

2010-11
June 30, 2010

Thailand (Kingdom of)

Foreign LT: A-/Negative, Local LT: A/Negative

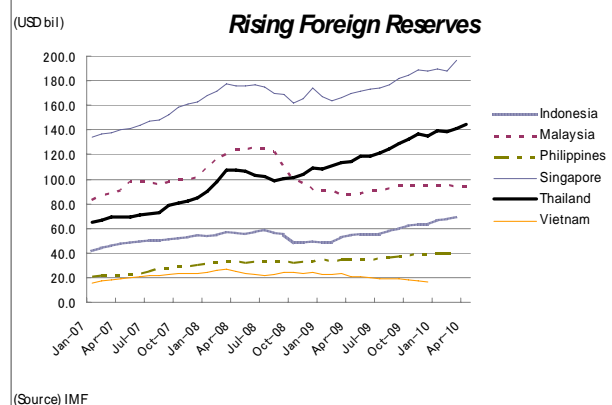
<Rating Perspective>

Positive Factors

- Solid export competitiveness in manufacturing and tourism industries
- Resilient external position

Negative Factors

- Prolonged political turmoil
- Downward pressure from political instability on economy and public finance



<Update: from March to May 2010>

Positive Factors

- **Sustained economic growth.** Real GDP grew 3.8% in 2010Q1 (q/q, sa), posting positive growth for four consecutive quarters since 2009Q2. On a year-on-year basis, it reached 12.0%, the first two-digit growth since 1995Q2.
- **BOP and foreign reserves.** Both the current and capital accounts registered surplus in 2010Q1. Foreign exchange reserves (excluding gold) increased further to US\$144.4 billion at the end of April 2010 from US\$135.5 billion at the end of December 2009.

Negative Factors

- **Political unrest.** Anti-government demonstrations by the pro-Thaksin UDD, which began in Bangkok on March 12, escalated to (i) unlawful occupation of the Ratchaprasong intersection, the capital's commercial center, after April 3; (ii) storm into the Parliament building on April 7; and (iii) sporadic grenade explosions in April and May. After their direct negotiations with Prime Minister Abhisit on March 28-29 and his reconciliation proposals on May 3 failed to produce a compromise, the government took actions to disperse the red-shirted protestors from their Ratchaprasong encampment on May 19. The city center turned into a battlefield as UDD resisted with arms. The clashes left 87 people dead and more than 1,400 injured.

<Outlook and Points to Watch>

Violence erupts again in Bangkok

(1) Protracted political turmoil escalates to violence again

Thailand has been suffering from political unrest since 2006. This has resulted from complicated and intertwining issues such as: (1) the power struggle between the emerging forces centering on former Prime Minister Thaksin, who attempted to modernize and innovate the country while benefiting from the resultant fruits as much as possible, and the establishment encompassing the privy council, military, bureaucrats, court and state enterprises, (2) economic disparity among regions or between the urban and the rural that has been little improved even through the economic development, and (3) dilemma of money and politics, and democracy and populism. Under a free and democratic system, these issues are to be coordinated and settled through elections and parliamentary procedures. In Thailand, however, such mechanism has not been functioning well due to the recurrent "negligence of the rule of laws" and "discretionary application of the laws", as exemplified by the facts that: (i) election results have been repeatedly overturned by the military and the court through coup and disenfranchisement; and (ii) illegal acts by some groups to take civic life hostage (such as unlawful occupation of international airports) have at times not been promptly and strictly punished.

From March through May 2010, such malfunctioning of politics surfaced once again in the form of tumult. The *National United Front of Democracy Against Dictatorship* (UDD), a group supported by former Prime Minister Thaksin, staged massive anti-government rallies and demonstrations in Bangkok in mid-March, demanding an outright dissolution of Parliament for general elections. Although they were initially held peacefully, UDD in April occupied the Ratchaprasong intersection, the capital's commercial center. It continued the unlawful occupation by building barricades around the site, taking civic life hostage. In May, the government made reconciliation proposals including "a general election in November 2010" in an attempt to break the impasse through negotiations. At one point, UDD appeared ready to accept the offer but finally refused to end the demonstration, which led to the military's forceful dispersion. The consequent battle between the armed UDD and the authorities, coupled with riots, arsons and lootings, turned the city center into a battlefield. The number of casualties between March and May reached 87 deaths and more than 1,400 injuries.

