

## REVIEW &amp; OUTLOOK

## Thaksin's Victory

Surrounded by one-party states, Thailand has for years been the democratic exception in Southeast Asia. The only flaw has been endemic political instability, as shaky coalitions produced weak governments that tempted military interventions. Now that time may be past.

**Thailand's democracy could be a model for Asia.**

The Thai Rak Thai Party's crushing victory in Sunday's elections gives its leader Thaksin Shinawatra a second term as prime minister and Thailand the prospect of strong government. The TRT emerged from the elections controlling 399 of 500 parliamentary seats. According to initial estimates, more than 60% of voters cast their ballots for it.

How Mr. Thaksin uses the powers that have now been granted to him will determine which path Thailand takes. He can help Thailand become a stable parliamentary democracy like Britain, where two (mostly) political forces vie for power on the strength of their ideas, or he can allow it to become a country like Cambodia or Singapore, neighbors where a weakened opposition cannot use political debate to shake off the ruling party's perennial grip on power. If he takes the first path, Mr. Thaksin's Thailand may turn into a beacon not just to the sub region, but to Asia as a whole.

Even Mr. Thaksin's most ardent critics concede that, in getting to where he is today, Mr. Thaksin has racked up a lot of firsts. He is the first elected Thai prime minister to complete a four-year term and the first to win a second. He also leads the first party ever to have won an outright majority. He can now form, if he wants to, the first one-party government in Thailand.

Like Silvio Berlusconi in Italy—another successful businessman turned politician in another country that was once plagued by musical chairs in government—Mr. Thaksin has successfully exploited changes in the law that make governments more durable. The new constitution, passed in 1997, makes it harder for politicians to abandon coalitions in midstream and strengthens parties by apportioning one-fifth of Parliament according to a party list.

Mr. Thaksin can also rightly boast of economic accomplishments. In the past three years the Thai economy has grown by 5.2%, 6.8% and 6.2%, respectively. Poverty appears to have fallen, and state banks have been cleaned of bad loans. The 1997 Asian crisis—which left Thailand in a state of economic limbo—has been devalued—is increasingly but a memory. And it was all done without the bubble everyone had predicted. Inflation was 2.9% last year, despite the injection of an estimated extra \$7.8 billion into the economy in the past four years.

Was it all orthodox economics? Not by a long shot. Mr. Thaksin had the government buy up many of the non-performing loans in the

state-owned banks, and critics warn that there are hidden liabilities. There was also a lot of populism—farmers' debts were suspended and the cost of health care was cut to 75 cents for a doctor visit—that could come back and bite the economy later.

But you can't argue with success, as the saying goes. Even the Economist magazine, which has hyperventilated about Mr. Thaksin almost as much as it has about his Italian doppelgänger, apologized in its last issue for predicting failure four years ago.

Nor, finally, is it fair to say that Mr. Thaksin has merely benefited from a sunny global environment, as critics charge. In the past four years Thailand has been hit by bird flu, an Islamic insurgency that metastasized into terrorism and a deadly tsunami. It is in part because of Mr. Thaksin's effective response to these crises that he came through Sunday's referendum on his rule as well as he did.

If anything, it is the ruthlessness he has shown in reacting to some of these challenges, combined with an infamously thin political skin, that gives pause. Mr. Thaksin loathes opposition—whether it comes from terrorists or journalists—and he hasn't always embraced transparency.

The suffocation of 78 Muslim detainees in a police van last year may have further radicalized a southern separatist movement, throwing it even more into the arms of international Islamic terrorists. Attempts to cover up the spread of bird flu in January 2004 were likewise counterproductive.

Even in victory Sunday, when he could have afforded to be magnanimous, Mr. Thaksin chose to be arrogant and sarcastic about both the opposition Democratic Party and the need for checks and balances. "The Democrats are so good: even if they have just two people they can monitor and examine," he spat out in an answer to a question.

But perhaps it was a comment Mr. Thaksin made a year and a half ago that gave the best insight into this thinking. "Democracy is just a tool, not our goal. The goal is to give people a good lifestyle, happiness and national progress," he said.

Many people of good will might agree at first blush that democracy is not an end in itself but a means to attaining the good life. But there is an inherent danger in thinking this way, for it could lead to a search for better or faster ways to achieve the ultimate goal. Democracy is both a means and an end, as without it there is oppression. Now that Mr. Thaksin has used the ballot box with such success, Thailand's democracy will be strengthened if he reaches out to those who still harbor doubt that he treasures it.

