

**Thailand's Coup - Reflections on the recent events**

ICC Thailand Statement

Bangkok, 29 September 2006

On the evening of Tuesday, September 19, 2006 in Bangkok, Thailand after the evening rush hour traffic had subsided, and as the Prime Minister of Thailand, Dr. Thaksin Shinawatra, was in New York preparing to address the UN General Assembly the following morning, Army chief, General Sonthi Boonyaratglin, together with his counterparts from the Royal Thai Navy, Air Force and Police, staged a classic Thai bloodless coup d'état. The events were well documented and indeed (for a time) broadcast live on major news networks around the world.

Both foreign and local commentators in the media have been unanimous in agreeing that this coup was unlike anything in the past with an almost surreal quality. It was swift, decisive and most importantly, bloodless.

However while the local press hailed this an important break through after months of political deadlock, the foreign media universally condemned the military action on the grounds of being undemocratic. Newsweek labeled "Sonthi's power grab" as "a bitter blow to democracy".

**Current situation**

The military leadership, known as the Council for Democratic Reform under Constitutional Monarchy (CDRM) initially suspended all forms of government but has recently begun to make appointments of prominent civilians to serve as advisors on issues such as constitutional reform and economic and foreign affairs.

It is widely reported that the military does not want to remain in power longer than necessary and has indicated that they will name a new interim civilian Prime Minister by this weekend. Whoever is announced it is important that they be quickly accepted by the media and the voters and that attention can turn away from the military in the streets to the issues at hand.

Current Bank of Thailand, the central bank Governor, Pridiyathorn Devakul has been chosen to head up the economics advisory team. This is viewed as a positive move which should help shore up foreign investor confidence.

Following the appointment of an interim PM we expect a new government to be formed by next week. One of the first actions of a new government is to approve the fiscal budget for 2007 which starts on October 1st. The CDRM has indicated that a budget deficit for next year is likely at around 1% of GDP (and had anyway been forecast) but that disbursements would be quicker and thus more likely to have a positive impact on the economy. It is likely that most of the Thaksin populist policies such as the local village investment programs and the universal healthcare plan will be maintained but with an emphasis on social development. The previously announced major infrastructure development plans will likely be maintained but more clarity and transparency in terms of structure and format of each project would be emphasized.

The increased spending and quicker disbursement (now that government bureaucracy has all but been removed) should give the economy a needed boost next year.



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#### Market reaction

Surprisingly little. In closing banks and the Stock Exchange of Thailand (SET) on the day after the coup the military spared what would have been a certain substantial one day decline in equity values and allowed investors to take stock of the events and make more measured investment decisions. And while the Thai baht did weaken in off-shore trading the low volume prevented any collapse. This was not the similar situation as in 1997 currency crisis when large hedge funds felt they could take on the BOT due to deteriorating macro economic fundamentals and as such most speculators stayed on the sidelines.

The Thai baht traded around Bt37.3 to the dollar on Friday 15th prior to the coup and is currently at Bt37.5 level to the dollar. The SET index ended August at 690 level, ended Friday 15th at 700 and is currently at 692 showing remarkably little volatility. Also it is worth noting that Thursday 21st saw one of the biggest trading days on the SET so far this year with turnover over double the recent daily average. The foreign (ie professional) investors were net buyers of almost \$200m worth of Thai stocks that day and for the year remain in strong overweigh positions in Thai equities.

#### Why the coup?

This is not easily understood, or even accepted, by western democracies which have been critical of the displacement of a democratically elected government by military means. Essentially the Prime Minister and his Thai Rak Thai (Thai Love Thai) political party, having been popularly elected, and many (but not all) of his political colleagues, were widely perceived to have excessively abused his and their power and popularity placing their own self-interests above those of the nation. Protestations and denials to the contrary, during the past 5 years political power was being consolidated by the leaders of the TRT, the checks and balances built into the constitution were emasculated and the media was muzzled and intimidated. Control of all facets of government was being centralized. Cronyism was widespread.

While the concept of democracy was trumpeted by the spin doctors, the real democracy of Thailand was perceived locally as being held hostage and subverted. Only the PM and the government were held out to know what was best for Thailand and no contrarian views were brooked. Those brave enough to speak out were sued for defamation, civil and criminal. Human rights were seen as being ignored. Scandals and corruption investigations were being strung out or whitewashed. Ego and arrogance ruled. Similar examples of such a political scenario has been seen all too often over the past century in other parts of the world, often with monumental consequences.

Most foreigners and foreign owned businesses were not involved, threatened or at risk unless they unwisely involved themselves in the Thai political scene. But recent government policies have made the presence of foreigners and foreign investments appear to be not as welcomed as previously.

This is not to say that everything done by the government was bad. The PM did initiate many valuable and innovative programs which have helped the poor and he brought a new style of CEO approaches to the conduct of governing. But despite this, much of Thailand had become polarized politically between the pro and anti Thaksin camps. There has been no functioning parliament since February of this year. The PM, who still has a loyal following in the provincial areas of the north and northeast, has consistently refused to resign. He has been accused of having engineered a series of events to be blamed on others in order to assert more control over the political and government power bases and processes. He is accused of challenging the role and viability of the monarchy in governing the country.



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While those throughout the world in favor of the western concept of democracy as a way of life and governing would have preferred that there should be “people power” pressure at the polls or on the streets, for this instance, this would have led to violence, deaths, maiming, anarchy, possibly civil war, and certainly severe disruption of the economy. It would have opened festering wounds. The coup, as many reckoned, actually saved lives, including the lives of the PM, his family and colleagues and political supporters as well as those of the opponents thereof, who would inevitably clash.

All options being considered, the coup was the most expedient and least painful way to restore the country’s social rift and get the PM out of office short of a more hostile and violent exit. The traditional bloodless coup is Thai political catharsis. It is the Thai way of bringing the eschewed checks and balances back into balance, of sweeping out the entrenched old to make way for evolving reforms to improve Thai democracy and to spread widely rather than concentrating, political power. It has defused a political time bomb.

Now, having swept the stage, the CDRM’s most immediate task is to calm frayed nerves, assuage fears locally and abroad, and replace skepticism with certainty by establishing, as soon as possible, a clean, honest, honorable and effective civilian government. It can and will be done. That will take a respected, clever and adept leader with political skills to form and head the government and bring together the various factions and interest groups and return the perception of stability to the nation. When crises demand, such persons always surface. This time in Thailand’s history is no exception.

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