Pansak and Somkid, and were manifested in the formulation and implementation stages. Key among them, after Thaksin's first year in office, was trade policy.

In 2003, while the Doha Round of the World Trade Organization was mired in acrimony and inertia and bilateral free-trade agreements became increasingly the preferred forum for trade liberalization, Thaksin did not want to miss the boat. He famously quipped after the collapse of the Fifth WTO Ministerial Conference in Cancun in September 2003 that “mostly, we are going to witness trade agreements through bilateral deals … We all know that multilateral trade negotiations are very complicated because it is almost impossible to achieve a collective agreement.”[1] Thaksin viewed international trade as “water flows,” and the taps would have run dry if world trade talks failed. Bandwagoning on FTAs was a way of keeping “limited taps running” when the cost of non-participation was too high (Suranand 2010). It was also a way of adjusting to external constraints. In addition, FTAs under Thaksin harbored strategic and foreign policy implications as a pillar to manage relations with the major powers in the context of the Asia Cooperation Dialogue and The Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy for greater cooperation on the Asian landmass with Thailand-driven mainland Southeast Asia as the centre of gravity (Thitinan 2007). Once they were seen as imperative, Thai FTAs under Thaksin took on a foreign policy objective. As with many countries pursuing FTAs elsewhere, Thai trade policy became enmeshed with its foreign policy, significantly driven by political and strategic impetus. Thailand’s FTA strategy thus came to the fore. It was necessitated by an adverse external trade environment and propelled by internal policy innovations and adjustments that intended to maintain Thailand’s competitiveness. The next section thus discusses Thailand’s trade policy dynamics and its political economy contours. It begins with broad trade patterns as background and the relevant actors in trade policymaking.

1. *Bangkok Post*. 2003. Year end economic review (December): 27.

3. Thaksin's FTA strategy and its demise

<u>Thailand's trade patterns</u>

While the value of Thailand's international trade as compared to its GDP has represented more than 120 percent for the past two decades with exports accounting for more than 65 percent, its origins and destinations have shifted significantly over the years. In the 1980s and 1990s, the proportion of Thai-US and Thai-European Union two-way trade declined from more than 25 percent, respectively, to less than 20 percent, whereas trade with Japan increased from 15 percent to 20 percent. Thailand's intra-regional trade in the ASEAN framework similarly rose from single to double digits after the creation of the ASEAN Free Trade Area (AFTA) in 1992 based on the Common Effective Preferential Tariffs (see Naya et al. 1992). Even more significant was the trade expansion with China, which, owing to Chinese membership of the WTO in from mid-1990s, has become Thailand's third largest trading partner after ASEAN as a grouping and Japan. Other important trade partners featured Australia, which signed an FTA with Thailand in July 2004. [2]

In terms of major export and import items, Thailand remains an important commodity producer in rice and rubber. More important, it has become a regional assembler of automobiles and electronics. The auto industry has spawned related auto parts and accessories competencies. This story harks back to the post-Plaza Accord conditions in the late 1980s that enabled Thailand to become a hub for the relocation of Japanese auto companies due to yen appreciation and local export promotion policies. The electronics and electrical products followed a similar route driven by conducive government policies and tax incentives from the Thai Board of Investment. The petrochemicals export industry is a relative newcomer but it has shown immense potential. In addition, the export of services by way of tourism has accounted for more than six percent of GDP, giving rise to spill-over development of hotels, restaurants and other services. In turn,

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2. All the discussion on the recent trade pattern of Thailand is based on the trade data of Thai Ministry of Commerce.

these have turned into the so-called MICE (meetings, incentives, conventions, and exhibitions) activities.

The largest imported product is traditionally crude oil, which has taken up around ten percent of Thailand's overall import bill. Despite considerable deposits of natural gas at home and purchases of gas and hydropower from nearby resource-rich neighbors such as Myanmar and Laos, imported petroleum remains Thailand's energy lifeline. But local refinery capacity has expanded into petrochemicals and chemicals, enabling Thailand to develop heavier industries in the process. The story of imported inputs is the same for electronics and electrical products. Tax incentives, industrial estates and export processing zones have transformed Thailand into a hub for exports of integrated circuits, computers and computer parts, and electrical products, driven by imported inputs.

