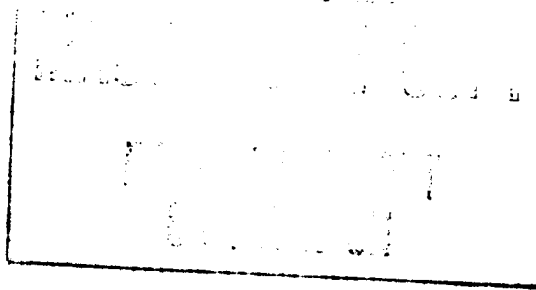




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Thailand: Prem's Political and Economic Challenges



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An Intelligence Assessment

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*EA 84-10076
April 1984*

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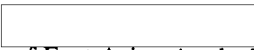



Thailand: Prem's Political and Economic Challenges



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An Intelligence Assessment

This paper was prepared by 
 Office of East Asian Analysis.
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Thailand: Prem's Political and Economic Challenges



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Key Judgments

Information available as of 15 March 1984 was used in this report.

As he has intermittently throughout his four-year tenure, Thailand's Prime Minister Prem Tinsulanon is again facing political and economic challenges that threaten the stability of his coalition government:

- The politically ambitious Army Commander in Chief, General Athit, will probably soon renew his attempt to amend the Constitution to gain a cabinet position.
- Economic reforms imposed to reverse the sharp deterioration in the balance of payments will alienate some civilian politicians and could abort the economic recovery.
- Members of Prem's four-party coalition have threatened to topple the government in order to protect their own party bases.

We expect Prem to weather these challenges and remain in office at least through the end of the year. He has previously demonstrated an ability to implement economic reforms before severe problems arose, and he maintains the support of the country's revered and influential King. Nonetheless, we believe the Prime Minister will have to concede a greater political role to Athit to maintain the crucial support of the military.

Prem will try to use his trip to the United States in April—his second as Prime Minister—to strengthen his position at home. He will probably push for Thai purchases of F-16 fighters to please General Athit. And, given the country's large trade deficit, Prem is certain to request increased access for Thai textiles and sugar to US markets.



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Thailand: Prem's Political and Economic Challenges [Redacted]

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Important Sources of Support . . .

Despite a reputation for indecisiveness, weak leadership, and political naivete, Thailand's Prem Tinsulanon has held the position of prime minister longer than anyone else in the past decade. Since assuming office in March 1980 after former Prime Minister Kriangsak fell in a no-confidence vote, Prem has survived an attempted coup, four major cabinet shuffles, a no-confidence vote by the opposition party, and a divisive argument between civilian politicians and military officers over major revisions to the Constitution. [Redacted]

Prem's ability to remain in office in the face of what appears to be almost constant political turmoil rests on a variety of factors. First, he retains the confidence of the Thai military, the leading arbiter of Thai politics. A career Army officer until his retirement as Commander in Chief in 1981, Prem made his reputation during 1974-77 when he ran the counterinsurgency campaign in northeastern Thailand. His emphasis on civil as well as military methods in dealing with the Communist insurgency is now the standard approach of the Thai military—and one that has been successful in reducing the northeastern insurgency to little more than a police problem. [Redacted]

To maintain military support, Prem has been careful to cultivate the most powerful man in the military—Army Commander in Chief, Gen. Athit Kamlang-ek, a former protege who along with the royal family helped Prem suppress a coup attempt in April 1981. Since that time Prem has consulted regularly with Athit on both economic and political issues. [Redacted]

[Redacted] following what many in Thailand considered to be very personal attacks on Prem by the opposition Thai Nation Party (TNP), Athit rallied the military behind the Prime Minister, sending more than 100 senior officers to Prem's residence to express the military's continued confidence in him. [Redacted]

Prem's second source of support comes from the royal family, especially the King. Although royal backing is not necessary for a government to remain in power, the monarchy as an institution attracts great respect and affection throughout Thailand, and the King's opinions carry considerable weight. During the abortive coup in 1981, for example, the royal family's support helped Prem rally the military against the coup plotters. [Redacted] the King was instrumental in persuading Prem to remain as Prime Minister after the elections in April 1983. [Redacted]

