

Political Risk Analysis

Thailand

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Executive Summary

Power relationships between the king, military, and political parties define Thailand's political landscape. Even though democracy has made small strides, the military continues to have a big influence, which limits the impact of political parties. Due to the economy's substantial reliance on tourism, which was negatively hit by the COVID-19 pandemic, structural inefficiencies have been highlighted which consequently reflect in the economy's sluggish growth. Although inflation rates have remained stable, events like oil price shocks and geopolitical unrest might also hinder economic growth. Effective debt management solutions are required because rising public debt raises questions about the sustainability of the economy. Long-term hazards posed by cybersecurity attacks highlight the need for better data security procedures. Political reforms, economic diversification, responsible fiscal management, and improved cybersecurity and national security capabilities are all necessary to address these issues.

Introduction

Thailand's political landscape is characterized by complex power dynamics and interactions between various stakeholders, including the monarchy, the military, and political parties. The monarchy holds a significant position, with the King serving as the Head of State, while the Prime Minister operates under this hierarchical framework. However, the military has historically played a dominant role, positioning itself as the "King's soldiers" and exerting influence over political affairs. Despite transitioning to a form of democracy in 1973, power dynamics have often been constrained, with military-backed constitutions curbing the progress towards a fully democratic system. This has limited the influence of political parties in decision-making processes, with the military maintaining a stronghold on the political landscape.

In terms of the economy, Thailand has experienced relatively stable inflation rates and sluggish economic growth in the short and medium term. Inflation has remained low due to factors such as low housing prices, education fees, and weak overall demand in the economy. However, the country's heavy reliance on tourism, which was severely impacted by the COVID-19 pandemic, has hindered economic growth. Recovery in the tourism sector is expected, but risks such as oil price shocks and global geopolitical tensions may slow down the process. Additionally, Thailand has seen a steady increase in public debt, which raises concerns about the government's capacity to cushion the banking system and the need for fiscal consolidation measures to manage the debt burden effectively.

In terms of national security, Thailand faces challenges in its geopolitical relationships and border control. The country's policies tend to favor domestic entrepreneurs and firms, creating barriers for foreign businesses and investors. Thailand's non-membership in the World Trade Organization further limits its involvement in trade negotiations and agreements. Border control issues along the shared border with Myanmar pose a significant concern, as the lack of clear border territory definition leads to disputes and unauthorized border crossings, potentially straining Thailand's resources. Moreover, the rise of cybersecurity incidents in the country highlights the need for improved data security measures and capacity building to effectively address cyber threats in the long term.

Political Analysis - Leadership Dynamics

Short term: Power Dynamics & Interactions

Thailand is renowned for its political structure centered around the monarchy. The King serves as the Head of State, while the Prime Minister operates under this hierarchical framework. Even after the end of absolute monarchy in 1932, the ruling structure has continued to operate, albeit with the inclusion of more stakeholders, particularly through military coups. The military has often positioned itself as the "King's soldiers".

Thailand transitioned to a form of "democracy" after 1973, with the King still retaining the position of Head of State. This arrangement aimed to ensure the coexistence of Thai democracy and the monarchy, especially during periods of uprisings against the military regime.

Since 2001, Thailand has witnessed fair national elections, with the TRT Party, led by Thaksin Shinawatra, assuming power. However, the power dynamics and interactions between the TRT Party and loyalists in positions of power aligned with the monarchy were constrained. In 2007, the military-backed constitution was enacted, significantly curbing the progress made towards democracy and further consolidating power in the hands of the military. As a result, political parties have had limited influence in decision-making processes regarding the nation's best interests, with the military playing a dominant role in shaping the political landscape.

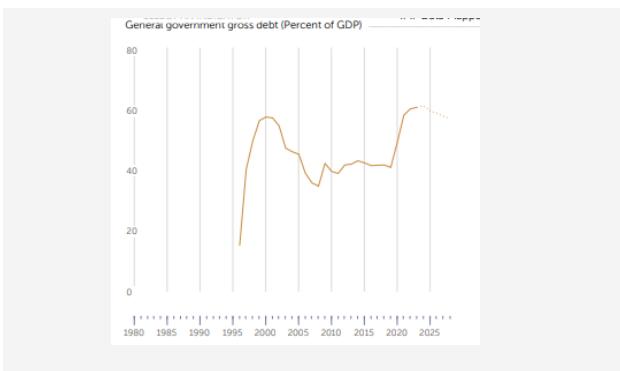
Medium term: Anticipated Political Developments

There is a hopeful sentiment for a change in power dynamics within Thailand. More political parties are emerging with the aim of reducing the military's influence in the existing structures. In the 2019 local election, while the military gained a firm grip on the government, the Move Forward Party managed to secure 152 seats out of a total of 500. Although this increases their presence in nominal terms, it doesn't significantly alter the overall landscape.