Trade policy actors

While Thailand's trade policy framework revolves around cabinet decisions, its formulation in all facets (i.e., bilateral, subregional, regional, and multilateral) is more complex. It is conventionally governed by the International Economic Policy Coordination Committee (IEPCC), comprising the ministers of the finance, foreign affairs, agriculture and cooperatives, and industry ministries, along with the permanent secretaries of foreign affairs and commerce. The prime minister or a designated deputy prime minister chairs the committee, and the commerce minister is ex officio vice chair, with the director-general of the International Economic Affairs of the Ministry of Foreign Affairs (MFA) acting as committee secretary. Although the IEPCC has long been the dominant body in setting out trade policy directions, the Thaksin government appointed a clutch of negotiating teams, each with an overall team leader, to supervise Thailand's FTAs in November 2004. In addition, an FTA Strategy and Negotiations Committee was established around the same time.

At the height of Thaksin's rule and its FTA momentum, the various FTA teams and the Strategy and Negotiations Committee effectively eclipsed the IEPCC, leaving it temporarily dormant. This line of trade policy command was part and parcel of Thaksin's top-down CEO economic policymaking approach (Bidhya 2004). It also circumvented the bloated bureaucracy and sidestepped senior bureaucrats by streamlining and centralizing decision-making at Government House. Prior to Thaksin's rule, the ministries of commerce and foreign affairs would normally have been the lead agencies in trade policy formulation and consideration through the IEPCC. But under the Thaksin regime, they were bypassed in favor of cabinet members and political appointees who reported directly to the Strategy and Negotiations Committee and to Thaksin himself at Government House. On the other hand, parliamentary oversight was also marginalized by Thaksin and his ruling Thai Rak Thai party's firm control over the lower house. Business associations appeared subservient to the Thaksin government's FTA preferences. Stakeholders among non-state actors soon took Thaksin to task. A motley mix of 17 NGOs in October 2003 formed an effective and powerful "FTA Watch" group that opposed Thaksin's trade policymaking procedures (Theerada 2007). The FTA Watch activists and proponents and their extensive networks ultimately became a potent political actor that played a role in laying the conditions that led to Thaksin's downfall.

The rise of opposition against Thaksin's FTAs

When Thaksin together with then-US President George W. Bush declared during the summit of the Asia-Pacific Economic Cooperation in October 2003 that negotiations between Thailand and the US would commence it came at a time when Thaksin's authoritarian tendencies were also being criticized as coming at the expense of public participation. All this, accompanied by allegations of corruption and abuses of power, led civil society groups to begin more stringent efforts against Thaksin's bilateral FTAs (Suthiphand and Sothitorn 2004; Theerada 2007). The US-Thai FTA was part of a package deal that stemmed from Thaksin's visit to the White House in June 2003 where Thailand fully signed on to the US-led war on terrorism. Consequently, the Thai-US FTA negotiations became FTA Watch's primary target, although it had protested earlier against the early harvest with China (after the ASEAN-China FTA) and against the Thai-Australia FTA. It was during this period of Thaksin's rule that such civil society groups began to campaign on FTA issues for popular support, initially against adversity as Thaksin's popularity was reaching a crescendo. After extended discussions and debates in October 2003, the anti-FTA FTA Watch coalition was established, comprising civil society organizations, NGOs, and academics generally skeptical of or opposed to neo-liberal economic development as well as officers and members of independent regulatory organizations such as the National Human Rights Commission (NHRC) and the National Economic and Social Advisory Council. Leading the FTA Watch consortium were notable NGOs such as AidsAccess, Biothai, Focus on the Global South, and Alternative Agriculture Network. Each came with a wide array of constituents, supporters, networks of contacts, and like-minded institutes and NGOs, with regional and international counterparts (FTA Watch 2009).