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A third reason for Prem's survivability is his knack for using his nonparty status—he is neither a member of a political party nor a member of parliament—to maintain discipline among the parties. No party holds a majority in the 324-seat House of Representatives, and the past four governments under Prem have been made up of coalitions based on widely disparate interest groups. These coalitions have been characterized by constant squabbling as party leaders have concentrated on using their government positions to build and protect their party bases. [Redacted]

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A threat to remove one of the parties from the coalition generally brings them into line. In January, for example, the Social Action Party (SAP) threatened to topple the government over the question of rice price guarantees. [Redacted] Prem refused SAP's demand to release the funds needed to implement the guarantees, claiming that it would benefit millowners and middlemen—who support SAP—rather than the farmers. When SAP persisted, Prem forced the party to back down by threatening to invite the opposition TNP into the government as SAP's replacement. [Redacted]

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Finally, Prem through most of his tenure has benefited from Thailand's strong economic performance. Although economic growth in 1982 dipped to 4.2 percent, down from the 7-percent average of the

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**Thailand:
Balance-of-Payments Summary**

Million US \$

	1981	1982	1983 ^a	1984 ^b
Current account	-2,569	-1,006	-2,700	-2,130
Merchandise trade	-3,022	-1,571	-3,900	-3,100
Exports f.o.b.	6,902	6,835	6,500	7,400
Of which:				
Rice	1,208	954	931	1,050
Sugar	441	563	338	400
Tapioca	754	859	516	700
Rubber	500	413	495	600
Tin	423	338	203	200
Corn	382	362	290	400
Manufactures	830	1,014	870	1,200
Imports c.i.f.	9,924	8,406	10,400	10,500
Of which:				
Oil	2,984	2,647	2,591	2,400
Services and transfers (net)	453	565	1,208	970
Of which:				
Interest payments	-1,026	-1,083	1,029	-1,188
Nonmonetary capital (net)	2,487	1,667	1,356	1,682
Of which:				
Direct investment	288	183	225	300
Errors and omissions ^c	62	-531	594	248
Overall balance	-20	130	-750	-200

^a Estimated.^b Projected.^c Includes allocation of SDRs.

attempting to shore up other ailing finance companies and prevent a crisis of confidence spreading to a banking system unprotected by deposit insurance. The financial press, nonetheless, reports that several large finance companies and some banks whose owners are politically influential remain in a precarious state and could go under if credit is tightened and interest rates are raised. [redacted]

Economic Responses, Political Dangers

In attempting to deal with these economic difficulties, Prem finds himself treading through a political minefield. Economic issues, especially those that could

provoke student or labor unrest or affect living standards in Bangkok, frequently spur sharp political attacks on the government. Prem's passage of a proposal to export unmilled rice (paddy), for example, helps reduce the trade deficit by increasing export earnings. But a group of influential Thais representing the country's agricultural interests oppose the measure, because they would lose the rice milling business. Moreover, their claim that the export of paddy allows foreign recipients to develop a rice sector that eventually would compete with Thailand in the world market strikes a responsive chord among Thai farmers. Prem's attempts to abide by his promise to the IMF to reduce government subsidies to state enterprises have also caused problems. Public-sector labor unions—the country's strongest—have threatened to strike if the government carries out planned divestitures. [redacted]

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In addition, measures Prem has adopted to cope with the balance-of-payments bind have generated controversy. Hoping to spur exports, he cut taxes on rice and tin last fall over the objections of some advisers concerned with the effects of the revenue loss on the country's large budget deficit. To stem an outflow of foreign exchange reserves in December, Prem imposed import credit restrictions, which required commercial banks to limit import financing to the level of 1983. These efforts have had little effect on the trade deficit thus far, however. Although exports in January rose slightly, imports climbed 20 percent above January 1983. Moreover, the tight money policy and resulting higher interest rates have placed more finance companies in jeopardy. This policy is also slowing the domestic economy by restricting credit available to both manufacturing and agriculture, fueling criticism of government policy by the opposition party. [redacted]