## Patriot Actors

Just before Christmas a savage murder took place in John Ashcroft's home state of Missouri. Bobbie Jo Stinnett, an expectant mother, was strangled to death in her home and her unborn child was cut out of her womb with a kitchen knife. Less than a day later, the baby was found alive and well in Kansas. Lisa Montgomery was arrested and charged with Mrs. Stinnett's murder.

We now learn that the infant was recovered thanks at least in part to the Patriot Act. Mr. Ashcroft used his valedictory address as attorney general last Tuesday to explain that the law allowed investigators to follow an e-mail trail to the accused killer. That provision of the controversial but evidently useful act is set to expire at the end of the year.

## Warning to Damascus

Among the notable parts of President Bush's State of the Union speech last week was his blunt warning to Syria, next door enemy of free Iraq. "Syria still allows its territory, and parts of Lebanon, to be used by terrorists who seek to destroy every chance of peace in the region," Mr. Bush said. "We expect the Syrian government to end all support for terror and open the door to freedom."

Let's hope the President finally means it, because this is only the latest U.S. warning to Damascus since the fall of Saddam Hussein in April 2003. Colin Powell visited Bashar Assad soon thereafter—despite Pentagon objections that the Syrian dictator would consider it a sign of U.S. weakness. And sure enough, Syria has been adding to U.S. troubles in Iraq ever since.

In November, U.S. troops in Fallujah found GPS systems "with waypoints originating in western Syria," according to the Washington Post. Captured Iraqi and foreign fedayeen report being trained in small arms and explosives at camps in Syria. The Treasury Department has also implicated Syrian individuals and financial institutions in financing Abu Musab al-Zarqawi's terrorist network and in terrorist-related money-laundering schemes.

More worrisome, General George Casey, the commander of U.S. forces in Iraq, has said he has information that Iraq's Baathists have established the New Regional Command, "operating out of Syria with impunity and providing direction and financing for the insurgency in Iraq." The leader of this command, Izzat Ibrahim al-Douri, formerly Saddam's No. 2, reportedly moves freely between Syria and Iraq to direct the insurgency. The U.S. also knows that in recent months the Baathist Regional Command has invited Sunni tribal leaders to

meetings in Damascus hotels in order to recruit them to the insurgency.

Yet so far the U.S. hasn't mounted a single Predator strike on any of these or other insurgent targets inside Syria. In part, this is because the State Department wants to engage Syria in a peace process with Israel, and in part because the CIA seems to be heavily reliant on information obtained through Syrian intelligence about al Qaeda. As a result, both State and CIA tend to treat Syria's behavior either as a function of its relations with Israel, or as a matter of "not doing enough." But the real problem is that Syria uses its minimal cooperation to disguise its larger efforts to undermine U.S. interests and allies throughout the region.

It is true, for example, that Syria has provided the U.S. with actionable intelligence that helped prevent a terrorist attack on a U.S. military facility. Yet as former CIA Director James Woolsey noted in these pages last year, "too-heavy reliance on intelligence provided by liaison [i.e., foreign] services can sap our will to challenge a foreign government that is trying to buy our quiescence with dollops of intelligence." As for the positive role Syria might play in Arab-Israeli peace negotiations, those interests are far less important than the imperative of preventing Syria from abetting the insurgency in Iraq.

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Bashar Assad

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On the whole, and judged by historical stan-

## Keep China's Currency Peg

By Calla Wiemer

In the fall of 1988, Milton Friedman made a well-publicized visit to China where he was granted an audience with then Communist Party General-Secretary Zhao Ziyang. He kicked off his trip with a pronouncement that China should immediately decontrol its exchange rate and let domestic prices align with those on the world market.

A few months later, Professor Friedman joined members of the University of Hawaii economics faculty, including myself, at a luncheon. Mr. Friedman's views on China's exchange-rate policy seemed wrongheaded to me, but as a young assistant professor squaring off against a Nobel Laureate, I was quaking as I broached the subject. To my great relief, Mr. Friedman reacted by saying Zhao had convinced him that decontrolling the exchange rate wouldn't work. I was glad I didn't have to be the one to try to change Mr. Friedman's mind, and was left with great respect for Zhao's success in doing so.

Sixteen years later China is again being hit with the same bad advice from outside. Much has changed in China during that time. Domestic prices are now aligned with world market prices and China has become a major powerhouse in world trade. The country's peg to the dollar is a key factor in this success.