FTA Watch focused on a range of trade-related issues, including biological resources, intellectual property (especially pharmaceutical patents), public health and consumer protection, the WTO and globalization, farmers' networks for sustainable agriculture, and networks of people living with HIV/AIDS. It launched a plethora of literature, including seminar books (Kannikar et al. 2004; Sornchai et al. 2004; Chanida et al. 2005) and other paraphernalia such as t-shirts. It aimed to coordinate analysis and advocacy on trade issues among civil society groups and their various alliances. It had no permanent office, but worked horizontally in collaboration and coordination, with 30-40 core members from about 20 NGOs. Email and electronic communication was its main platform for discussions and decisions, whereas more sensitive issues and important decisions were sorted out in regular meetings hosted alternately among various member organizations.

Once it gained sufficient public exposure, FTA Watch developed into a coordinating centre among activists campaigning on relevant issues. It started with a demonstration against the signing of the Thailand-Australia FTA in 2003 in front of Government House with around 1,000 demonstrators, then a demonstration against the third round of US-Thai FTA negotiations in Pattaya in April 2005, followed by a massive protest in Chiang Mai in January 2006. Attacking Thaksin for authoritarianism and cronyism as leading cabinet members hailed from the country's largest agro-industry conglomerate and a major auto-parts business group, FTA Watch joined forces with the anti-Thaksin protesters under the PAD to oppose the privatization of state-owned enterprises. This helped the PAD to attain the critical mass it needed to topple the government at a time when Thaksin was embattled following the controversial multi-billion-dollar sale of his Shin Corp telecommunications conglomerate to Temasek Holdings. FTA Watch's Chiang Mai demonstrations against the Thai-US FTA negotiations in January 2006 were crucial in other ways. They brought out more than 10,000 protesters who blockaded the hotel venue, a protest that grabbed the headlines and hastened the downward spiral of Thaksin's rule. The bilateral meeting was adjourned abruptly, and the lead Thai negotiator resigned a week later.

As Thaksin's power waned, FTA Watch activists became adept at lobbying and mass mobilization. Some of them and their allies had been members of various committees straddling the lower house and the senate, such as the Standing Committee on Foreign Affairs and the Standing Committee on Social Development and Human Security. Other FTA Watch members took part in subcommittees appointed by independent regulatory organizations such as NHRC and NESAC. They held dialogues with MPs and met officially with Thaksin and his deputies, and leaders of parties from the opposition. They generated briefs and brochures, and disseminated them widely to legislative members. After the coup in September 2006, FTA Watch activists stepped up their lobbying activities by drafting and presenting proposals directly to the coup-appointed National Legislative Assembly (NLA) and pushed for clauses in the new

2007 constitution that guaranteed transparency and participation in the trade policymaking process on trade agreements. The pinnacle of the civil society groups under FTA Watch was the initiative and incorporation of Article 190 of the charter, which they "practically wrote themselves" (FTA Watch 2009).

Thailand's and ASEAN's FTAs

FTA	Date of Implementation	Objective				Year to complete FTA framework agreement
		Goods	Services	Investment	Rules of origin	
Australia-Thailand	1 Jan. 2005	x	x	x	x	
New Zealand-Thailand	1 July 2005	x	x	x	x	
Japan-Thailand	1 Nov.2007	x	x	x	x	
India-Thailand		xx	xx	xx	x	
Peru-Thailand		xx	xx	xx	xx	2015
US-Thailand	Suspended	xx	xx	xx	xx	
EFTA-Thailand	Suspended	xx	xx	xx	xx	
BIMSTEC-Thailand	1 Jan. 2010	x	xx	xx	x	
ASEAN-China	1 Oct. 2003*	x	x	x	x	
ASEAN-Korea	1 June 2009(services) October 2009(goods)	x	x	xx	x	
ASEAN-India	1 Jan.2010**	xx	xx	xx	xx	
ASEAN-Japan	June 2009	x	xx	xx	x	
ASEAN-EU	Final Negotiations	xx	xx	xx	xx	
ASEAN-Australia-New Zealand	Prospectively late 2009 or early 2010	x	x	x	x	
EU-Thailand		xx	xx	xx	xx	2015
Chile-Thailand		xx	xx	xx	xx	

Note: x Negotiations concluded.

xx Covered under negotiations but inconclusive/not yet started.

