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## **THE THAI COUP AND SMALL BUSINESS CONFIDENCE IN BANGKOK**

### **Abstract:**

Thailand's recent coup was not received favorably in the West, but many parts of Thai society support it. In particular, business sentiment has improved greatly in the short time since the coup. The Bank of Thailand's monthly Business Sentiment Index (BSI) showed sharp decline in 2013, even before the protests became large. Immediately after the coup, the index was up substantially, although not to levels seen in earlier years.

Originally, small business supported Thaksin. After tight policies following the 1997 crash, they liked promises to free up credit for SMEs. Facing severe competition from foreigners buying up cheap post-crisis assets, they liked his policies aiming to promote domestic business. Some pro-small business policies were implemented, some were not, some turned out to lack much substance. But whatever the actual implementation and impact, perceptions came to view Thaksin's governments as mainly favoring big corporations, especially those connected to Thaksin's own business interests.

It is rarely mentioned in the Western press, but the BSI actually showed a steady downward trend during most of Thaksin's initial administrations from 2001 to 2006. After the 2006 coup, though volatile, the index made modest gains. When elections returned Thaksin's proxy party to power in December 2007, it collapsed to its lowest level in nearly a decade. Under the opposition control for several years, BSI recovered, but has mostly been in decline since Thaksin's Pheu Thai Party took power in 2011.

In the past half year, anti-government protests and pro-government counter actions have added to problems for small businesses in Bangkok. Many faced declining sales from the general downward trend in the economy. Some lost sales because customers stayed away if the business was near a protest site, although some could make good sales to protesters. However, the long-term issue was continuing lack of confidence that the government would do much to help small businesses, and feelings that Thailand needed some drastic reorientation.

The coup provided that reorientation. Generally, small businesses in Bangkok support it, and believe that Thailand has a chance to get back on the right track now. We conducted in-depth interviews with a number of small businesses near where one of the main protest sites operated, to bring this sort thinking among small businesses out in detail. Generally, whatever side of the color politics they may have been on, mainly they want their small businesses to succeed, and are cautiously optimistic now.

### **Keywords:**

small business, Thai coup, economic policy, business confidence, Thailand

**JEL Classification:** M00, O53

## Introduction

Thailand's recent coup of 22 May, 2014 overthrew the caretaker government of Yingluck Shinawatra. This was more-or-less a repeat of the 2006 coup which overthrew her brother, Thaksin Shinawatra, who currently lives mostly in Dubai, a fugitive from a corruption conviction in 2007. The coup has not been looked upon favorably in the West, but many parts of Thai society support it. In particular, business sentiment has improved greatly in the short time since the coup. The Bank of Thailand's monthly Business Sentiment Index (BSI) showed sharp decline in 2013, even before the protests became large. Immediately after the coup, the index was up substantially, although not back to the levels seen during much of the past few years.

This paper examines small business perceptions of government and the economy in Thailand during the Thaksin era, which began with the election of his Thai Rak Thai (TRT) party in 2001. Thai politics have largely revolved around Thaksin and his government, or proxy governments, since he was ousted in 2006, and the Thai economy has been captive to the struggle between his supporters and opposition elements trying to oust his influence. Small business generally supported Thaksin in the beginning, but soon came to view his government as favoring big business, especially those connected to the Shinawatra business empire.

## Big business orientation

After tight policies following the 1997 economic crash, small businesses liked promises to free up credit for SMEs. Facing severe competition from foreigners buying up cheap post-crisis assets, they also liked his economic policies aiming to promote domestic business (Rodan & Hewison 2006). Some pro-small business policies were actually implemented, some were not, some turned out not to have much substance. But whatever the actual implementation and impact, perceptions relatively quickly came to view Thaksin's governments as mainly favoring big corporations, especially those connected to Thaksin's own business interests.

