THAILAND: A reshuffle does not mean a reform agenda

- The country could suffer the deepest recession in Southeast Asia.
- A reshuffle of key economic positions in the third quarter is more about political consolidation than in formulating new ways of thinking about economic policy.
- The focus will continue to be on the big-ticket infrastructure projects and in keeping specific constituencies happy, and in using the large stimulus to attract new allies for the leading political party.

As discussed previously, the June realignments within the leading People's State Power Party (PPRP) are expected to result in a cabinet reshuffle sometime in the third quarter of the year, after parliament approves the 2020 budget. The key economic portfolios of finance, energy, and agriculture – all long desired by the Sam Mitr faction within the PPRP – may be affected.

However, the change will more likely be one of personalities rather than policy, or of making difficult decisions on reform. PPRP was formed for the 2019 elections out of at least seven different factions cobbled together from other parties or regional power blocs, and the government formation soon after the vote papered over many internal disagreements over cabinet assignments because the goal was to avoid an open breakout of factionalism that could have been exploited by the opposition.

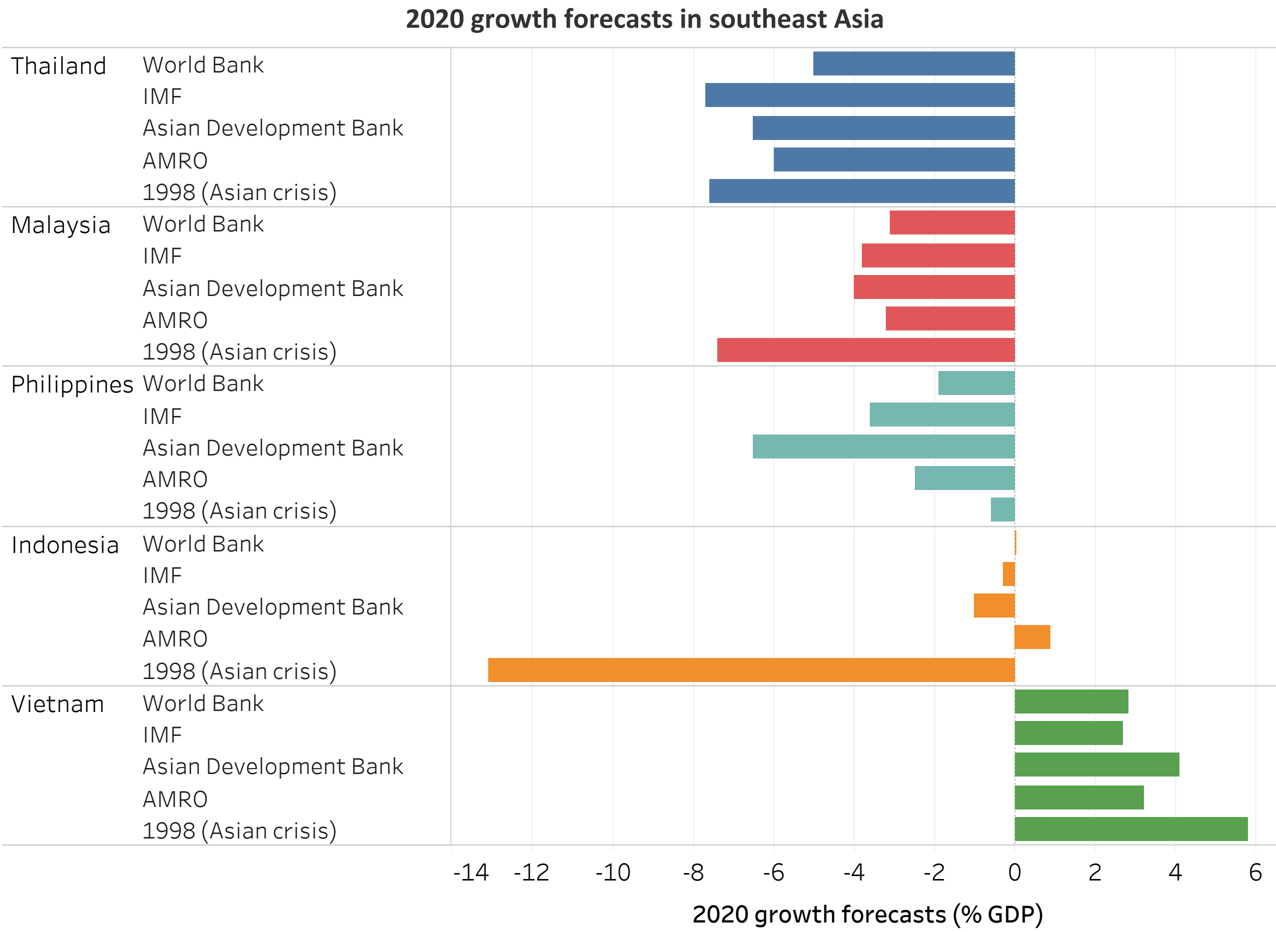
Why deep economic reform will not be a priority

Economic forecasts for the Thai economy in 2020 are the worst among Southeast Asia's emerging markets, with the average -6.3% GDP growth forecast by several multilateral organizations being only slightly more than one percentage point below the -7.5% trough in 1998 during the Asian financial crisis. The central bank, the Bank of Thailand, forecasts an 8.1% contraction.