* Thailand's and China's leaders agreed to eliminate tariffs on bilateral trade in fruits and vegetables from October 1, 2003 before the ASEAN-China FTA takes full effect on January 1, 2004.

** Draft agreement begins tariff reduction in goods on January 1, 2010 but has not been signed as of July 2009.

The politics of Thai FTAs

Notwithstanding Thailand's topsy-turvy and contested political directions since late 2005 when the anti-Thaksin protest movement revolving around the PAD took to the streets, Thai FTAs were implemented in full force against the backdrop of uncertainty behind the Doha Round, following in the footsteps of Singapore, the first ASEAN country to embark on the bilateral FTA road. During Thaksin's tenure, a handful of bilateral FTAs were finalized, and while his emphasis on bilateral preferences was halted when his government was ousted in the September 2006 military coup, the coup-appointed government of Gen. Surayud Chulanont still managed to seal the FTA with Japan (i.e., Japan-Thailand Economic Partnership Agreement, or JTEPA). As of mid 2009, Thailand's stalled FTAs focused on a clutch of bilateral FTAs, complemented by at least two regional FTAs (see table 3). What follows is a cursory detail of their dynamics and outcomes.

The Framework Agreement on Thailand-Bahrain Economic Partnership was signed on December 29, 2002. Thai-Bahrain bilateral trade was relatively small but its potential for expansion was cited as justification. As Bahrain is located in the Gulf Cooperation Council and in the strategic Persian Gulf area, this partnership was considered to hold geo-strategic significance. The necessary follow-up implementation on this framework agreement has been dormant. The ASEAN-China FTA was China's strategic move to build on its relations with the ASEAN countries. Until the mid-1990s, ASEAN-China relations were characterized by enmity and friction, largely due to overlapping territorial claims in the South China Sea and the legacy of communist expansion in Southeast Asia. But China followed a different tack after the 1997-98 economic crisis, and began its so-called "charm" offensive of "soft power" projection into Southeast Asia. The ASEAN-China FTA has been the economic linchpin of China's soft, non-military power. In this context, Thailand and China spearheaded the broader regional FTA with tariff reductions under the Thailand-China Early Harvest Scheme from 1 October 2003, only to see these suspended in the following year due to an import surge and the adverse effects on Thai agricultural producers.

Progress on the wider ASEAN-China FTA also made limited headway in the interim. The Framework Agreement on Thailand-India Free Trade Area was signed on October 9, 2003. The necessary follow-up on the Thai-Indian framework agreement remains inactive over 2006-08. The Thailand-Australia Free Trade Agreement was signed on July 5, 2004. It took effect on January 1, 2005. Apart from the FTA with Japan, the Thai-Australian FTA is the most comprehensive and substantial. Its implementation continues abreast despite the Thai political crisis. The Thailand-New Zealand Closer Economic Partnership Agreement was signed on April 19, 2005, and took effect in July 1 in the same year. Amounting to around US$500 million in bilateral trade, the Thai-New Zealand FTA is relatively small but holds symbolic significance in Thailand's FTA map because New Zealand is a developed country with close relations to Australia and substantial credibility in the international arena. The Japan-Thailand Economic Partnership Agreement (JTEPA) was signed and implemented from April 3, 2007. This FTA is crucial as Japan is Thailand's largest foreign investor. It was passed during the coup period under interim Prime Minister Surayud, and remarkably overcame civil society opposition that was staunchly opposed to Thaksin's FTA schemes. Having been appointed by the military coup-makers, the Surayud government felt that JTEPA provided much needed international credibility.

