

Ugly scenes in Bangkok

April 2010 - Author: Christopher James, Director & Fund Manager

Violence broke out in Bangkok over the weekend. The "red shirts", a combination of parties supportive of Thaksin Shinawatra, the former Prime Minister, and those in favour of a democratic sharing of power beyond the traditional business elite, have been camped in the centre of Bangkok for nearly a month. They have been demanding that the Prime Minister step down and call elections to legitimise the government. The Prime Minister is refusing to do so, arguing that the political atmosphere is sufficiently charged to make the election unworkable. He argues the electoral timetable should not be rushed. It would also serve the government's purpose to have a bit more time to drum up support with its spending plans.

The government had initially taken a conciliatory approach towards the protestors. This seemed to meet with success, but it decided on Saturday that it had to take action to clear the streets, restore law and order and limit any economic damage that the protests might inflict.

In the event, its attempt to do so set off street violence which left 21 people (including four soldiers) dead and more than 800 injured. This is as severe a toll as has been witnessed in Bangkok for some 20 years.

There *is* a fundamental democratic shortfall in Thailand and, by way of demonstration, this government was installed, at the time of Mr Shinawatra's exile, through a military-backed parliamentary fix rather than through the ballot box.

On the other hand, it is not clear that an election would solve Thailand's immediate problems; if the "red shirts" and their supporters were to win an election, who is to say that the military and civilian elites who toppled the previous Prime Minister would accept the result?

Behind this whole dispute is the issue of the looming royal succession. Although the present government has the tacit support of the present King and his advisers, the respect in which the King is held has kept him above the fray and has enabled him to prevent the underlying political conflict between the democrats and the elite from boiling over. However, it is clear that, with the King aged 82 and fragile, the societal glue he has been able to supply has a finite life. There are doubts as to whether his son will be able to repeat the performance in quite the same way. Herein lies a cause of the current power struggle.

Where do we go from here?

The weekend will have boosted the confidence of the protestors. The government tried to clear the streets but backed away in the face of casualties. The Prime Minister, who has been weakened by these events, is blaming the deaths on "terrorists" who "infiltrated" the protestors' ranks. This is clearly an attempt to shift the blame away from the protestors themselves and leave a way open to negotiation.

However, neither side seems willing to back down to the other's demands for now and, whilst the government's coalition partners are suggesting fresh elections in six months, it is not clear this would prove acceptable to the protestors in their current mood. They are insisting on 15 days.

In an extra twist to this saga, the Thai Electoral Commission yesterday recommended the dissolution of the ruling party for allegedly receiving illegal campaign contributions. Such a manoeuvre has a precedent in Thailand; Prime Minister Abhisit's predecessor, Somchai Wongsawat, was ejected by the Constitutional Court for electoral irregularities in 2008.



The Electoral Commission has passed its recommendations to the Attorney General, who has to decide whether or not to refer them to the Constitutional Court. No doubt, in the circumstances, the procedure could be speeded up, as it offers one possible route out of today's impasse.

Another alternative is that, in the light of this weekend's events, an attempt will be made by people behind the scenes to put together a government of national unity.

Strategy positioning

Thai equities fell by 4.5% in dollars on Monday, underperforming Asia ex Japan by 4%. However, Thailand was the best performing emerging equity market in Q1 and yesterday's decline is not enough to tempt us to increase exposure.

In our global emerging markets strategy, we used Q1's strength to reduce exposure and so entered this crisis broadly neutrally weighted to the benchmark.

In our Asia ex Japan strategy, we are 3% overweight, though one of our companies has most of its exposure outside Thailand, making our economic exposure closer to neutral.

Given our existing positions, we see no reason to panic out. We have identified stocks that we would like to buy, should the market weaken and prices drop to our target levels.

The Thai market is closed on Tuesday 13th to Thursday 15th April inclusive.