The Abhisit administration will now need to address pressing issues such as a constitutional amendment and measures to alleviate the economic disparity and inequality, and call a general election some time before December 2011 when the term of the Lower House expires. In order to fundamentally cope with its predicament, however, Thailand will have to thoroughly enforce the rule of laws, establish a rule-based mechanism to form political consensus and resolve conflicts, build a national consensus on the form of national polity and policy directions and achieve a more-balanced economic development with greater emphasis on equality and fairness, all of which may not be easily accomplished. Some sort of bold decentralization, which has been pursued in Indonesia, could potentially alleviate the problem but has yet been put on the agenda. The country's political situation remains deadlocked with uncertain future prospects.

February	
26th	Supreme court ruled in favor of seizing Thaksin's assets.
March	
11th	Government invoked the Internal Security Act.
12th	UDD began anti-government rallies around Phanfa bridge.
14th	UDD staged a mass rally, attended by approximately 100,000 people.
20th	UDD organized a protest march in the city center, in which around 65,000 people participated.
27th	UDD staged a mass rally, attended by approximately 110,000 people.
28 - 29th	Prime Minister Abhisit and UDD held a dialogue in vain.
April	
3rd	UDD occupied the Ratchaprasong intersection, the commercial center in Bangkok.
7th	UDD stormed into Parliament. Government declared a State of Emergency.
10th	Government attempts to disperse the demonstrators failed, leaving 25 people dead and more than 860 injured.
12th	Government offered to dissolve Parliament and call a general election within six months.
22nd	Grenade blasts killed 3 people and injured 75 others in Bangkok's financial district.
May	
3rd	Prime Minister Abhisit proposed to UDD a "reconciliation roadmap" including the holding of a general election on November 14.
10th	UDD, while accepting the PM's offer, laid down conditions for ending protests.
13th	Prime Minister Abhisit withdrew his proposal. Army blocked the Ratchaprasong intersection, triggering clashes with UDD protesters.
	One leader of UDD's radical group was shot in the head.
16th	Government froze the bank accounts of Thaksin and his supporters.
19th	Army forcefully cleared UDD protesters at the Ratchaprasong intersection. UDD leaders surrendered, but riots, arsons and lootings followed in succession. Government imposed a curfew.
21st	Prime Minister Abhisit declared the end of the disturbance.
29th	The curfew was lifted.

(Sources) Various news reports

(2) Economic recovery dampened by political unrest.

The Thai economy recovered strongly in the first quarter of 2010, with real GDP growing 3.8% quarter-on-quarter (seasonally adjusted) and 12.0% year-on-year. On the demand side, consumption, investment and exports all grew robustly. On the supply side, production expanded almost across the board, led by major manufacturing industries.

However, the anti-government demonstrations since mid-March and the resultant tumult in mid-May dragged down the recovery momentum through setbacks in tourism and consumer sentiment. The number of foreign visitors, which chalked up a 42% year-on-year gain in February 2010, slowed down to 18% in March and 2.3% in April, bringing it back to the levels in April 2009 when the tourism industry was depressed by the rioting. Furthermore, the much-awaited rectification of the flaws in the environment legislation revealed in the Map Ta Phut injunction (see the previous report “2009-38” for details) seems to have been delayed by the renewed political unrest. In foreseeing the economic prospects for 2010, much attention needs to be paid to the impact of the political turmoil, in addition to the uncertain global economic outlook and slow progress on correction of the flaws in the environment legislation.

