

Thailand: Flash Forecast

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	Turmoil	Financial Transfer	Direct Investment	Export Market
18-Month:	Moderate	B+	B	B
Five-Year:	Moderate	A-	B+	B+

KEY ECONOMIC FORECASTS			
Years	Real GDP Growth %	Inflation %	Current Account (\$bn)
2010-2014(AVG)	3.6	2.9	5.84
2015(F)	3.9	1.8	12.70
2016-2020(F)	4.6	3.4	7.60

Sidelining Democracy

The 36-member committee tasked with drafting a new constitution for Thailand has revealed that the entire Senate in a future civilian-run political order will be indirectly elected, with members chosen from a hand-picked pool of candidates made up of former prime ministers, retired military officers, and representatives of various professions. Under the old constitution, the Senate was not only able to block legislation approved by the House of Representatives, but was also be empowered to remove (by majority vote) the prime minister, other Cabinet officials, and members of either the House of Representatives or the Senate on the grounds of credible allegations of corruption. Assuming those powers are retained under the new charter, the Senate will be in an even stronger position to check any moves by an elected government that are contrary to the wishes of the military leadership and the Privy Council of King Bhumibol Adulyadej.

The revision to the structure of the Senate signals the acknowledgment of leaders of the ruling military junta, the National Council for Peace and Order, that a democratic election is almost certain to once again result in a victory for supporters of exiled former Prime Minister Thaksin Shinawatra. As such, the stated goal of the junta – laying the foundation for the reconciliation of the mostly urban supporters of the royal establishment and the rural supporters of Thaksin’s populist political and economic agenda – will remain elusive.

The turmoil that prompted the military to seize control of the government in May 2014 contributed to a decline in investment and inflicted heavy damage on the important tourism industry, factors that in combination with a fall in prices for key exports resulted in the deceleration of real GDP growth to less than 1% last year. The restoration of a general calm had a positive effect in the second half of the year, and the government has targeted faster growth of 3.5%–4.5% in 2015.

However, but with external conditions pointing to difficulties for exporters in the coming year, the regime is seeking partners for big-ticket investment projects that Prime Minister Prayuth Chan-ocha hopes will inject some vigor into the sluggish economy. The government is teaming up with China to build a high-speed rail system that has an estimated price tag of \$12.3 billion. The government has also established 10 special economic zones in the border provinces of Tak, Mukdahan, Sa Kaew, Trat, and Songkhla.

The interim regime has stressed that public consultation will be an important component of its reconciliation program. To the extent that it follows through on that promise, the effect on investment policy will tend in the direction of economic nationalism, rather than liberalization. The government appears to have fended off a push by local business interests for amendments to the Foreign Business Act that would have limited the participation of foreign firms in the management of joint ventures, but planned bidding for offshore oil and gas reserves was postponed earlier this month in response to popular pressure from groups that oppose the granting of concessions, and are demanding that the government instead rely on production-sharing contracts to exploit the country’s hydrocarbons potential.