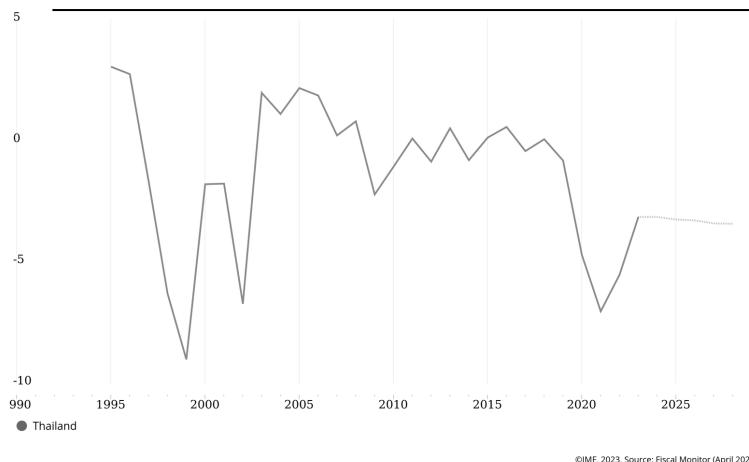
The political developments anticipated in this context are characterized by growing instability. The increasing disagreement between the people and the military-led government will further fuel discontent among the masses. This is likely to lead to a rising trend of political unrest, including protests that may result in infrastructure damages. In the medium term, these challenges persist, especially as the general elections are scheduled for 14th May 2023. However, it is not expected that these elections will change the pro-military stance that the country currently exhibits.

Long term: Potential Scenarios & Drivers

In a potential scenario, as the military gradually weakens over time, a shift in the dynamics of power may occur. The military and the government would become more mutually exclusive, with the military assuming a new role within the nation and strictly adhering to it. This transformation would begin with a restructuring of the constitution to clearly define the military's role, effectively separating powers and reducing their influence on politics as a whole. This process would be driven by the masses, who would increasingly advocate for a more progressive leadership style and structure, prompting coordinated efforts for change. Neighboring countries, such as Bangkok, could serve as examples, encouraging citizens that not only is it possible to overthrow such a government, but also achievable. This potential scenario highlights the evolving dynamics within the nation and the growing desire for a more inclusive and democratic system of governance.



Economic Analysis - Macroeconomic overview



Short term: Inflation

Thailand has been on a relatively stable steady state inflation rate from 1.1 percent in quarter one of 2018 to 1.2 percent in quarter one of 2021. The Bank of Thailand (BoT) has indicated that the biggest drivers of low inflation are low housing prices, education fees, and public transportation which are 23, 6 and 24 percent in weighting respectively (Bangkok Post Business, 2017). Supply side factors such as relatively smooth oil prices over the period of interest have contributed to cost push inflation factors shock not having a significant impact on the local consumer price index. On the other hand, weak demand overall in the economy has also led to historically low-price expectations for the nation. Another factor owing to relatively low inflation is due to BoT adopting a flexible inflation rate framework. There are other drivers of inflation outside what the MPC can control, hence improving the measures aimed at picking up real inflation movements could be useful in the BoT avoiding time inconsistency in policy action problems.

Medium term: Economic growth

Real GDP growth has averaged 0.57 percent over the period 2018 to 2021. This actual GDP growth per annum has been on a downward trend since 2018, with covid only exacerbating this effect in the year 2020. It is worthwhile to note that the biggest contributor to GDP for this economy is tourism, in effect, the demand for tourism has been reducing over the period as well. Thailand is not realizing the full potential of their resources with the output gap being recorded as low as -4.2 percent in 2020 and -4.1 in 2021 (IMF, 2023). This indicates that recovery might be sluggish in essentially getting to a point where actual equals potential output. Projections by the BoT are only signaling this to happen in 2024 with recovery to pre pandemic levels only in 2025/2026. It is hard not to see recovery in the tourism sector as global demand starts picking up again but the risks of slow recovery involve other shocks to the economy such as the oil price shocks, as a result of, escalations in the Russia-Ukraine which cause input prices in the cost of production to be quite expensive.