Thailand: Real GDP growth							
	2008		2009			2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(growth, yoy)						
Real GDP growth	2.9	-4.2	-7.1	-4.9	-2.7	5.9	12.0
Consumption	2.8	3.6	-1.3	-0.8	-0.2	2.0	4.5
Private	2.7	2.1	-2.5	-2.2	-1.3	1.4	4.0
Government	3.3	13.5	5.9	7.8	4.8	5.2	6.9
Investment	1.9	-5.0	-15.9	-10.2	-6.3	-3.4	12.6
Change in stocks	-330.2	285.9	-562.2	166.8	-376.7	-51.1	-137.1
Export	9.8	-9.3	-16.7	-21.7	-14.8	4.1	16.2
Import	14.7	1.7	-30.5	-25.6	-23.4	-7.5	31.4
Statistical Discrepancy	-3.6	-4.0	-16.2	5.5	-8.1	5.8	20.2
	(growth, qoq)						
Real GDP growth	-0.7	-4.9	-1.6	2.4	1.4	4.0	3.8
Agriculture	-3.4	-0.4	2.9	-0.5	-3.3	-0.7	4.5
Manufacturing	-0.3	-8.4	-5.4	5.7	2.6	7.1	5.7
Construction	-3.0	-2.7	1.0	6.2	-2.3	0.4	1.0
Hotel & Restaurant	-2.3	-5.4	1.9	0.1	1.6	9.5	3.4

(Source) NESDB

Main Economic Indicators (Thailand)

		2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010f
Real GDP Growth	(%)	2.2	5.3	7.1	6.3	4.6	5.1	4.9	2.5	-2.2	4.0
Unemployment rate	(%)	3.3	2.4	2.2	2.1	1.9	1.6	1.4	1.4	1.5	1.4
CPI inflation (period average)	(%)	1.6	0.7	1.8	2.8	4.5	4.7	2.2	5.5	-0.8	2.5
Lending rate	(%)	7.3	6.9	5.9	5.5	5.8	7.4	7.1	7.0	6.0	6.1
Central govt. fiscal balance/GDP	(%)	-2.6	-2.9	-0.2	-0.2	0.3	-0.7	-1.6	-1.0	-5.7	-4.0
Interest payment/Revenue	(%)	10.1	9.6	8.6	8.4	7.0	9.4	7.1	7.0	8.0	7.9
Gross Public Debt/GDP	(%)	57.5	55.1	50.7	49.5	47.3	42.0	38.3	37.3	45.2	47.7
Export of Goods & Services	(US\$ bn)	76.1	81.5	93.9	114.0	129.5	152.8	181.6	208.6	181.1	205.7
Import of Goods & Services	(US\$ bn)	69.1	73.7	85.1	107.2	133.0	147.1	162.9	203.7	156.2	190.4
Current Account Balance/GDP	(%)	4.4	3.7	3.4	1.7	-4.3	1.1	6.3	0.6	7.7	3.3
International Reserves (excl. gold)	(US\$ bn)	32.4	38.1	41.1	48.7	50.7	65.3	85.2	108.7	135.5	152.1
Import Cover	(month)	5.6	6.2	5.8	5.4	4.6	5.3	6.3	6.4	10.4	9.6
Gross External Debt/GDP	(%)	58.4	46.9	36.4	31.9	29.6	29.4	25.0	23.9	26.5	25.8
Net External Debt/GDP	(%)	30.4	16.9	7.6	1.7	0.8	-2.1	-9.4	-15.9	-24.8	-24.7
Intl. Reserves/S-T External Debt	(x)	2.4	3.2	3.8	4.0	3.1	3.4	3.9	4.5	4.9	5.1
Net External Debt/Export	(%)	46.2	26.3	11.5	2.4	1.1	-2.8	-12.9	-20.8	-36.2	-36.2
Debt Service Ratio	(%)	20.8	19.6	16.0	8.5	10.8	11.3	11.7	7.0	6.2	6.5
Exchange Rate (period average)	(US\$1=THB)	44.4	43.0	41.5	40.2	40.2	37.9	34.5	33.3	34.3	32.0

Source : Bank of Thailand, Ministry of Finance, NESDB, CEIC. 2010 figures are JCR's forecasts.

Satoshi Nakagawa, Senior Analyst