

Thailand elections: Clarity, but risks remain

July, 2011 – Mark Capstick, Fund Manager

Against the odds, former Prime Minister, Thaksin Shinawatra's party regained power over the Democrat Party at the July 3rd Thai general elections. The Pheu Thai Party (PTP) won by simple majority, taking 265 out of 500 seats. The PTP is likely to be led by Thaksin's sister, Yingluck Shinawatra, with Mr Thaksin still living in exile from Thailand.

Ex-PM Thaksin Shinawatra and his sister, PM-elect Yingluck Shinawatra



Source: www.thaizer.com

Before the election, the main risk was not which party was going to win, but that either party would only win by a narrow margin. This may have led to a contested result that could have easily turned nasty, like the violent protests we saw in Bangkok last year and resulting military intervention (see our "Ugly Scenes in Bangkok" article, April 2010).

Seeing Red: Pro-Thaksin protesters in April 2010.



Source: www.bbc.co.uk

PTP's solid result was bolstered further with four smaller parties coming to form a coalition, thus extending the number of government seats to around 300. This reduces a great deal of political uncertainty and introduces a number of positives for the country over the very near term. On the Monday after the result, Thai equities and government bonds rallied firmly and the currency appreciated, showing markets approval of the news. Thailand has been a regional underperformer in these asset classes year to date.

The majority win is good news. The PTP will need fewer concessions to form their lead in a coalition, unlike it was for the Democrats. Also, all senior ministerial posts can now be held by PTP members and legislation can be passed with greater ease. This result is no doubt very positive, but there are very real risks that investors should be aware of. We have seen what happens when things go wrong in Thailand. We need to see its political parties, the military elites and the palace to work towards greater harmony. That is no small task, but at least on the face of it they are trying. Since the result, the leader of the Democratic Party, soon to be ex-PM Abisihit, has wisely conceded defeat and the military has said they will keep out of the mix no matter who won. Importantly, Thaksin said (from his haven in Dubai) that although he would like to return to Thailand, the situation has to be right and that he can be patient. As conciliatory as these comments are, from all parties, it wouldn't take much to enrage the military elites enough to intervene either through the courts or more explicitly. If Taksin's sister starts posturing for an amnesty for Taksin to return to Thailand or, perhaps more subtly, an amnesty for Thaksin's banned executives, it would almost certainly lead to raised tensions. As a result, analysts will need to keep a close watch for comments from senior party members.

Economic performance

From an economic stand point, Thailand has enjoyed positive economic growth, despite the political impasse over the last few years, albeit at a subdued rate compared to its regional peers. Indeed, recent gains have been made from the agricultural sector and will come to enjoy a further boost in manufacturing exports now that the supply chain is being restored by Japan, after the earthquake. Thailand's annual rate of inflation has risen recently, but has been well controlled. In the coming months the Bank of Thailand will no doubt raise rates to support the bhat, but also want to maintain a lower rate that is supportive of economic growth. Rates will therefore likely rise at a less than precipitous pace. In the coming weeks however, we will need to keep a close eye on who is given certain economic posts, such as Finance Minister. This will be a key determinant for the future and path of economic policy.

Conclusion

There is no denying that there are indeed new opportunities for a new, strong government in Thailand. The PTP has a long road to walk in reconciling the two main groups within the electorate. The PTP could certainly continue to increase their number of middle class friends with favourable tax benefits - changes to the rate of corporation tax springs to mind. Speaking to their core voter base, the rural working class, the PTP could raise the minimum wage in real terms, which has recently fallen when accounting for inflation. Policies such as these could go some way to help both sides to finding a more amiable middle road.

Medium-term, we also have to be aware that the PM elect has a pending court case, where she faces allegations that she committed perjury when her bother was on trial. An unfavourable outcome for her could mean disqualification. This could also lead to further tensions.

Lastly, although the time may not be right for Thaksin to return to Thailand tomorrow, is it really likely that he will want to stay away from his home and the \$2bn that was previously confiscated from him. This is a huge challenge for Thailand.