SMEs recognized this big business orientation early on, as did scholars on Thai politics and economics. For example,

“More than any other party, the TRT represented the interests of big domestic business. ... It was the threat to business interests and power posed by neoliberal policy reform that caused the remaining tycoons to conclude that domestic capital needed supportive government policies, which could only be achieved by taking control of the State.” (Rodan & Hewison 2006, p. 114)

Even the international business press pointed out very early the strong orientation toward benefiting Shinawatra business interests that characterized TRT policy from the beginning.

“Unfortunately, his government has taken steps that benefit not just big firms in general, nor even some sectors in particular, but specific companies in which Mr Thaksin's own family has an interest.” (Economist Feb 28, 2002)

From its founding in 1998, TRT has essentially been a party representing the business elite. Phongpaichit & Baker (2008) note that originally, there was no hint of populism in the party platform. However, TRT strategists understood well enough that they needed votes to gain power, and they developed policies to appeal broadly. The initial policies to help small and medium businesses aimed at this, and TRT also brought in many policies to appeal to rural voters in the North and Northeast by election time in 2001. The populist policies of TRT, and later iterations of Thaksin's parties, were essentially used to buy votes.

“in the wake of the 1997 crisis, which had savaged Thai domestic capital, big business saw the need to control the state in order to shake off IMF tutelage, resist further takeovers of cash-strapped local firms by foreign investment, and restart economic growth; but to win power, the businessmen needed to share the fruits of economic growth more widely than in the past. Thailand's pluto-populism was government of the people, by the rich, for the rich—and a little bit for the people too” (Phongpaichit & Baker, forthcoming)

This is not to say that the policies were all bad. In the beginning, sometimes they did have some real content, and some policies did do some good for small business and/or for rural people, especially earlier on in the Thaksin era. In such cases, it should be noted, even many in the strongly anti-Thaksin camp continue to support them. For example, the Bangkok Post, which generally represents views of middle class urbanites, recently editorialized “One thing has to be made clear about the country's universal coverage healthcare programme. It is not a populist policy. Access to healthcare services is a basic human right” (Bangkok Post, 18 July 2014).

Some of the original pro-small business policies, however, seemed to have fallen by the wayside, and within a few years, small business was back to the difficult situation prior to Thaksin's election. Far from being against some of the original policies to help small business, the opposition has supported them. For example, the Bangkok Post has given prominent coverage to the business community's proposals after the coup. One of the ten key points is “extend help to SMEs” – “Small and medium-sized enterprises, now critically ill, require a shot in the arm in the form of cash injections and state supports” (Bangkok Post, 26 May 2014).

