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Democracy Is a Necessary Hedge Against Crisis in Thailand

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When Thailand's stock market plummeted 15 percent on Tuesday, international investors had visions of the 1997 contagion that started in Thailand and set off the Asian financial crisis. But the most apparent casualty of the market plunge was the credibility of the Thai interim government, installed following the September coup. The lesson of this week's instability is that an accelerated return to democratic government is a crucial step to protect Thailand from future crisis. Waiting until the end of 2007 for elections, as the interim government has proposed, is an unacceptable delay.

Bad Policy, No Accountability

On September 19, General Sonthi Boonyaratglin, Commander of the Royal Thai Army, led a bloodless coup against the government of Prime Minister Thaksin Shinawatra in an effort to end political stalemate in Bangkok. Since the October appointment of an interim civilian government and promulgation of an interim constitution, the government has been led by an appointed Prime Minister, General Surayud Chulanont, a former Army Commander.

The stock market's plunge this week was caused by the Thai government's attempt to stem capital inflows by imposing controls on equity investments. The government's goal was to arrest an unwelcome appreciation in its currency. In response to the new policy, the Thai stock market tumbled 9 percent in the first hour of trading on Tuesday and by the end of the day lost a record 15 percent. Other stock exchanges in the region also responded negatively.

Thai authorities quickly reversed course and withdrew the controls before any further damage could be done, and the markets began to recover.

But the government's credibility has not. While the immediate financial impact of the government's ill-advised capital controls may be limited, the episode clearly illustrates the deficiency of the current Thai political system.

The current technocratic government is ultimately accountable to no one but the coup leaders, leaving Thailand in a precarious position. In response to his mishandling of the 1997 economic crisis, sitting Thai Prime Minister Chavalit was forced to resign. The current system has no way of imposing political costs on its leaders.

This week's stock market crisis may be only temporary, but what if the blow to confidence in the government's economic management contributes to a broader crisis of confidence in Thailand's economy? What if there is a new, unrelated crisis? The next crisis may not be so quick in passing, or worse yet, it may impact a critical security issue. In this week's dust-up, the markets forced the government to change course. Next time, the markets may not respond as clearly, the government may not heed its

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warnings, or the government may devise an inadequate or counterproductive response. In a future crisis, differences of opinion and factions could very well develop within the ruling cadre. What happens then—a coup within a coup?

Return to Democracy

The best hedge against crisis in Thailand is an accelerated return to democratic government and public accountability. Decisions by sovereign governments have impact well beyond their borders. Thailand must accelerate its return to democracy for its good, for the good of its neighbors, for the good of its friends and security partners like the United States, and for the good of global markets.

The interim government has committed to free elections and a return to democratic government

by the end of next year. This is too long to wait. The events of this week are an indication that accelerating the timetable for elections and ensuring the civil liberties necessary to conduct them fairly are immediate needs.

There was and continues to be legitimate debate in Thailand about former Prime Minister Thaksin's regard for democracy, corruption, and policies in dealing with Thailand's restive South, among other issues. The coup sought to resolve this debate, but it was a big step backwards for Thailand. Thailand needs to restore democratic civilian rule as soon as possible.

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