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Asia
Other**Equity Research**

Industry Overview

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LBIE, London**Thailand: Back To The Future?****Sector View:**

New: 0-Not Rated

Old: 0-Not Rated

Investment Conclusion

□ We believe continuing political uncertainty could impact negatively on investor sentiment.

Summary

□ Democratic rule is set to be restored around the turn of the year in our view, but in a manner which looks prone to management by the military and with the former TRT looking for its opportunity to return to power.

MANAGING DEMOCRACY

The general election due to be held on 23 December should see a return to democratic rule in Thailand following the 19 September 2006 army coup, which ousted the democratically elected *Thai Rak Thai* (TRT) government under the premiership of Thaksin Shinawatra.

The generals who engineered the coup under the auspices of the Council for National Security (CNS) seem determined to minimise any risk of the former prime minister returning to power. Mr Thaksin, who faces arrest on corruption charges if he returns to Thailand, remains in exile in the UK. In May a tribunal set up by the ruling *junta* ordered TRT's dissolution and barred both Mr Thaksin and 110 other TRT officials from politics for five years. Martial law remains in place in much of the north-east of the country, inhibiting campaigning where Mr Thaksin and his allies have traditionally enjoyed their strongest support.¹

TRT – Still In Play...

Nevertheless, both TRT and Mr Thaksin himself remain significant players in the upcoming election. The former has effectively re-emerged as the People's Power Party (PPP) under the in-country leadership of right-winger and royalist Samak Sundaravej, espousing policies which are consistent with those of TRT.² And, in a move which seems unlikely to be coincidental in its timing, English Premier League soccer team Manchester City, which Mr Thaksin owns, recently announced plans to launch soccer academies in Thailand.

Recent opinion polls suggest that although PPP (39%) is unlikely to win anything close to the 375 seats TRT secured in the lower house in the 2005 election it could win around 180 of the 480 (reduced from 500 in 2005). Even with the Democrat Party (DP) (32%), which was the second largest party after the 2005 election and which has promised to

¹ Thailand's new constitution has changed the PR system from being one nationwide voting "block" to one based on eight groups of provinces, each of which elects 10 representatives. This change has the effect of reducing the voting power of the more populous north and north-east, ie Mr Thaksin's strongholds. Furthermore, the introduction of multi-seat constituencies is thought to be likely to favour smaller parties throughout the country.

² Mr Samak, a septuagenarian, is a former minister who also served as mayor of Bangkok following a landslide election victory in 2000 (from which he saw his popularity slide significantly through to the end of his term of office in 2004). His association with Mr Thaksin dates back to 2006 and effectively places him in the same camp as a number of former leftists whom he had bitterly opposed in the mid-1970s in particular. He is also noted for hosting a cooking show on TV. There is a possibility of corruption charges being brought against him dating back to his time as mayor of Bangkok – which Mr Samak himself claims are unfounded and politically motivated.

The alliance with Mr Samak effectively aligns Mr Thaksin's supporters with a staunch royalist, thereby helping to counter accusations by the former premier's opponents that he was "disrespectful" of the King. Furthermore, Mr Samak is widely seen as a rival of General Prem Tinsulanonda, the King's chief adviser and – claim Mr Thaksin's supporters – one of the principals behind last year's coup.

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continue some popular TRT policies such as cheap healthcare if elected, likely to improve on its previous 96 seats, PPP therefore looks likely to emerge as the largest single party.

Furthermore, concerns are not restricted to PPP supporters that the panel responsible for electoral oversight may be somewhat selective *ex-post* in its interpretation of the rules governing campaigning and the actual ballot, and in any consequent disqualifications of candidates.³ Those concerns have been compounded by the recent appointment of General Sonthi Boonyaratkalin to head the panel after he stepped down from his previous post as chairman of the CNS on 1 October, the day of his mandatory retirement as the army's commander-in-chief.⁴ Even if the run-up to the election goes smoothly – which is by no means a certainty – the possibility of sizeable post-election protests in Bangkok, and possibly more widely, cannot be ruled out.

...But Not In Government?

In any event, the broad expectation is that post-election the DP – which enjoys strong support in the south of the country and among Bangkok's middle class – will look to build a majority coalition with a number of other smaller parties and/or recruit additional support from individuals who may be willing to switch parties (not unknown in Thai politics).⁵

However, even though the Democrats can legitimately lay claim to having led governments which restored order after the previous coup (in 1991/92) and after the 1997 financial crisis, coalition governments in Thailand have generally proved inherently fissiparous. It therefore remains to be seen whether a new Democrat-led government would hold together – especially if, as seems likely, it comes under considerable pressure from the PPP on the opposition benches – and, if so, for how long.

Quis Custodiet Ipsos Custodes?⁶

How much power the new government – and the new parliament – will have in practice remains to be seen. The general consensus among analysts is that Thailand's new constitution will increase the influence, both direct and indirect, of the country's bureaucracy, military and judiciary.⁷ A two-term limit on the prime minister has been introduced; and the threshold for bringing a no confidence motion in her/him reduced (from two-fifths of MPs to one-fifth) – with a similar shift for cabinet ministers.⁸

³ *The interim government rejected an offer by the EU to send election observers to monitor the vote, although this is not expected to affect overall EU/Thai relations adversely. Similarly, provided the election goes ahead on schedule and in a reasonably orderly manner, we expect US/Thai relations to remain on an even keel, notably Thailand's status as a "major non-Nato ally".*

⁴ *Following his retirement from the military, General Sonthi was also appointed deputy prime minister responsible for internal security in the interim government. And there is speculation that he will look to retain a leading political role after the election, although there seems likely to be significant popular opposition should he attempt to assume the mantle of prime minister.*

⁵ *In general the smaller parties rely more on personalities to win votes, rather than genuine policy differences with the DP and/or the PPP.*

⁶ *The Latin phrase which translates broadly as "who will watch the watchers themselves?" is attributed to the Roman poet Juvenal who lived around the start of the second century AD. But it has its roots in the deliberations of the Greek philosophers Plato and Socrates over the best way to protect the citizens in any society from any wrongdoings of those who govern them.*

⁷ *Although the August 2007 referendum secured a majority vote for the new constitution, it should be kept firmly in mind that turn-out was just below 58% and the vote in favour just 57%: in other words, only around one-third of the electorate endorsed the changes. By comparison, the April 2006 general election saw a 65% turn-out despite a boycott by the three largest opposition parties.*

⁸ *Changes to the senate are even more far-reaching. The previously elected 200 seats have been reduced to 150 of which 74 are to be appointed by a selection committee which includes a number of senior judges despite the fact that judicial appointments will in future be determined by the senate.*

Overall, therefore, the new constitution is widely seen as a step backwards constitutionally to the pre-1997 period (which was characterised by weak government, in our view). Consequently, we expect to see continued political uncertainty in Thailand after the election coupled with the possibility of further elections if not in 2008 then almost certainly before the incoming government completes its four-year term.

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