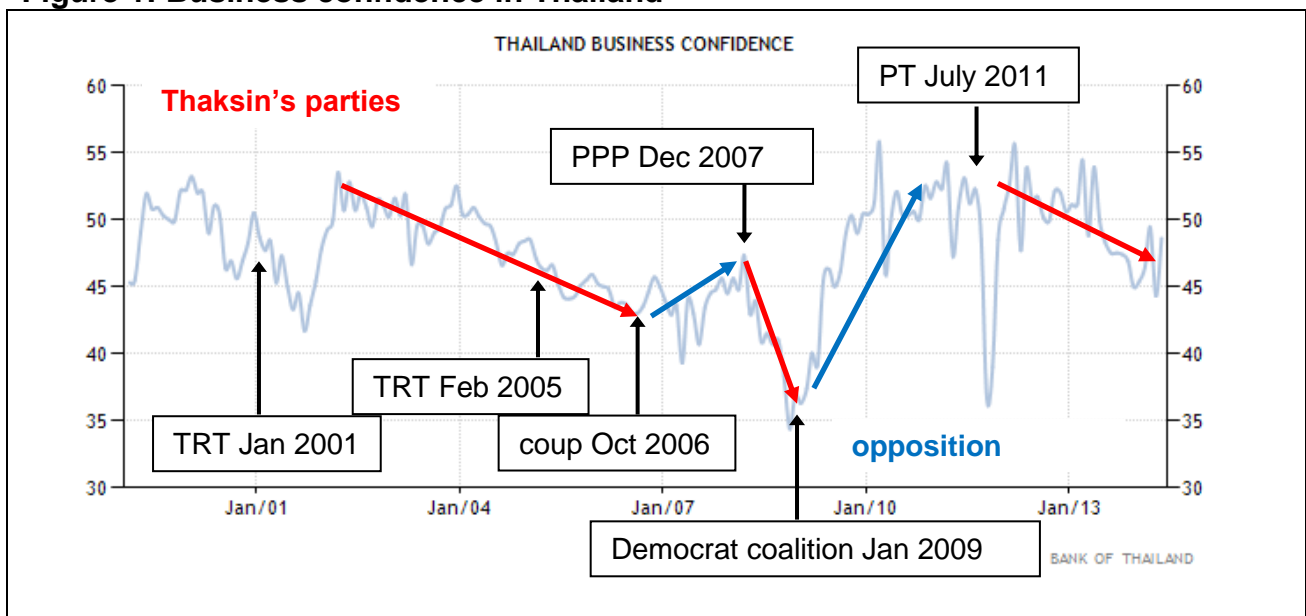
Neither has the opposition been against reducing inequality in Thailand, although Thaksin's camp has been skilled at portraying the political conflict as a struggle between the ‘haves’ and the ‘have-nots’. Another key point in the business community's reform agenda is “bridge income disparity” (Bangkok Post, 26 May 2014). The business community, however, talks about doing it in a sustainable way. Many of Thaksin's populist policies were not financially sustainable, especially as new ones were developed to win votes after the first few years of TRT administration. First and foremost, populism aimed to buy support for Thaksin's consolidation of power, so financial sustainability does not really seem to have been an important consideration. Thaksin has sometimes been compared to Venezuela's Chavez in terms of his populism. However,

“the key difference is that Thaksin's policies were embedded within a bigger project of rapid capitalist restructuring in the interests of large Thai corporations looking for competitiveness on the global market” (Pye & Schaffar 2008, p. 44).

### Business confidence and small business feelings about the situation

Most SMEs soon realized that the new government was mainly oriented toward big business, and often Shinawatra business. TRT administration did initially reverse the downward trend in business confidence, but the honeymoon period was relatively short. The BSI declined throughout most of the TRT first government, and continued downward during its second, short-lived government (Figure 1). The 2006 coup brought a slight recovery, but the BSI collapsed once Thaksin's proxy People's Power Party (PPP) took power after new elections. When some of PPP's allies abandoned it and switched sides, the opposition formed a government which restored confidence for a while. However, rural voters punished those smaller parties in the 2011 elections and gave Thaksin's new proxy party, Phua Thai, a slight majority in Parliament. Business confidence started falling again, showing a temporary very deep drop immediately after the election, which then recovered to settle into a more gradual downward trend.