Because of their virulent protests against Thaksin, the civil society groups were effectively co-opted by the anti-Thaksin forces who took power after the September 2006 putsch, which accounts in part for their relative lack of vehement opposition to JTEPA. The Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMSTEC) was signed in 2004, representing a trade cooperation scheme comprising the South Asian countries. With the subsequent additions of Bhutan and Nepal, this regional FTA has geo-strategic and political significance for its involvement of giant India and reclusive Myanmar. Its follow-up agreements and implementation, however, have since made little progress. The Thailand-Peru Free Trade Agreement remains under negotiation despite early signs of a breakthrough during Thaksin's rule. The Thailand-US Free Trade Agreement was first negotiated in 2003 but became bogged down and problematic, as mentioned above. It would be Thailand's most significant and comprehensive FTA, as the US remains Thailand's most important strategic partner And continues to be a key trade partner as well. But it has made no headway following the disrupted meeting in Chiang Mai in January 2006. Indeed, the Thai-US FTA negotiations have been put on a backburner indefinitely. When the coalition government of Prime Minister Abhisit Vejjajiva took office in December 2008 and President Barack Obama did the same in January 2009, discussions on this FTA were resumed, but it remains far from realization due to economic adversity in both countries along with Thailand's protracted political polarization and persistent turmoil.

On the regional front, Thailand is engaged in the planned economic integration promised under the ASEAN Charter for 2015. While the charter stipulates an integrated economic community, the ASEAN members have faced a host of obstacles. Compliance and dispute mechanisms are inadequate, and the development gaps between the older (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and the newer (Cambodia, Laos, Myanmar, and Vietnam) members remain large. The older members are likely to see greater trade integration as involving links among themselves much more than between them and the newer members. Beyond ASEAN, the ASEAN Plus Three (APT) framework comprising ASEAN, China, Japan and South Korea has also broached the idea of an East Asia Free Trade Area but this formulation has not taken off due to a lack of agreement and resolve. Similarly, the East Asia Summit members, essentially ASEAN plus six, or APT with India, Australia and New Zealand, also has expressed interest in a region-wide free trade area without concrete ways forward thus far. The older and more established regional trade vehicles, particularly APEC, have lost momentum and are in need of reinvention. Meanwhile, other economic cooperation schemes have been floated, including Australia's Asia-Pacific Community, which would be a revamped version of APEC. These schemes are at least as political and strategic as economic with a trade integration focus.

Moreover, Thailand's trade policy strategy and capacity in undertaking these FTAs both at the bilateral and regional levels remains a matter of contention. Rangsan (2005) suggested that the immense cost of non-participation was prohibitive, whereas Thitinan and Sally (2008) pointed to the incoherence and inefficiency in Thai FTA initiatives. Senior negotiators were few and spread out across different agencies, led by the Ministry of Commerce's Department of International Trade Negotiations and the foreign ministry's Department of International Economic Affairs, resulting in inter-agency turf conflicts and lack of coordination. Because senior negotiators who are well-versed on negotiating skills and technical expertise are few, they have had to look after a number of FTAs and sectoral issues at the same time. The difficulty stemmed partially from Thaksin's rush in his FTA drive. Thaksin appeared intent on not missing the boat, especially since the Doha Round of MTNs ran into a dead end and nearby countries such as Singapore hopped on the bilateral FTA bandwagon.

For FTA Watch, this broad push for FTAs was seen as driven by vested interests among the major economic powers, particularly the US, and the Thaksin government and its cronies who stood to gain from trade liberalization. To them it had little to do with improving conditions for most Thais. To the civil society groups, the Thaksin government realized that the efforts towards trade and investment liberalization through WTO were fraught with difficulties, particularly after several major developing countries, including Brazil, India and China united with other smaller developing countries. Meanwhile, FTA Watch was part of the broader international movement against globalization. Their view was that because the US could not achieve its targets at the MTNs, it has turned to bilateral FTAs to exploit its overwhelming advantages. In Southeast Asia, this bilateral FTA push started with Singapore, then moved on to Thailand, Malaysia, the Philippines and Indonesia, in that order. In Thailand the major drive for the FTA came from Thaksin, the Charoen Pokphand (CP) group, the largest agro-industry conglomerate in Thailand and one of the largest in the region, and the family-owned Thai Summit auto parts manufacturer whose scion was a Thaksin cabinet member and key financier to the ruling Thai Rak Thai party.