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The Central Bank's financial rescue package designed to prop up ailing finance companies and prevent the loss of funds of shareholders and small depositors has led to disputes within the government. The Finance Minister argues that badly managed businesses and their owners should be allowed to fail and opposes the introduction of deposit insurance. The public bickering among his chief economic advisers dismays Prem, [redacted]

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and the potential losses that many depositors face are encouraging the TNP to attack the government's economic management. [redacted]

of a deal with Athit, probably would indicate that the TNP is resigned to Prem's continuing as Prime Minister. [redacted]

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Finally, Prem's active courting of foreign investment to spur Thailand's development as well as ease its balance-of-payments problems also has its high political costs.⁴ Increased foreign participation in the Thai economy would endanger the interests of senior Thai military officers—many of whom supplement their official salaries through membership on the boards of directors of private Thai companies and state enterprises. General Athit, for example, was until recently on the board of directors of the Thai Tobacco Monopoly and remains chairman of the Telephone Organization of Thailand. Furthermore, officers around Athit appear strongly nationalistic and have been suspicious and critical of foreign capital in Thailand. These officers share common ground with the opposition Thai Nation Party—which represents civilian Thai industrialists and is highly protectionist. [redacted]

Most importantly, we believe Prem will retain Athit's crucial support at least until the general's retirement in 1985. We believe, however, that Prem will have to acquiesce to Athit's joining the cabinet—probably this year. At that point, Prem will become less valuable as an intermediary between the civilians and the military, and his influence over government affairs will gradually be eclipsed. [redacted]

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Prem's Washington Agenda

According to the US Embassy, Prem is "very happy" to be invited for his second working visit to Washington in four years. He expects the trip will not only underline the closeness of US-Thai relations, but also enhance his prestige domestically by serving as a reminder of Prem's foreign affairs experience and of his role in personifying political continuity in Thailand. [redacted]

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Prem's Prospects

Prem has often demonstrated an ability to survive serious political and economic challenges, and we believe he will do so again in 1984—and probably 1985 as well. We believe Prem will make the economic decisions necessary to prevent the worsening of problems—such as the balance-of-payments crisis and mounting subsidies to unprofitable state enterprises—and will make these decisions stick. By way of example, Prem instituted—and weathered—a 10-percent currency devaluation in 1981 despite considerable criticism. Nonetheless, on some politically sensitive issues—such as the need for sharply higher bus fares in Bangkok—Prem probably would beat a strategic retreat to ensure his political survival. [redacted]

Domestic considerations will have a considerable impact on several of the topics he will probably discuss during his visit to Washington—the purchase of F-16 fighters, and the question of foreign investment and increased access for Thai goods to US markets, for example. The F-16 issue may be at the top of the list. General Athit, who has invested considerable personal prestige in the issue, and most senior Thai military officers have stated that they would consider a US refusal to sell Thailand F-16A/F-100 fighters as a failure to assist a close friend, with the implication that bilateral relations might cool. [redacted]

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Prem is vulnerable, however, to criticism from outside the military if he backs the F-16 purchase. At a time of worsening balance-of-payments problems, the F-16 purchase—on top of other military expenditures—is bound to attract criticism from politicians unable to obtain funding for their own pet projects. Prem has remained neutral on the issue, and we believe he will seek a way to placate both the military and the critics

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Further, there is a strong chance that a cabinet shuffle—rumored to be in the works over the next month or so—will buy time for Prem. [redacted]

[redacted] the opposition TNP will be invited into the coalition at the expense of one of the smaller parties. Such a move, although it could be the result

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[redacted]

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Issues We Expect Prem To Discuss in Washington

