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# RSIS COMMENTARIES

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## **The Politics of Consumption in Thailand:**

### **Back to Basics**

Antonio L Rappa

17 March 2009

*The Abhisit government in Thailand is intervening to help the country out of the long, L-shaped curve of the global recession. Initial measures involve a back-to-basic economics and a rhetorical attempt to thwart materialism.*

ARTHIT RUNGSAWATDAT is looking forward to 8 April. Thai prime minister Abhisit Vejjajiva set that day as the deadline for the issue of Bt2000 cheques (S\$85) to Thais from the lower income group. These handouts are part of a relatively similar macroeconomic strategy across Southeast Asia. The politics of consumption in Thailand involves the state management of the economy with policies to reduce the savings rate and increase circulation. The lower the consumption rate, the slower the economic growth – and *vice versa*. This is one of at least three measures that Thailand can use to combat the global recession: (1) increase circulation by direct cash injections; (2) reducing direct taxes and increasing indirect taxes; and, (3) keep Thai politics out of Thai markets.

### **Keeping Money Circulating**

Consumption is critical to stimulating Thailand's domestic economy. On April 8, 2009, the government will inject a considerable sum of money directly into the economy through cash checks of Bt2000 each. By Abhisit's calculations, about 9 million Thais earn less than Bt15,000 per month (S\$644). So each person earning less than Bt15,000 a month will receive Bt2000 to spend. Abhisit believes that this would be sufficient to achieve the intended policy objective of keeping money in circulation. However, with a population of over 63 million people, the number of people receiving the check should be twice as many. Therefore, 18 million Thai people should receive Bt2000 or more in several instalments over the next two years for this measure to be effective. This is based on the premise that the lowest economic class is likely to keep the baht in circulation than other economic classes.

Our peasant Arthit is likely to spend his Bt2000 on basic needs. His windfall will go to village food producers who in turn purchase fertiliser, children's education or minor repairs. However, a middle

class Thai citizen with Bt 2000 would probably spend it on consumer goods at Central World Plaza in Sukhumvit; just like his counterparts in Southeast Asia.

Asian societies tend to have a lower propensity to consume because Asians like to save for a rainy day. But a high savings rate is not good in an economic recession. On the other hand, Western Europeans and Americans have a relatively higher marginal propensity to consume.

### **Indirect Taxes**

Prime Minister Abhisit is implementing a bank of different indirect taxes. Economists believe that an indirect tax may be borne by a firm, group, community, or individual and not the tax-paying citizen himself. Direct taxes on the other hand cannot be “passed” to the next person or firm because they remain the sole obligation of the tax payer.

For example, Abhisit’s National Energy Policy Committee (NEPC) recently increased the legally-required contribution to the Oil Fund. This is a form of indirect tax. The increase will change consumption patterns of vehicle owners and road users. Thai consumers who are dependent on long distance travel will incur higher costs of petrol, diesel and gasohol. Gasohol is a mixture of gasoline and ethyl-alcohol (ethanol) but is not very popular because it is less efficient. The Minister of Thai Energy Consumption Wannarat Charnnukul argues that the levy would not cause retail prices to rise. But this policy may be a double-edged sword. Another way to avoid printing more money is through attitudinal change – which is also what the new prime minister is trying to promote.

### **Materialism**

The wisdom of Thailand’s Oxford-educated prime minister is seen in his political rhetoric that emphasises the importance of “Gross National Well-Being” rather than Gross National Product, and a “Sufficiency Economy” rather than one based on mass consumption. Gross National Well-Being means that one ought to consider non-material means of happiness. Money does not make you happy, it seems. The Sufficiency Economy is one that emphasises a lower reliance on foreign imports and a greater dependence on local self-sufficient means of making a living. Both the Gross National Well-Being and Sufficiency Economy arguments are targeted at reducing the desire for material goods.

Thais want Swedish and Korean handphones, Japanese plasma TVs, and American iPods. Every other family wants a car. The higher one moves in society, the greater the desire for that elusive AMG Mercedes Benz, BMW or Lexus. At the top of the materialist food chain are the usual suspects – the Bentleys, the Bugattis, the Royces, and the Gulfstream G650. Also, democratic elections involve hundreds of millions of Thai baht. The Internet, the print media and the global broadcast media are also responsible for promoting materialist values. The Thai economy like all other economies run on materialist values. The Gross National Well-Being and Sufficiency economy make for good political rhetoric but not economic reality, *quid pro quo*.

The Stock Exchange of Thailand (SET) reported higher revenues for almost 500 companies. Not a bad performance considering that last year, the Thai baht weakened by Bt15 billion (\$644 million) in foreign exchange losses; three governments came into power; several ministers resigned; and Thailand caught the world’s attention with their protest culture in Bangkok and the insurgency in the South.

The SET president also announced that 272 companies paid higher dividends. However, the “rise” in revenue was lower than in the previous five years. This means that revenue is falling on an annual basis by about 10-15 per cent. By 2010, the revenue of Thai companies may fall by an aggregate of at least 45 per cent for those companies that are still surviving.

## Household Debt

In the struggle for economic security, the Abhisit administration must go beyond political rhetoric and temporary injections. Indeed, the writing on the wall is foreboding. The individual debt of Thai households has grown out of proportion. Rising levels of unemployment will also worsen the debt crisis. A University of the Thai Chamber of Commerce (UTCC) poll revealed a household debt of Bt2.6 trillion (S\$111 billion / US\$80 billion). This is an average of Bt143,476 (S\$6161) per Thai household. Pundits claim that if the household debt rises beyond the psychological threshold of 35 per cent of GDP, it will cause irreparable damage to the economy. Abhisit's government is unlikely to solve the household debt problem because the root of all debt is graft. Not surprisingly the Public Sector Anti-Corruption Commission (PSACC) recently decided to investigate the Government Pension Fund (GPF). The politics of consumption in Thailand will get worse before it becomes critical.

Meanwhile, back in rural Khon Kaen, Arthit and his fellow peasants are thinking of gambling away their small windfall in the illegal village lottery.

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