On the Thai-China FTA, civil society groups saw it as an unmitigated disaster for Thai farmers who grew temperate-climate fruits and vegetables in northern Thailand. Chinese fruits and vegetables such as garlic, broccoli, kale, apples and peaches flooded into the Thai market at half or even a quarter of the price for home-grown equivalents, adversely affecting the livelihoods of untold thousands of farming families. On the Thailand-Australia FTA that was signed in July 2004, the civil society groups took to the defense of local dairy farmers. They argued that cheaper dairy products, especially milk powder, flooded the Thai market and tens of thousands of small-scale local dairy-producing families could not cope with their Australian competitors, as production costs in Australia were just half of those in Thailand. It was estimated that one third of Thai dairy farms went bankrupt within a year of implementation of the bilateral agreement.

Moreover, the anti-FTA groups insisted that local vested interest groups were positioned to gain from these FTAs, including key business groups who financed the ruling party, and including Thaksin himself whose family owned a telecommunication conglomerate. These businesses benefited from the FTAs with China, Australia and New Zealand. Shrimp and seafood exporters such as the CP Group enjoyed a 50 percent increase in exports in the first year of the FTA with Australia. The auto parts firms, one of which was owned by then Transport Minister Suriya Jeungrungruengkit, benefited from a 75 percent increase in exports of auto parts to Australia.

Apart from these conflicts of interest and apparent cronyism, the discontent of the anti-FTA forces came from the lack of transparency and participation. The contents and trade preference formation stance were subject to the exclusive manipulation and exploitation of big business and government officials. Issues under negotiations and the related documents were kept from public access, only to be revealed as a fait accompli after the agreement had been signed. The full details of Thai FTAs with Australia and Japan, for example, were publicized only after the respective signing ceremonies.

The governments of both Thaksin and Surayud refused to table FTA texts for deliberation and approval by the lower house despite their palpable impact on the general public. For the FTA with the US, which would have been wider and deeper in its impact than those with China and Australia because the framework for negotiation was more comprehensive, including intellectual property and investment liberalization, details were even more scant and the negotiations process more furtive. The mass mobilization in Chiang Mai in January 2006 against the Thai-US FTA had a substantial public impact and unnerved government officials. By the time of the coup, many Thais had turned against Thaksin for many reasons. A leading source of this public discontent was certainly Thaksin's bilateral FTAs. It was somewhat ironic that what began as a policy adjustment, parlayed into foreign policy positioning, became a major cause of Thaksin's demise. The final months of the Thaksin administration were marked by turmoil and mayhem, and included lower house dissolution and a nullified election. Ultimately, the politically volatile conditions along with elite tussle edged out Thaksin for misrule even as his policies had won countless hearts and minds. A military coup in September 2006 deposed and subsequently exiled him (see Thitinan 2006).

4. Thailand in the face of GFC

When the Lehman shock erupted in the fall of 2008, Thailand was facing serious political turmoil due to the clashes between the pro- and anti-Thaksin forces. The situation appeared stabilized only as late as August 2011 when the general election led to the formation of the government led by Yingluck Shinawatra, Thaksin's sister. Curiously, in spite of such long-lasting political instability, Thailand circumvented the Lehman Brothers shock with only a limited damage. As spelled out in Introduction, the economic contraction was much smaller in 2008-09 than in 1997-98 and the recovery was much quicker.

Thai resilience was a part of a broader regional robustness. Not only the Thai economy but East Asian economies more broadly have seen milder slowdowns and recessions, although Japan's real GDP for 2008-09 contracted by 1.2 percent and 5.3 percent, respectively. East Asia has regained its trend growth relatively quickly as the global economic turbulence subsided. China's real GDP expansion in 2008-09 declined from double digits but remains buoyant at 9.6 percent and 9.1 percent. Average annual growth for ASEAN for the same crisis period was 4.2 percent and 1.1 percent (EIU 2010). These contrasting growth dynamics between the sharp downturns in OECD economies and the greater resilience in developing Asian economies have given rise to debates about a "decoupling" between slowing global markets and the growing East Asian markets, the latter driven by economic integration with China's as a major locomotive and increasingly intra-East Asian trade patterns.

