RISKS TO WATCH THAILAND

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Thailand is bitterly polarised and although peace prevails for now, a long-running political crisis that has hurt tourism and business confidence is far from over. Despite the political unease, the economy is in good shape and the state planning agency has raised its growth forecast this year to 7.9 percent from 7.0-7.5 percent projected in August, and tipped growth of between 3.5 percent and 4.5 percent in 2011.r.

POLITICAL INSTABILITY

political conflict, broadly pitting "red" urban and rural poor against "yellow" royalists, urban elites, bureaucrats and the military top brass, shows no sign of resolution. On the contrary, the country's divisions are becoming ever wider and more damaging. Thailand has had six heads of government and faced several disruptive showdowns since a bloodless military coup ousted telecoms billionaire Thaksin Shinawatra as prime minister in 2006. In 2008, royalist "yellow shirt" protesters occupied Government House for several months, forcing the incumbent pro-Thaksin government to try to run the country from makeshift offices. The judiciary, seen as pro-yellow, forced Prime Minister Samak Sundaravej to resign over nominal payments he received for appearing on a cookery show on television. In November 2008 yellow shirt protesters seized and blockaded both of Bangkok's airports, doing severe damage to tourism and the economy. In December, the judiciary intervened again, dissolving the governing party over vote buying charges. Following some political horsetrading overseen by the military, the current government of Prime Minister Abhisit Vejjajiva came to power.

Thailand is a nation deeply divided. A colour-coded

Now it was the turn of the red shirts to protest. They stormed the venue of an Asian summit in the resort city of Pattaya in April 2009, causing regional leaders to flee and leading to the cancellation of the meeting in another embarrassment for Thailand. Violent clashes then erupted on the streets of Bangkok. The latest bout of upheaval began with mass red shirt rallies in Bangkok in March. The protesters then occupied a huge swathe of downtown Bangkok for six weeks until driven out by the military on May 19. The death toll from Thailand's worst political violence in decades is 90 with nearly 2,000 wounded.

The government says it wants to promote national reconciliation but has taken an extremely hard line with the red shirt protesters. Their leaders are mostly in jail on charges of terrorism, the Thai media is being strictly censored with pro-red community radio stations shut down, and a state of emergency remains in force in several provinces, giving the government wide power to stifle dissent and forbidding gatherings of more than five people. By contrast, pro-yellow media are not being censored and the movement's leaders who led the 2008 airport blockade remain at liberty, and even, in the case of Foreign Minister Kasit Piromya, in charge of a crucial government portfolio. This has fueled anger among opponents of the government and fuelled accusations of double standards, a charge the government denies.



In 2002, the World Bank's World Governance Indicators rated Thai political stability at 59.1 out of 100. It dived to 14.6 in the latest ratings this year. Once seen as one of the region's most attractive destinations for portfolio and foreign direct investment, Thailand's reputation has been damaged, although the stock market, which slumped when violence erupted on the streets of the capital, is surging, buoyed by hot money inflows.

What to watch:

- The government's hardline stance risks provoking a violent eruption of anger from the millions of Thais who support the reds in Thailand's north and northeast, as well as in Bangkok. Failure to punish those believed responsible for the deaths of protesters could lead to a backlash. The medium-term risks are high.
- "Red shirt" gatherings. There have been several of more than 10,000 people, showing the movement could be regrouping. A deadly and apparently accidental blast on Bangkok's outskirts in October pointed to the work of "red" radicals and analysts say that without any clear leadership, a re-emergence of the red shirts or splinter factions could have destablising consequences.
- Elections are unlikely to solve Thailand's troubles and may indeed intensify them. Puea Thai, a proxy party for Thaksin, is well-placed to win the polls, as his allies have every election in the past decade. This would be unacceptable to the "yellows" and many in the military, making a fresh bout of protests, or even a pre-emptive coup, possible.

A Thai soldier adjusts his helmet at a barricade that was previously occupied by anti-government "red shirt" protesters in central Bangkok. REUTERS/Damir Sagolj

RISK DATA

Sovereign foreign currency: BBB+ (negative) Moody's Baa1 (negative) BBB (stable) Fitch World Governance Indicators: Voice & Accountability 346 14.6 Political Stability 59.5 Govt Effectiveness Regulatory Quality 61.9 50.9 Control of Corruption **IHS Global Insight** 2.97 Country risk BBB+ (stable) Sovereign Eurasia Group GPRI score Economist Intelligence Unit Sovereign risk BB Political risk CCC

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Country risk

Court cases. Prosecutors are pushing ahead with terrorism cases against scores of red shirts currently in detention, while probes into the siege of Bangkok's airports by yellow shirts in 2008 are moving at a snail's pace. Thailand's Constitutional Court has also ruled in favour of the main coalition Democrat Party, in a case that could have resulted in its dissolution. The charges were thrown out on a technicality, a decision which was greeted with relief by investors but which stoked anger among the red movement over one of their key grievances: double standards in justice.