Figure 1: Business confidence in Thailand



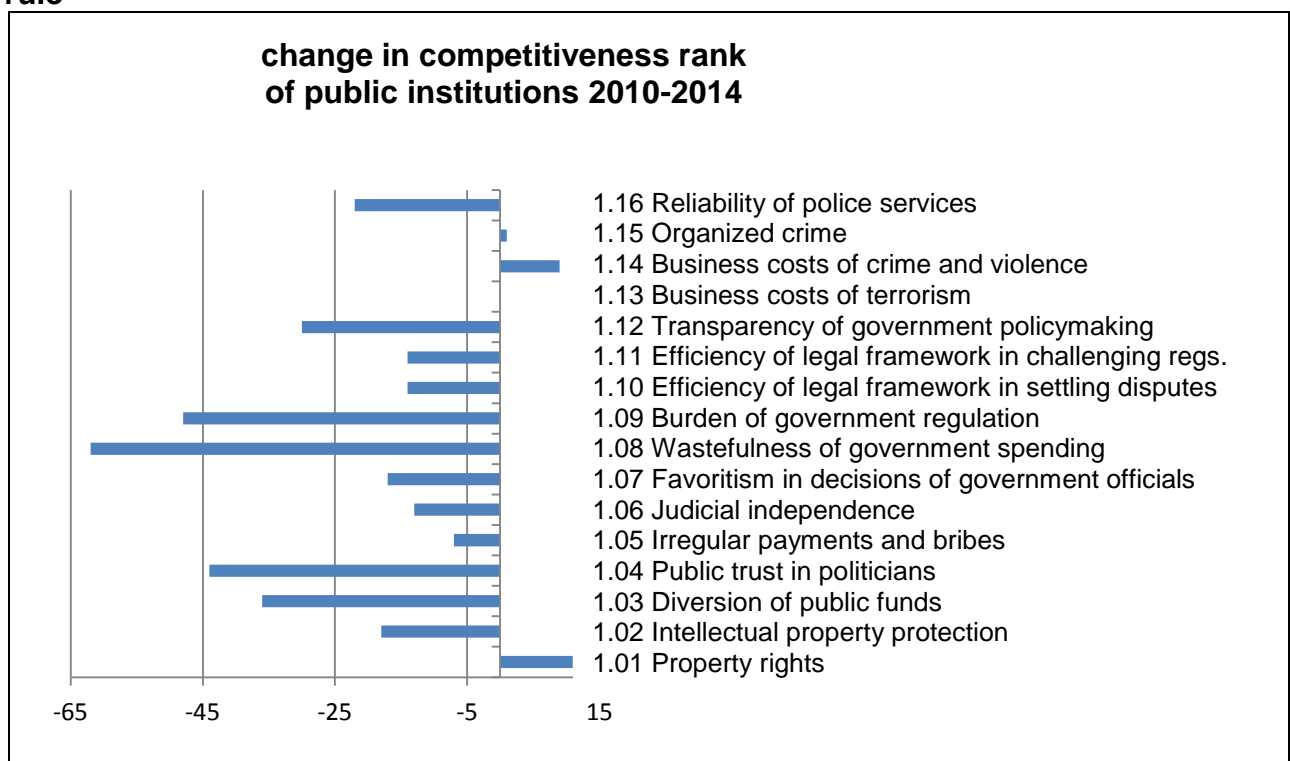
source: Trading Economics. 2014 (based on Bank of Thailand figures).

We had done in-depth interviews among small business owners in 2011 and 2013 which showed a general negative feeling about the state of the Thai economic system. That research was not really about political issues or response to government economic policy. Rather, it aimed to understand how spirituality (toward Kuan Im Bodhisattva; i.e., a form of reform Buddhism) among small business owners shaped the way they treated employees and customers (Roenjün & Speece 2011, 2013). However, a very strong underlying theme in those interviews revolved around the feeling that government,

business, and society in Thailand had become too corrupt. The small business owners we interviewed used faith in Kuan Im to help them persevere and do good by their customers and employees in a world where competition was no longer fair and small businesses were at a distinct disadvantage.

A wide range of international indices shows that such feelings seem to be largely justified (e.g., see Speece 2014, in this proceedings). In particular, the sense that the system was rigged against small businesses parallels Thailand's dramatic decline during Phua Thai rule (2011-2014) on most sub-indicators for 'public institutions' in the World Economic Forum's *Global Competitiveness Report* (Figure 2). There were drastic declines in reliability of police services, transparency of government policymaking, the burden of government regulation, wastefulness in government spending, public trust in politicians, and diversion of public funds. These are just the areas where Thailand declined 20 ranks or more; there was also somewhat less dramatic decline on several other indicators.