Yet the view that China's currency is undervalued and its peg should go has passed into global dogma, with the Group of Seven industrialized nations calling on Saturday for "more flexibility in exchange rates." Politically motivated foreign governments and well-meaning economists alike have called on China to revalue the yuan, float it, peg it to a basket of currencies or broaden the trading band. This has triggered massive speculative flows into China, despite the country's ostensibly tightly regulated capital account.

In the face of this pressure, the Chinese government has held firm. China's top banker Zhou Xiaochuan reiterated Saturday that Beijing fully intends to move to a more flexible exchange-rate regime in due course. But the current speculative torrent precludes any immediate move in this direction. Succumbing to pressure now, China would only be left more vulnerable to speculative episodes in the future having sacrificed the credibility of its commitment to a peg.

The speculative bandwagon notwithstanding, is there evidence of undervaluation? An undervalued currency encourages exports at the expense of imports and capital inflows at the expense of outflows. Resulting surpluses on the current and capital accounts of the balance of payments support accumulation of official foreign reserves—in the amount of \$207 billion for China in 2004. But China's trade surplus explains a scant \$32 billion of this. Moreover, imports have been rising faster than exports in the context of overall trade doubling in just two years—hardly suggestive of perverse trade incentives.

Growth on the capital account has been even more spectacular, with the form of flows much in flux. Foreign direct investment has long been a contributor to net surplus, last year to the tune of more than \$50 billion. New since the latter part of 2003 have been multi-billion dollar inflows for investment in Chinese stocks. New going forward may be substantial outward direct investment as Chinese state enterprises seek takeover prospects to secure energy and raw materials and to establish brand names in the global marketplace.

Reserve accumulation has occurred for a number of good reasons. A lesson of the Asian

Global View / By George Melloan

## The State of the World? Not Bad

President George W. Bush gave an upbeat assessment of current conditions in the U.S. last week saying, "the state of our union is confident and strong."

But one doesn't have to be an ardent internationalist to understand that the fortunes of Americans today are tied like never before to the state of the world. The global economy has become increasingly integrated through the free flow of trade, capital and people. Globalization, although much cursed by nativists and protectionists, is a fact of life. It has undeniably furthered that central goal of economic policy, to afford the most good for the most people.

Mr. Bush acknowledged this interdependency with his opening words congratulating the newly elected leaders of Afghanistan, the Palestinian territories, Ukraine and the "free and sovereign Iraq" for sharing with him the privilege of having been placed in office by the "votes of the people we serve." Indeed, democracy has been on a roll, with some 100 million people having voted in free and fair elections in the last four months.

That is one sign, along with vigorous growth in the global economy, that the state of the world is rather good as we enter 2005. Of course, there are the usual hellholes. Such as Darfur and North Korea, but there have been few times in history when the outlook was more promising than right now. Terrorism and the war on terror notwithstanding, the amount of armed conflict around the globe is no greater than usual and there are no big wars under way.

The peoples of the world are part of what a physicist might call a "complex system." The system's many correlations and codependencies are so numerous as to be beyond description except in very general terms. It is not only complex but dynamic, constantly in motion and constantly changing. It is an amalgam of trillions of decisions as nearly 6.4 billion individuals seek to earn their livings, striving for a better life and more power over their human and physical environments.

Almost all, save for a few hidden away in primeval wastelands, are subject to the ministrations of governments of widely varying capabilities and policies. That is reflected in the great disparities in wealth and production. The 30 rich countries that make up the Organization for Economic Cooperation and Development (OECD) account for about 60% of the global economy on a purchasing-power parity basis. The International Monetary Fund estimated last September that the people of this planet would produce an estimated \$40 trillion in goods and services in 2004 (gross production measured in local currencies), racking up a phenomenal annual growth rate of 3%.

Because of the disparities in the quality of governance among the 191 United Nations member states that essentially make up the political map of the globe, it can't be said that everyone is sharing in the global boom. How an individual life transpires depends on whether a person is lucky enough to live in a well-led state or unlucky to be in one that is badly led. So when we ask about the state of the world, we have to ask about how much leadership wisdom is in play.

