Thailand’s economy

The dangers of farsightedness

The junta lavishes attention on the economy’s future but neglects the poor of today

Oct 1st 2016 | KHON KAEN | From the print edition The Economist

IN PLANNING for the future, democratic politicians dare not look far beyond the next election, lest they lose power before the future arrives. Thailand’s military rulers have no such qualms. They have rewritten the constitution to guarantee themselves a guiding hand over future governments even after elections resume. That has given them the confidence to draw up a 20-year plan for the economy. In a speech in Bangkok on September 28th, Prayuth Chan-ocha, coup leader and prime minister, promised to turn Thailand into a developed country by 2036.

The junta sees Thailand climbing to a fourth stage of economic development (“Thailand 4.0”) beyond agriculture, light manufacturing and heavy industry. This next stage will feature new “growth engines”, such as biotechnology, the internet of things and “mechatronics” (a fusion of mechanics and electronics).

In pursuit of this vision, some welcome structural reforms are under way. The junta has passed an inheritance tax; one on land and property will follow. It has also begun to reform the corporate governance of the country’s 56 state-owned enterprises, hoping to free them from political interference, even if not from public ownership. To bind the country closer together, the government is contemplating big outlays on infrastructure, including $51 billion to be spent on railways, roads and airports.

Much remains to be done. Thailand’s service sector is the most protected in South-East Asia. Neither America nor the European Union is willing to negotiate a free-trade deal with the junta, even as they talk to such regional rivals as Indonesia, the Philippines and Vietnam.

Nonetheless, the regime’s economic plan has left it open to an unusual charge: it is holding too many seminars on the long term and neglecting the short term, says Suradech Taweesaengsakulthai, a businessman in Khon Kaen, a north-eastern provincial capital. The junta’s efforts to advance structural reform are more impressive than its efforts to revive demand. That is not something that can be said about most of the world’s governments.

A revival of domestic demand is necessary. Thailand’s economy is operating well below capacity. Inflation is far less than the central bank’s target; the current-account surplus is strikingly high (about 10% of GDP); private credit is subdued (growing by 5% in the first quarter) and sovereign debt is modest (44% of GDP in 2015). Public investment, thanks to the junta’s big plans, is growing at a double-digit pace, but Thailand’s indebted consumers remain cautious and private investment is stagnant (see chart).

Economist.com

The overall shortfall in demand will amount to about 1.4% of GDP this year, according to the IMF. Strip out spending by foreign tourists and the gap is even larger, as the current-account surplus attests. This lack of spending is manifest in the inflation figures: consumer prices fell for 15 straight months last year and this. They rose by only 0.3% in the year to August.

Stagnant demand is especially visible in the provinces. The rural economy has contracted for seven quarters in a row. Nongpetch Khunnasarn, a used-car dealer outside Khon Kaen city, the political heartland of the government ousted by the junta, has not made a sale for two months. Under Yingluck Shinawatra, the deposed prime minister, she sold one a week.

In Ban Phue, an hour's drive from Khon Kaen, two years of drought and falling agricultural prices have led to a collapse in farm incomes. Last year Bangkok ordered farmers not to plant a second crop, because of poor rains. This year farmers are running a lottery to determine who can draw stored rainwater.

Thailand's farmers used to rely on ballots, not lottery tickets, to get what they needed. When Thaksin Shinawatra, Yingluck's brother, became prime minister in 2001 he aimed to bolster the income of the poor who voted for him. He introduced cheap medical care, accessible rural credit, higher minimum wages and generous price floors for agricultural goods. At one point in his sister's tenure, a tonne of rice brought in as much as 20,000 baht ($625). It now fetches 8,000 baht, thanks to the fall in global prices and the removal of the government's price floor. "If the government does not pay more, what can we do?" asks Anong Wannasupring, a farmer.

For all of its waste and corruption, the Shinawatra style of clientilistic mass politics helped to spread spending power to the poorer regions, where local bigwigs doled out funds disbursed from the central government. All that has changed under the junta, which has kept a firmer grip on the purse-strings.

The National Village Community Fund, which has allocated 500,000 baht each to almost 80,000 villages for rural projects, is now administered by the ministry of interior. The state's Special Financial Institutions, which provide rural credit, are now regulated by the central bank, having previously been the playthings of provincial politicians. These days, if you wait for money from Bangkok, "you'll wait forever," says Mr Suradech.

His complaint is confirmed by a startling calculation. The World Bank reckons that over 70% of Thailand's public expenditure in 2010 benefited Greater Bangkok, home to 17% of the country's population. In no other economy with a comparable level of income is government spending as skewed, say the bank's economists.

Rather than lift the shopping power of the rural masses, the junta has aimed to boost spending by tourists and urbanites. It has cut taxes markedly for the relatively few businesses and people that pay them. It has also succeeded in doubling the number of visitors from China to 10m a year.

Bangkok's efforts to claw back fiscal decision-making may curb clientelism. But this reconcentration of power may also result in a reconcentration of prosperity. The renewed centrality of "one man in Bangkok", says Ms Nongpetch, the used-car dealer, has been bad for business.

From the print edition: Asia