THE ROLE OF THE MILITARY

Thailand's military and police are deeply entwined with politics - there have been 18 actual or attempted military coups in 77 years of on-off democracy. The military's last spell in direct charge of Thailand, after the 2006 coup, is widely regarded as an economic policy disaster.

What to watch:

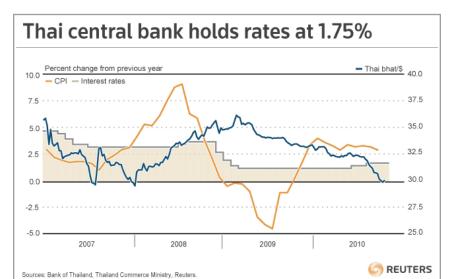
- Divisions in the military. The top brass back the government, having played a big role in putting together the coalition. But cracks are appearing along similar yellow-red fault lines as society. Many analysts believe that a struggle between factions in the military is being played out in parallel with the political crisis, and that this explains the presence among the red shirts of shadowy armed "men in black" with military training who fought Thai soldiers during the violence in April and May, as well as a spate of bomb attacks this year.
- Royalist, pro-establishment General Prayuth Chan-ocha has been confirmed as Thailand's new army chief. He is believed to have a strong dislike for the red shirts and is expected to fill top positions with close allies drawn from a circle of generals known as the "Eastern Tigers". This has the potential of sowing discontent in the military by effectively blocking the career path of professional soldiers not in the same clique.
- Corruption scandals. The military has faced embarrassing questions over why it was duped into spending large sums of money on hoax eplosives detectors; bought an airship for the violence-plagued south which is also useless; paid far more than other countries for some Swedish Gripen jets; and wants to order more armoured personnel carriers from a Ukrainian supplier which has still not honoured a previous Thai order due to an inability to find engines for the vehicles. If public anger rises about the military's behaviour, this may alter the balance of political power.

THE KING'S HEALTH

82-year-old King Bhumibol Adulyadej has been in hospital since last September. The most recent pictures appear to show him in better health, but his illness has focused attention on what will happen when his reign comes to an end. A key issue in Thailand's political conflict is what role the monarchy and unelected elites should have in running the country. King Bhumibol is respected in Thailand and his political influence is accepted by most Thais. But his son and presumed heir, Crown Prince Maha Vajiralongkorn, does not yet command the same popular support as his father. Many Thais and political analysts fear if the crown passes to Vajiralongkorn while political divisions remain, opposing factions will intensify their struggle, with destabilising consequences.

What to watch:

 Statements from the palace on the king's health. A troubled succession could have a major negative impact on stocks and the baht and raise the risk of a sovereign downgrade.



 Extent to which privy council members remain a focus of opposition. Protests against the royal family are illegal, but the red shirts have targeted senior royal advisers. If privy councillors continue to be opposed, succession may be less smooth and orderly than many hope.

LEGAL AND REGULATORY UNPREDICTABILITY

Thailand's government has been embarrassed by two court orders that have badly affected its industrial and telecommunications sectors, denting its credibility among foreign investors. Both cases centre on its failure to appoint independent regulatory bodies as required by the constitution. A Thai court stunned the industrial sector in September 2009 when it halted 76 projects at the Map Ta Phut industrial estate for a breach of the law in failing to undertake health and environmental assessments supposed to be overseen by an independent body the government had yet to set up. A court gave the go ahead for most to resume back in September but the process is still incomplete. In a similar case, an auction for third-generation mobile phone services to transform the \$4.7 billion sector was abruptly cancelled in September because a court ruled that the telecoms regulator did not have the authority to offer licenses. The government has vowed to press ahead in forming a new regulatory body, but that could take several years and it has instead asked two state-run companies to help private operators develop third-generation mobile services on existing networks, which critics say favours the state.

What to watch:

- Commitment towards establishing regulatory bodies.
 Thailand's government has twice paid the price for its failure to create bodies required by the constitution. More footdragging could give an indication of whether these issues are a priority or not.
- Political upheaval and coalition stability. Thailand's political problems have been the biggest distraction for the government. While turmoil and coalition disunity prevail, it will be difficult to draft and push through necessary bills, meaning more delays and uncertainty.

RISK DATA

II T Crown	
JLT Group	
Strikes, riots & civil unrest	5
Terrorism	6
War & civil war	4
Economic risk	5
Currency risk	5
Sovereign risk	5
Expropriation	5 5 7
Contract repudiation risk	7
Legal & regulatory risk	6
Coface	
Country rating	А3
Business climate	АЗ
Transparency International	
Corruption Perceptions Index	
Score	3.4
Rank (of 180)	84
World Bank Doing Business	
Rank (of 183)	12
WEF Global Competitiveness	
Score	4.51
Rank (of 133)	38
Reporters Sans Frontières	
World Press Freedom Index	

KEY DATES

policy meeting

Rank (of 175)

Score

December 1, 2010Bank of Thailand monetary

56.83

153

December 9, 2010

November consumer confidence data

End-2011

Deadline for next elections to be held