On the whole, and judged by historical stan-

financial crisis is that when reserves are not on hand to defend a currency, exchange-rate adjustments can vastly overshoot ultimate equilibrium levels. One motive for the Chinese government to accumulate reserves is thus prudential. Another is that China's domestic capital markets are immature and not capable of managing risk, hence foreign capital performs this function while in exchange Chinese savings are held in more secure claims on assets overseas such as U.S. treasuries and corporate bonds.

A third reason for reserve accumulation is that growth in capital flows has been so fast it is simply hard to keep up—especially when the big decisions regarding foreign investment are still made by the state. Between the first half of 2002 and the same period in 2004, short-term loan inflows jumped to \$74 billion from \$13 billion and inflows for foreign purchase of equity securities to \$6.8 billion from \$0.1 billion. But China's regulated capital account has always been more liberal on the inflow side, and steps to liberalize outflows are being taken cautiously.

Under the shelter of a pegged exchange rate, China's financial system is absorbing tremendous growth in international loan activity; its equity markets are experiencing strong entry of foreign funds; and its own position as an investor in global business is being asserted. Financial systems rest on confidence. Confidence in China's is served by continued adherence to what is an appropriately valued currency.

The Chinese government has recognized the need going forward to introduce greater flexibility into its exchange-rate regime. This could reasonably mean a move to a broader trading band in the coming year or so but with a continued commitment by the government to drive the market back to the peg within that band. In concert with this, access to the Chinese foreign exchange trading system needs to be broadened so that competitive forces can determine price. As it now stands, state banks dominate the market with the central bank stepping in to clear it. Moreover, forward instruments for hedging will need to be developed. These steps will require that restrictions on the capital account be further loosened.

Many believe China should switch to a basket peg from the current dollar peg. Such a switch is inadvisable. A single-currency peg sends a clear signal to markets of the government's commitment. Belief by markets in the authorities' intent and ability to maintain the peg will tend to prevent the trading band from becoming binding at its limits and reduce the degree of government intervention needed to preserve the band.

In addition, the dollar serves as the basis for a de-facto common currency peg for much of the Asia region. Regional integration of the supply chain has proceeded rapidly in recent years facilitated by this common peg and the associated mitigation of exchange rate risk. The common peg is particularly vital with respect to Hong Kong given its deep engagement with the south China region.

Sound management of China's exchange-rate regime has served as a pillar for both domestic growth and regional economic stability. The country's balance of payments situation provides no compelling evidence of currency undervaluation. China has shown wisdom and resolve in sticking to its peg in the face of speculative pressure.

Ms. Wiemer, a visiting fellow at the East Asian Institute of the National University of Singapore, has co-edited with Heping Cao, "Asian Economic Cooperation in the New Millennium: China's Economic Presence" (World Scientific Publishing, 2004).

dards, the answer is heartening. In this year 2005, the world's population is enjoying ever-increasing political and economic freedom as measured respectively by the Freedom House and Wall Street Journal/Heritage indices. As has been demonstrated in recent weeks in Ukraine and Iraq, people governed by benighted rulers are not eternally doomed. The emergence into the light of those peoples has cheered hearts everywhere by raising the prospect of new entrants into that part of the global community that is peaceful and productive. Greater freedom opens up new opportunities for creativity and innovation and richer lives.

Pessimists are with us always, of course, but the spreading of apocalyptic visions seems to be entering a down market as history has proved more and more of the Jeremiahs of the past wrong. In the 1960s, there was the fear of a "population explosion" with the consequence that the world would go through a period of Malthusian starvation. Population growth has actually slowed and the two most populous countries, China and India, are feeding their 2.35 billion people with no problem. India has even become a grain exporter.

A current worry is that another resource, energy, is being used up too fast. A new book, "The Bottomless Well," by Peter W. Huber and Mark P. Mills (Basic Books) explodes that myth, citing the changing ways energy is being generated and used, and promising abundant supplies for millennia.

But what about global warming? For a summary treatment of that U.N.-created hoax, turn to novelist M.D. Michael Crichton and his remarkable new bestseller, "State of Fear" (Harper Collins). This is a combination thriller and scientific treatise debunking the glib assertions by people who define themselves as "environmentalists" that the world faces a climate-change catastrophe. The incredible thing is that many nations have signed on to the U.N.'s Kyoto Protocol, pledging to spend a lot of public money to avoid this imagined disaster.

A character in Mr. Crichton's book, perhaps speaking for the author, theorizes that with the passing of that very real danger, U.S.-Soviet mutually assured destruction, the world's political actors—which would include the press and not a few academics, along with politicians—have had to invent new threats to gain public attention and influence change. Mr. Crichton warns against theories about the future behavior of complex systems, of which the climatological forces that swirl about the planet are among the most intricate and unpredictable.