The post-AFC reforms of Thailand seem to have also been instrumental for its successful response to the GFC. However, how much Thaksin's policies contributed is a matter of contention. He certainly attempted to strengthen the competitiveness of the Thai economy and his FTA initiative was an indispensable part of his strategy. However, as clarified in the previous section, the Thailand-US FTA, the most important one for Thailand in terms of expected impacts, failed. Only four FTAs were effective in 2008 but three of which were less than four years old (see Table above). It is hard to argue that Thailand successfully overcame the GFC thanks to the FTAs.

Rather, the exchange-rate and financial-regulation reforms implemented during or in the immediate aftermath of the AFC seem to have been more relevant for Thailand's robustness in the face of the GFC. In fact, by all accounts, the post-1997 structural adjustments aided Thailand's relative insulation from the GFC (e.g., Somchai and Chalongphob 2009; Bhanupong 2010). These studies indicate that Thailand's macroeconomic conditions were in a much stronger position with surpluses in both the trade and current accounts. Foreign reserves were also more than US$ 100 billion, more than twice the level of pre-July 1997 before the baht was floated. Under the floating exchange rate pursued after the AFC, the Thai baht was also more competitive.

The risk-aversive behavior of Thai financial institutions also contributed to keeping the financial sector only slightly exposed to the so-called "toxic" assets, such as Collateralized Debt Obligations (CDOs) that were prevalent in Western markets in the early and mid-2000s. Only one small Thai bank was caught in the subprime crisis and for a limited exposure of only US$1 billion (Somchai and Chalongphob 2009, 12). Partly owing to the exposure of its assets to the subprime crisis, this bank was later sold to Malaysia's CIMB. The highly cautious borrowing/lending policy of the Thai financial institutions was due to their bitter pre-AFC experiences as well as the slow pace for disposing of NPLsl. The Thaksin government attempted to quicken the speed of the disposal but, as Okabe's paper (2013) discusses, the private banks declined the government initiative and opted for gradual settlement on their own. As a result, at the height of the subprime profligacy in other markets, Thai financial institutions were still working out the old NPLs and consequently remained averse to new NPLs. Thai financial sector neither had much of an appetite nor was in a position to be tempted by the appeal of subprime toxic assets. Their reluctance was further underpinned by a bolstered prudential and regulatory climate led by the Bank of Thailand. Hence the GFC was less devastating for Thailand.

In addition, the political crisis and confrontation that began in earnest in 2005 weighed down Thailand's macroeconomic and growth prospects in the build-up of GFC (Thitinan 2012). Thailand's political risks increased following a military coup in September 2006. Following that, color-coded street protests between different partisan columns subsequently took hold, causing tension and turmoil that did not allow the macro-economy to return to the giddy days of the 1990s. Ironically, Thailand's political crisis has been an overlooked source of slower and more manageable growth and post-GFC recovery. A clearer and more stable political environment in the mid-2000s could very well have produced enabling conditions that might have tempted Thai financial institutions to risk higher exposure to the subprime morass. After GFC effects kicked in 2008-09, Thai macroeconomic conditions allowed the Thai authorities to come up with effective fiscal responses to cushion the adverse impact and regain macroeconomic stability at home (Kanit and Basri 2012). The GFC was certainly consequential for Thailand's trade and export contraction but overall its adverse effects were transitory and less structural due to earlier adjustments and dynamics of the Thai macro-economy in the decade after the 1997-98 crisis.

Conclusion

The resilience of the Thai economy in the face of the GFC is explained mostly not by Thaksin's policies but by the post-AFC reforms of the exchange-rate system and financial regulations, risk-averse behavior of private financial institutions, and bubble depressing effects of political turmoil. However, The Thaksin administration certainly sought to engineer a sweeping structural transformation of the Thai economy to strengthen its international competitiveness, which would shield it from external weaknesses. FTA-induced competitive pressures were expected to precipitate comprehensive domestic economic restructuring.

