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Thailand

# Thailand: floods and reforms

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**Three months after the elections which gave her a crushing victory, Yingluck Shinawatra [1],** the leader of the Puea Thai party and the first woman Prime Minister of Thailand, has had to face the worst floods since 1942. Since the beginning of the monsoon in late July, around two and a half million people have been affected by the floods in 28 provinces in the North and Centre of the country. More than 400 people have died and thousands of others have fallen ill.

A return to normality is likely to take at least 6 weeks. Efforts are now concentrated on avoiding flooding in the centre of the capital, Bangkok, whose economic weight represents more than 40% of Thailand's GDP. The city is completely encircled by water and the authorities face a conjuncture of heavy rains, a high tide preventing the flow of the water towards the sea and the massive arrival of water from the North and centre of the flooded country.

Bangkok has been protected by huge sandbag walls to the detriment of the neighbouring provinces and the modest populations who live there. Inside this belt, the water cannot flow towards the sea. It can reach heights of more than one metre, submerging the surrounding houses. The tensions and resentment are palpable and the army has been deployed to protect the makeshift dykes.

The government has been subject to severe criticism for the tardy implementation of aid deemed to be relatively ineffective. Beyond this crisis, it is the management of water as a whole which has to be reviewed. The department of irrigation of the hydrology and water management office has for several months maintained very high water levels on the dams on the Ping and Nan rivers which flow into the Chao Phraya river which traverses Bangkok. The water contained had to be released at the worst time accentuating the floods upstream and worsening the situation around the capital.

The material damage is very considerable and the economic consequences are already being felt. Houses and infrastructures have been destroyed or damaged in their hundreds of thousands. Large area of the central plain, the rice bowl of Thailand, have been submerged by flooding, destroying 10 % of the harvest of the world's biggest rice exporter. Several economic zones have also been flooded affecting more than 10,000 factories, some having to close. Hundreds of thousands of jobs are threatened and with them the income of millions of persons.

The Thai economy is not alone in being affected by the floods. Thailand produces raw materials and components supplying the manufacturing production chains of other countries where they are used to manufacture finished products. This is for example the case in micro computing and cars. 60% of hard disks come from Thailand and their scarcity has led to price increases on the international markets. The car industry represents 12% of GDP and employs 300,000 persons. Most of the big constructors, assemblers and parts and components manufacturers are present in Thailand. The halting of production in some factories leads to disruption of the production chains of other countries. Thus Honda has already announced a slowdown of its production in Canada and the USA and Toyota has done the same in Japan. This could also be the case with China, the main destination for Thai exports.

According to the first predictions, which did not include possible damage in the centre of Bangkok, the cost of the floods could be as high as four billion dollars and represent 1 to 1.5 % of GDP. With an economy in downturn, tax income is at its lowest. This natural disaster with huge social and economic consequences could in the long term have an impact on the economic policy and social measures proposed by the Puea Thai in favour of its popular electoral base during the election campaign.

For now, the government has just approved an extension of the budget deficit of 50 billion baths for the new fiscal

year which begins on October 1st, bringing it to 400 billion baths (9.5 billion euros). All state bodies and ministries have also been asked to reduce by 10% their expenditure so as to find 80 billion baths (1.9 billion euros) to finance aid and reconstruction. Finally, the government may turn to multilateral bodies to borrow several hundred billion baths.

Among the key measures of the electoral campaign, the Puea Thai undertook to increase the minimum daily income to 300 baths (7 euros) for everyone as of January 1, 2012. Currently there is no minimum wage on a national scale but rather a minimum wage in each province which oscillates between 159 (3.75 euros) and 221 (5.20 euros) baths per day.

The minimum wage in Thailand is determined and implemented by a tripartite commission made up of 15 members – five representatives each for the state, the employers and employees. In mid-October an agreement was reached between the representatives of the employees and the state, against the wishes of the employers. The minimum wage would be increased by 40% at the national scale as of April 1, which would bring it to around 300 baths in Bangkok and in six provinces where it is already very high. In the other 77 provinces, it will remain then below the level of 300 baths promised during the election campaign but should gradually increase to 300 baths over three or four years.

In imposing a substantial increase in the daily minimum wage against the advice of industrialists already affected by the floods, the government has sent a strong signal to its electoral base, made up mainly of workers and peasants. The small and medium enterprises will be the most affected by the wage increase. But if one looks at the decade as a whole, the minimum wage increase has only exceeded the inflation rate twice, in 2001 and 2007, and globally it has at best stagnated.

The daily minimum wage increase is presented by its detractors as a populist measure. But a substantial increase should help reduce the deep social inequalities which divide Thailand, one of the most inegalitarian countries in Asia. That could be a first step towards reviving Thai internal consumption, which is too low, and thus to counterbalance a dependency on exports which currently represent 60 % of GDP.

During the election campaign the Puea Thai advanced other economic measures favouring the poorest layers who compose the majority of the population, such as allowing borrowers to suspend the repayment of their debt for three years, guaranteeing the price of rice, indexing the repayment of loans granted by the state to students to their incomes, and fixing again at 30 baths the price of universal cover for medical care. The implementation of such measures would in the medium term partially transform the socio-economic structure of Thailand.

The crisis provoked by the floods will be a real political test. If it wishes to keep its campaign promises and engage on a programme of post flood reconstruction benefitting the majority, the government will have to implement a courageous tax policy seeking the money where it is, in the first place among the Thai millionaires and the royal family and by drastically reducing the budget of the army which has exploded since the military coup of 2006. That involves confronting the élites who are not disposed to pay for a policy which would benefit the broad masses.

Finally, even if reconstruction would undoubtedly constitute the main task of the government in the coming months, it must also meet the aspirations to democracy, social justice and the political and social changes that the Red Shirts have forcefully demanded in recent years. Can the government meet these expectations?

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[1] the younger sister of Thaksin Shinawatra, businessman and politician overthrown by a military coup in September 2006