<i>Kampuchea</i>	<i>Prem will discuss the current military situation and ask for continued US support of the ASEAN strategy of imposing political and economic costs on Vietnam. He will also ask for increased US assistance for the two non-Communist factions of the Coalition Government of Kampuchea.</i> [redacted]	25X1
<i>Narcotics</i>	<i>Prem believes he has followed through on his 1981 commitment to the President to take firm action against narcotics traffickers along the Thai-Burmese border. He may emphasize that most of the Golden Triangle opium is grown in Burma, not Thailand.</i> [redacted]	25X1
<i>Refugees and Piracy</i>	<i>Prem wants the United States to accept more Indochinese refugees from camps in Thailand. The Thai are furious about recent international press reports of Thai Navy complicity in attacks against refugees in the Gulf of Thailand and have threatened to refuse future international funds for piracy control.</i> [redacted]	25X1
<i>Security Assistance</i>	<i>Pointing out Thailand's position as a frontline state against Vietnamese troops in Kampuchea, Prem will seek increased military aid, antitank weapons, more grant aid, and FMS loans with better terms. We also expect him to raise the issue of F-16s, possibly to test the US reaction.</i> [redacted]	25X1
<i>Voice of America Transmitter</i>	<i>The US and Thailand recently concluded an agreement to locate a transmitter in Thailand, and Prem may mention this in his meeting with the President as evidence of constructive cooperation between the two countries.</i> [redacted]	25X1
<i>Quotas for Thai Exports</i>	<i>Prem is seeking higher quotas for both sugar and textiles. The US sugar quota, imposed in 1982, resulted in a more than one-third cutback in Thai sugar exports. Prem may also complain about last year's detention of Thai rice and shrimp shipments for health reasons. The detention received much attention in the Thai press.</i> [redacted]	25X1
<i>Science and Technology Agreement</i>	<i>Prem is extremely pleased with the agreement—which is designed largely to improve agricultural productivity—and hopes to sign it during the visit.</i> [redacted]	25X1

of the F-16 purchase, probably in the form of credits, stretched out payments, or more accommodation to Thai interests in the area of bilateral economic relations. [redacted]

The search for more foreign investment also will occupy a considerable portion of Prem's visit. But the need to avoid harm to domestic economic interests will limit the benefits he can offer foreign investors. Prem also will broach the question of increased US imports of Thai products in his quest to narrow

Thailand's foreign trade deficit. He may complain about the US detention of Thai rice and shrimp for health reasons. Prem will also request increased access for Thai textiles, shoes, and toys to the US market, according to the local press. Finally, Thailand continues to request US support for an increased sugar quota from the International Sugar Organization, and Prem will probably ask for a higher sugar quota for the US market. [redacted]

Appendix

Prem's Economic Reforms

Prem, at the behest of Thailand's technocrats and World Bank advisers, has implemented several politically controversial economic reforms:

- Although his predecessor was ousted by opposition to higher energy prices, beginning in 1981 Prem roughly doubled them.
- He slowed the growth of government spending and instituted tax hikes which reduced the budget deficit from 5.9 percent of GDP in fiscal year 1982 to 3.8 percent in 1983.
- He adopted measures that slowed the rapid growth of the foreign debt—which nearly doubled between 1979 and 1981—to about 20 percent a year in 1982 and 1983.
- He adopted measures to attract increased foreign investment despite opposition from domestic industrialists.

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Prem has also given his blessing to a five-year, approximately \$1 billion World Bank-funded "structural adjustment program," begun in 1982, which is intended to improve the efficiency of the Thai economy. Thus far the tariff cuts and financial liberalization measures, which are part of the agreement, are on schedule. Efforts to reduce subsidies to the approximately 70 money-losing state enterprises have been less successful, but even here some progress has been made. Passenger train fares were increased last year, and the government has agreed to sell off six state enterprises to the private sector by the end of the year if their finances do not improve. The restructuring of the domestic appliance and automobile assembly industries to improve their efficiency by exposing them to increased foreign and domestic competition has made little headway, however.

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