**Figure 2: Declining competitiveness of Thai public institutions during Phua Thai rule**

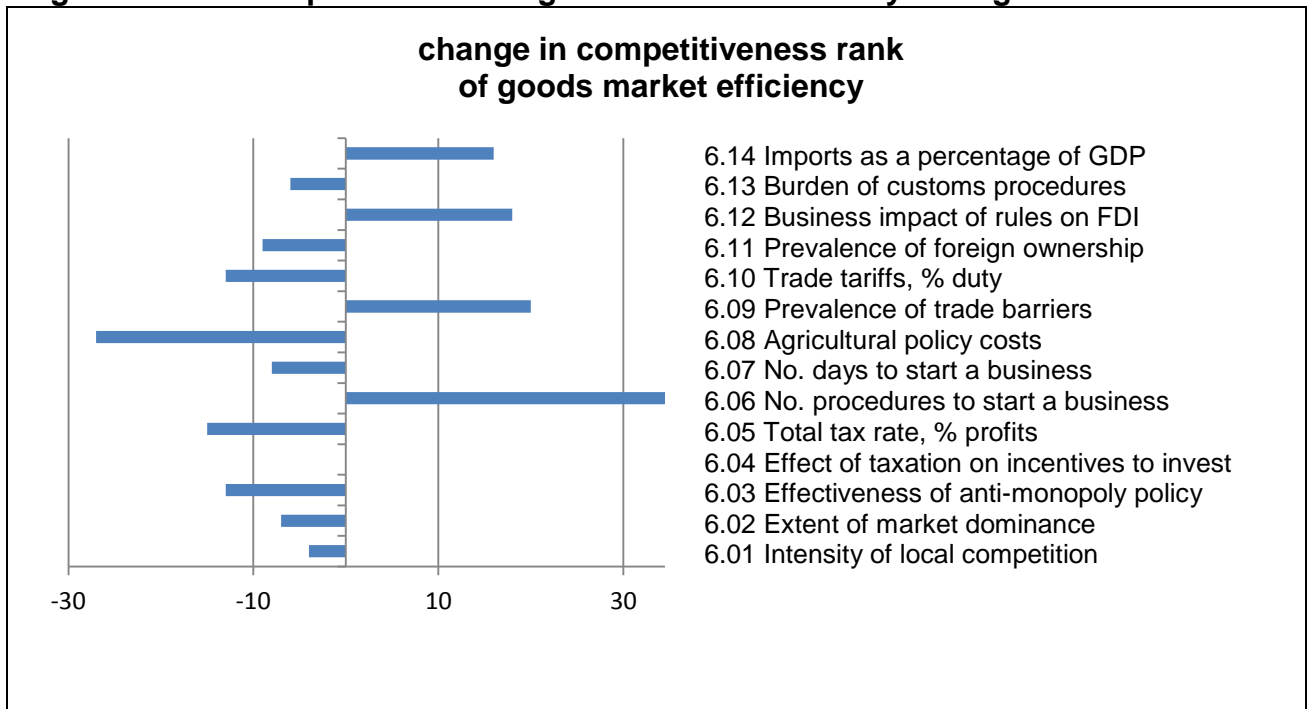


source: based on World Economic Forum. 2014.

On 'goods market efficiency', another area of particular interest to small businesses, the World Economic Forum's *Global Competitiveness Report* shows Thailand's competitiveness declined on most sub-indicators during the PT administration (Figure 3). Small businesses are certainly affected by such things as increasing market dominance of big corporations, declining effectiveness of anti-monopoly policy. The few sub-indicators which show strong improvement mostly do not really reflect benefits for small businesses. 'Improvement' on trade barriers, loosening rules on FDI, and increased percentage of imports as a percentage of GDP just mean foreign companies find it easier to do business in Thailand. This is a substantial benefit for the big domestic companies who have foreign distributorships, but it does little to help small businesses. For them, competition from foreigners is getting tougher, while the declining indicators indicate that regulation to ensure fair competition is getting weaker. These trends are opposite of what TRT originally promised to small business.