This paper has shown that Thailand's FTAs during 2001-06 began in reaction to an adverse external global trade environment between the two periods of global economic crises in 1997-98 and 2008-09. The failure to move the Doha Round forward, particularly the failure at Cancun in September 2003, prompted the Thaksin government to adopt an aggressive FTA platform for fear of the cost of non-participation. In this he was helped by the fact that there were already ideas and experts working on upgrading and innovation issues. When trade policy faced external constraints, Thaksin's policy team readily adjusted by plotting an FTA strategy that focused on a mix of partners, all of whom had ties to Thailand's foreign policy objectives. To the extent that Thaksin's FTA strategy was apt and necessary, his successor government under Surayud, appointed by the military authorities who overthrew Thaksin, did not reject FTAs – i.e., the Japan-Thailand Economic Partnership Agreement. Thai FTAs during the Thaksin years thus bore adjustment imperatives, strategic traits, and upgrading and competitiveness-promotion implications.

Thaksin's trade policy offensive held much promise at first but ultimately faltered on poor follow-through and on the lack of transparency, hounded to the end by allegations of corruption and conflicts of interest. Yet there were glimpses of where the Thai economy needed to go to maintain and bolster its competitiveness in the trade arena. Firms would have had to make adjustments and thereby become more competitive, although some also would fail to keep up with the greater domestic competition. Therefore, for Thailand to strengthen its capacity to pursue a sustained growth based on industrial upgrading and innovation, it is crucially important to coordinate diverse socio-economic interests (including both winners and losers) without losing political governability.

The controversy surrounding Thai FTAs was the absence of sufficient adjustment mechanisms for vested groups and firms who were adversely affected. Such adjustment mechanisms would have included more public information and participation and side payments for compensation. Whether future Thai governments will revive the politicized bilateral FTA strategy in earnest will depend on how the ongoing Thai political crisis is resolved. The lack of a coherent trade policy platform would impede the long-term competitiveness of Thai firms and industries. The challenge for Thailand will be to maximize from adjustment, upgrading and competitiveness ideas and schemes and keep its attendant rents and vested interests to a minimum in order to maintain regime legitimacy and move the economy forward in tandem.

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Abstract (in Japanese)

要約

輸出セクターに対する悪影響が不可避であったにもかかわらず、タイは2000年代終わりのグローバル金融危機を他の多くの新興市場国よりも上手く乗り切ったが、それを可能にしたのは、10年前の壊滅的な金融危機の後の構造調整や回復のダイナミクスであった。また、タイの政治危機が、金融セクターのリスク志向に水をさしたことで、かえってグローバル金融危機の影響を小さくしたのだった。このように2000年代におけるタイの成長の物語の中心にあったのは金融危機ではない。むしろ、タクシン・チンナワット元首相の広範な政策の革新と調整によって惹き起こされた政治の分極化と混乱であった。

この論文の主なテーマは、まさにタクシンの政策の革新と調整である。彼の政府は、グローバル化が突きつける様々な挑戦の中で、タイ経済の構造改革と経済のアップグレードという目的のための政策を形成し、実行していったが、そのペースは大胆で前例のないものであった。本論文は、タクシンの政策綱領を支えていたものは何か、政策のダイナミックスや含意は何だったのかを検討する。なぜ、タクシン政権期にあのような調整やアップグレードの政策が考案、形成、実施され、その前や後の時期ではそれほどではなかったのか。経済アップグレードのルーツやダイナミックスはどのようなものであったのか。

それらの政策革新や調整の多くに見られる主要な要素は、タクシンの二国間自由貿易協定（FTA）への選好であった。そこで、政策研究の事例としてタクシンのFTA戦略を取り上げたい。タクシンのFTA戦略は、タイのグローバル貿易における制約やタクシンの政策の積極性を示すものであるが、皮肉にも、このFTAが、結局はタクシンを追放した政治連合にその正当性を与えることになってしまった。

この論文全体の目的は、どのようにして1997-98年危機がタクシンの政治的台頭や特にFTAに関する政策革新にとっての前兆となったのか、そしていかに後の2008-09年のグローバル経済危機がタクシンの没落を巡るタイの政治危機にとっては直接関係のない付随的な出来事であったことを示すことである。

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