There may be comparisons with how the Asian financial crisis and the fear of millions of job losses that drove the reforms that in turn laid the basis for subsequent years' growth, peaking during the immediate post-crisis years at 7.2% in 2003.

The reality was more complicated, however. Thailand's economy collapsed in 1998 after a mid-sized party frustrated an initial effort by the government to fix the problems of the financial system. At the peak of the crisis, it was the fear of significant job losses that provided the political capital to agree to IMF reforms. Even then, among the political elites there was noticeable disagreement on the specifics and pace of change. Privatization was slow, resisted by state enterprise management and their unions. Foreign capital did not enter the economy broadly; rather it flowed more into the financial system and into specific sectors that already had substantial external links.

With the current economic crisis being seen domestically as not having been caused by economic mismanagement as was the case in 1998, its ability to drive internal reform will be weak, since the government will rely on its stimulus effort to revive growth.



Source: The World Bank, IMF (International Monetary Fund), ADB (Asian Development Bank), AMRO (ASEAN+3 Macroeconomic Research Office)

The political priorities of a post-reshuffle government

The ruling coalition led by the PPRP is in better shape politically compared to a year ago, and its control is likely to increase. Its parliamentary majority is slightly more secure than after the elections and there is no immediate threat of an alternative leader from the opposition. After some early stumbles, Prime Minister Prayuth Chan-ocha has enjoyed the political benefits of Thailand being one of the better performers regionally in suppressing the virus. Also, the general consensus is that while growth as a whole will decline, the risk of a crisis for the financial system or the country's largest corporates is low.

The reshuffle is therefore meant less to head off any imminent political crisis, and rather to improve cohesion within the ruling coalition, by keeping the key factions happy through a reallocation of cabinet posts and policy priorities – especially with the massive stimulus now taking shape. Specifically, PPRP is likely to go after members of its allies the Democrats and the opposition For Thais party that is associated with former prime minister Thaksin Shinawatra, to bolster its 275 – 225 parliamentary majority.

The continued emphasis will be on the big-ticket projects planned years ago, such as the Eastern Economic Corridor (EEC), and in spending programs to help the major constituencies in agriculture, tourism, and industry weather the pandemic. Controversial issues such as joining the Comprehensive Partnership for a Trans-Pacific Partnership (CPTPP) will be avoided until next year at the earliest.

Economically, the government will focus on the large infrastructure programs that are the initial cornerstone of the EEC – specifically projects such as a new international airport at U-Tapao; a high-speed rail linking the three Bangkok area airports

(Suvarnabhumi, Don Mueang, and U-Tapao); and the expansion of the deep-water ports around Bankgok. Not only do the projects provide the government with high-visibility milestones, but many are connected to some of the largest business groups in Thailand.

In late June, the government signed a USD 9.4bn agreement with BBS Joint Venture (Bangkok Airways 45%, BTS Pcl 35%, and Sino-Thai Engineering 20%) to make U-Tapao its third international gateway for the Bangkok area. Construction is expected to take three years. Slated for completion by next year is the Bang Sue central station, which will become the largest railway station in Southeast Asia and link the different rail and commuter services in the capital. Charoen Pokphand, the company owned by the Chearavanont family, is leading the USD 7bn rail project to link the airports.

Policy will also likely focus first on helping the tourism sector, especially because of how it resonates domestically, but also because tourism helps drive the sectors that benefit some of the country's most well-connected conglomerates and the real estate sector.

The risk is that the ruling coalition could become too concerned with the apportionment of infrastructure projects and pork barrel from the stimulus program, while neglecting the more agriculturally intensive northeast and southern parts of the country, as well as the informal workers in the central region. Household debt is also at its highest in four years and is likely to worsen. Should the economic recovery falter, then the public and the media could broadly see the political changes as more of an internal power grab than any real effort to improve governmental coordination and governance. The opposition could then use the opportunity to highlight how the large sums allocated for Covid-19 recovery are not making it to suffering Thais. But this will be a risk more for next year if the recovery falters, because any economic pain in the next few months can be attributed to the global slowdown in trade and tourism due to the pandemic and the need to first bring the virus under control domestically.

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