### **New post-coup interviews**

We have begun a new set of interviews with small businesses – this is an ongoing project, with only a few completed so far, so here we can report only preliminary findings. The in-depth interviews were (are being) conducted with a number of small businesses near where one of the main protest sites operated, to bring thinking about the protests and the coup among small businesses out in detail. They confirm earlier interviews, and statistical data such as the BSI and *Global Competitiveness Report*, though the few new respondents already interviewed seem to think that corruption under Yingluck Shinawatra's Phua Thai government had reached new highs. (In fact, Thailand declined substantially in Transparency International's *Corruption Perceptions Index* during the few years of Phua Thai rule, and stood at 102<sup>nd</sup> in the 2013-2014 rankings.) Respondents talk about the system being broken. The initial interviews indicate very strong support for the army's moves against corruption.

**Figure 3: Thai competitiveness in goods market efficiency during Phua Thai rule**

source: based on World Economic Forum. 2014.

Local data from a continuing survey by the University of the Thai Chamber of Commerce (UTCC) shows this also. Carried out every half year, results in June 2014 showed that the index rose (i.e., businesses estimate corruption had declined) to 46 (out of 100), from 39 in December 2013. This represents the first improvement in 5 years. Businesses estimated that contracts / projects with the government now required graft payments of 15-20 percent, down substantially from the 25-35 percent before the coup (Thai PBS June 26, 2014). In the past month, after this survey, and as the current government gets organized, it has made tackling corruption a national priority (Thai PBS September 6, 2014). No one believes that corruption will be completely eliminated easily, but they are thankful that something is being done to reduce it. A Bangkok University poll at the beginning of September shows that 78 percent in a national survey believe the government has already made some progress in reducing corruption, and there is strong support for continuing the effort (Thai PBS September 5, 2014).

These initial interviews reflect discussion above regarding Phua Thai policy – the respondents believe that the PT government only cared about big business, and they believed that big business did not want to share the market with small business. Government did not invest in small business, and it was hard to get financing. This was the case throughout the Phua Thai government, but in late 2013 and early 2014, anti-government protests and pro-government counter actions added to problems for small businesses in Bangkok. Many faced declining sales from the general downward trend in the economy. Some lost sales because customers stayed away if the business was near a protest site, although some could make good sales to protesters. However, the long-