Of course, there are real threats, such as nuclear weapons in the irresponsible hands of Muslim fanatics in Tehran or the murderous ruling clan in Pyongyang. But those are specific and definable, and subject to control if it becomes necessary.

All things considered, that highly complex system comprised of the world's people and the nation-states that govern or misgovern them is spinning along pretty well. In economic terms it is growing even faster than the U.S. itself, partly indeed because its largest component, the U.S., is, as the president says, "confident and strong." Perhaps that attitude is contagious.

## Thaksin Rules Without Checks And Balances

By Kavi Chongkittavorn

After it became clear that his Thai Rak Thai party had won a landslide victory in Sunday's parliamentary elections, Thai Prime Minister Thaksin Shinawatra announced that he was not a prisoner of history and would be a different person in his second term.

Thailand's political history has begun a new chapter, as Mr. Thaksin's decisive victory has freed him to rule without the constraint of needing the support of other parties. With the exception of a brief period in the 1960s, Thailand has been a pluralist society ever since it became a constitutional monarchy in 1932. The concern now is whether it will remain that way in Mr. Thaksin's second term.

He has already transformed Thai politics with his populist and giveaway programs. In the past, political parties were blamed for their lack of direction and detailed blueprints. Mr. Thaksin has more than rectified that deficiency, putting forward large numbers of ideas ranging from more special economic zones, to privatization of state enterprises and making Thailand a member of the Organisation for Economic Cooperation and Development.

His most powerful pledge is to eliminate poverty in Thailand over the next four years. The voters who flocked to the polls on Sunday showed that this had struck a chord with both poor peasants and the urban poor. Mr. Thaksin's rhetoric has been concentrated on these two groups, also putting forward other policies designed to appeal to them including cheap health care, increased funding for villages and a debt moratorium for farmers.

The Thai voters showed pragmatism in choosing a leader who can deliver quickly on his promises. The politics of speed is the modus operandi in Thai politics these days. As a businessman, Mr. Thaksin has made himself famous as a man of decision and action, running Thailand like a company and treating his Cabinet ministers as employees.

Mr. Thaksin has promised he will not abuse the trust of voters or the immense power they have given him. But with the opposition parties faring so poorly in Sunday's polls, Thailand is now without the checks and balances that have traditionally restrained Thai leaders. Instead we will have to trust that Mr. Thaksin means what he says. In one encouraging sign, he pledged on Sunday night to start bringing civil-society organizations into the decision-making process. That would represent a major change from his first term, when nongovernmental organizations were labeled as foreign puppets supported by funds from overseas.

Freedom of expression was curtailed during his first term, with stock acquisitions and preferential allocation of advertising and access to information used as weapons against critical media outlets. Mr. Thaksin has traditionally been intolerant of dissenting views, whether they come from the media, academics, bureaucrats or even his own party members. Unlike previous Thai leaders, he has never made any tangible commitment to protect freedom of expression, civil liberties or human rights. That places a heavy burden on Mr. Thaksin to show that, with all the power now at his disposal, he is not a dictatorial parliamentarian.

The Thai premier also needs to think carefully about his foreign policy. Already he has managed to alienate both Malaysia and Indonesia by accusing them of being bases for the training and fermenting of Muslim separatists responsible for a string of attacks in Thailand's southern provinces. The problem is that Mr. Thaksin thinks the war in the south is winnable by Thai forces and financial assistance alone, and doesn't seem to appreciate that it has become another battlefield in the global war being waged by Islamic extremists. Better manners and more diplomatic behavior will be needed if he wants to win wider international support in tackling this threat.

On Burma too, Mr. Thaksin's approach has fostered divisions. He has backed the military junta in Rangoon and paid little attention to the opposition led by Aung San Suu Kyi. That has tainted his leadership role in the region, and undermined the efforts of new leaders in Indonesia and Malaysia to persuade the Association of Southeast Asian Nations to take a tougher line toward the military junta.

It is worrying that the Thai leader seems to pay so little heed to history. If Mr. Thaksin studied it more closely, he would realize that popular mandates rarely last for long unless you can show the people you are worthy of the trust they have placed in you.

Mr. Kavi is the assistant group editor of the Nation newspaper in Bangkok.

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