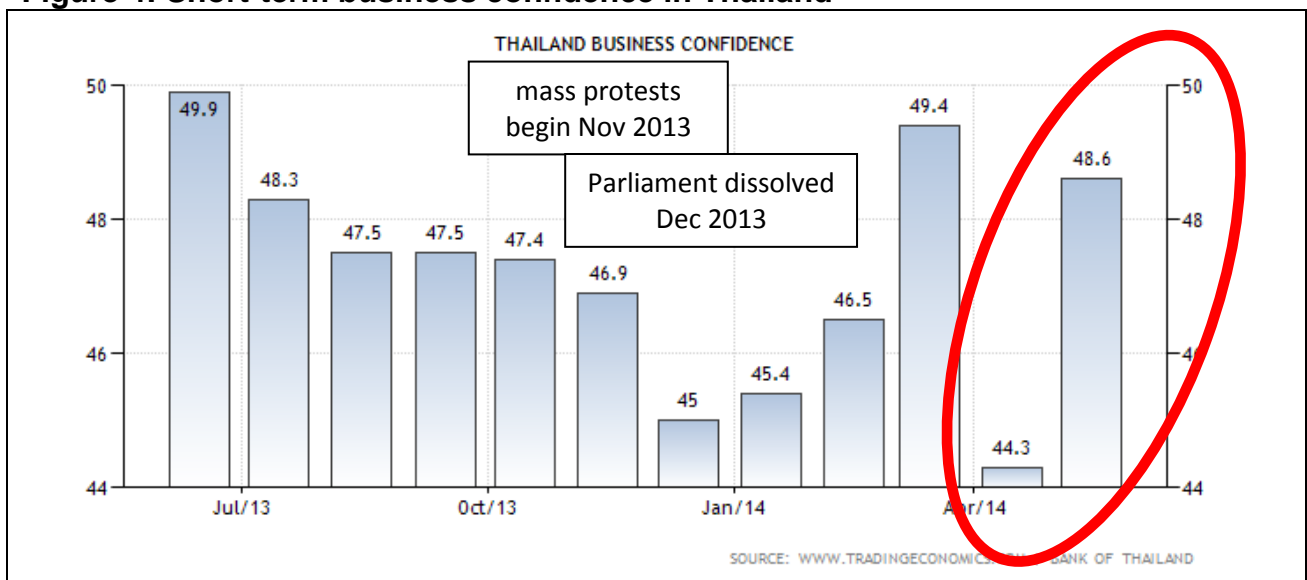


term issue was continuing lack of confidence that the government would do much to help small businesses.

Another big problem to these few respondents was that they felt the Phua Thai government managed the economy very poorly. Some small business owners think that even with an unfair system favoring big business, they can do well enough as long as the economy is good. Before Phua Thai, they say business had been better, even through the decade of political turmoil. Under PT, consumer confidence declined, so customers did not spend as much. Again, this thinking is right on track as far as what the polls show. A UTCC pole in April 2014 showed that consumer confidence had been dropping for 13 months in a row, and in the April poll, reached its lowest point since late 2001 (Thai PBS May 9, 2014). Demonstrations made things worse, according to the initial interviews, especially the violence against demonstrators which caused customers to stay away because of security concerns. The lack of security meant no customers in the evening, and shops had to close early.

The initial interviews show that after the military take-over, security immediately improved, so there was some immediate improvement in business. Longer term, the interviewees have more trust in government now. They say consumer confidence is returning, so people are spending more. The respondents also believe that the government now is working to help small businesses. The result of all this thinking was a strong jump in business confidence immediately after the coup (Figure 4). A separate business confidence survey by ThompsonReuters / INSEAD shows much the same thing. In the second quarter of 2013, that index had reached an 'all time low' of 42. However, in the next two quarters it edged even lower. At the end of 2013, it stood at 40, and first quarter 2014, it was at 41. Shortly after the coup, the second quarter 2014 index showed a huge rise, to 91 (Thompson/Reuters, June 2014).

**Figure 4: Short-term business confidence in Thailand**



Source: Trading Economics. 2014 (based on Bank of Thailand figures).

This sharp rise in business confidence is undoubtedly partly because of simple relief that there will be more stability for a while. However, the military government took some immediate steps to halt the economic decline. First, it arranged to pay farmers for the rice they had sold to the government in Fall 2013 under the rice pledging scheme, one of Phua Thai's most wasteful and most costly populist policies. That scheme was so poorly thought-out and managed that the government ran out of money to pay the farmers, well before the protests heated up and made some government operations difficult. By early 2014, the government owed farmers roughly US\$ 4.3 billion (Economist Aug 10, 2013; Tanruangporn 2014). As of end-May 2014, losses on that scheme were estimated to be about US\$ 9.9 billion. There are still mountains of rice in government stockpiles, which must be sold at a loss, so the cost will go higher as the current government extricates Thailand from the ruinous scheme (Phoonphongphiphat Sep 17, 2014). Directly relevant to small businesses, there have recently been a number of initiatives to free up credit for small business from both the government and private banks (e.g., Bangkok Post 9 June 2014, 18 June 2014, 7 July 2014).

## Conclusion

Thaksin's various governments and proxy governments since 2001 have not been good for small business. Despite Thai Rak Thai's initial policy elements to attract small business votes, most of the policies did not last, or were never implemented, and mainly big business benefited, at the expense of small businesses according to many observers. The Phua Thai administration from 2011-2014 was particularly bad. Bangkok small businesses felt threatened by developments under Yingluck's government. Thus, there has been strong small business support for the military take-over, and business confidence is returning. Whether or not this small business support last remains to be seen. It depends on fixing the economy in ways that are perceived as more fair to small businesses. The initial indications suggest that the current government is serious about improving things broadly, including for small business.

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