Long term: Public Debt

As at 2018 the stock of gross debt as a percentage of GDP was 41.8 percent and increased to 59.91 percent by October 2022, accumulating by 18.42 percent over this window. What drove debt accumulation, firstly, is government issued bonds to citizens which allow for government to accumulate debt with long-term maturing dates. Secondly, higher primary budget deficits would have created a need for financing this shortfall by government borrowing funds from the Central Bank. This became more aggressive from January 2020 to January 2021 - owing to the covid pandemic. However, high government debt weakens the credibility of the government's capacity to cushion the banking system. The risks of a higher debt burden will force government to revert to fiscal consolidation through increasing tax rates or expenditure cuts in certain sectors of the economy. The last scenario at risk is government privatizing state entities.

National Security Analysis - Geopolitical Relationships

Short term: Current Geopolitical Landscape

Since 2007, the ease of doing business in Thailand has significantly improved, with the time required to start a business reduced to just 5 days, and the associated cost lowered to 3% of GDP per capita. This is a remarkable achievement compared to the pre-2007 figure of 16.2% and at least 35 days needed. However, this progress has not translated into a more open and international approach by the nation.

Thailand's Foreign Business Act restricts foreign entrepreneurs from establishing businesses in the country, and there are significant barriers to entry and difficulties in repatriating funds for foreign investors. Despite having nearly 20 Foreign Trade Agreements in place as of 2021, including a long-standing agreement with China since 2003, there are challenges in expanding international property rights protection, particularly in relation to the United States. Foreign firms face obstacles when attempting to enter the Thai market, especially in key sectors such as manufacturing, beverages, and agriculture. The prevailing policies tend to favor domestic entrepreneurs and firms, prioritizing protectionism.

Adding to the complexity, Thailand is not a signatory of the World Trade Organization (WTO), which means it remains on the sidelines in terms of trade negotiations and agreements, becoming a bystander to other nations' trade advancements. These factors collectively contribute to the challenges faced by foreign businesses and investors seeking to engage with Thailand's market.

Medium term: Border control

The issue of border control remains a pressing concern, particularly along the 555-kilometer shared border between Thailand and Myanmar, starting from the west of Thailand. The lack of a clear definition of the border territory has led to unbearable living conditions in the border areas, exacerbating disputes and tensions. As a consequence of these challenges, there is a risk of Thailand's resources, both financial and healthcare-related, being utilized by Myanmar citizens who cross the border into Thailand due to inadequate border control measures. This situation highlights the need for improved border control mechanisms to mitigate the medium-term effects and prevent the potential strain on Thailand's resources caused by unauthorized border crossings.

Long term: Cyberspace

The severity and vulnerability posed by cyber security issues in a country are largely dependent on the level of technological advancement and infrastructure in that nation. In order to establish a foundation of digital trust, effective management of cloud data and data security risks is crucial. Unfortunately, in 2022, there has been a significant increase in cybersecurity incidents targeting public sector websites, with reports of approximately 722 incidents compared to 135 incidents in 2021. Thailand currently lacks the necessary skills and capacity to effectively address these cyber security threats, leading to the outsourcing of these services from an international ICT infrastructure provider. However, relying solely on external providers leaves the nation at their mercy, potentially resulting in significant long-term challenges, especially if Thailand aims to transition the entire nation into the digital era, keeping pace with the rest of the world.



Forecasts

Best Case

The tourism sector, a significant contributor to GDP, has been gradually recovering towards pre-pandemic levels. The ease of border control restrictions, which previously limited the number of tourists entering the nation, strongly suggests that Thailand will likely return to its balanced growth path by the end of 2024. This resurgence in the tourism sector is expected to once again become the primary driver of GDP. The revival of the tourism industry will unlock revenue potential for domestic firms and have a positive spillover effect on employment levels, as the supply side will require additional labor to meet the rising demand. The immediate beneficiary of the open border policy will be the hospitality sector.

Base Case

As highlighted earlier, the system of government marries the military and the head of state. However, this coalition does not offer a sustainable approach to the nation's investment landscape. Developing progressive policies from a monetary and fiscal perspective becomes regressive due to the short-sighted nature of the policies. The government's budget constraints likely limit their options to either increasing taxes and reducing expenditure now or making promises of increased taxes and reduced expenditure in the future, compromising their credibility.

Ugly Case

It may appear as an oxymoron, but the strengthening of the Thai baht is actually detrimental to export competitiveness. Rising import bills would be faced by recipients of Thailand's exports, making it less cost-effective for them to receive the goods at this point in time. The budget deficit of Thailand would be extended to a larger negative figure, giving other nations the advantage. Additionally, the tourism industry would suffer a significant blow, resulting in reduced hotel occupancy rates and employment levels over time, to the nation's disadvantage. This combined effect could pose challenges for investors in the relevant sectors, as they would require more originality in their business models, given the limited, if not restricted, access to military government-led support.

Conclusion

Thailand's political landscape is marked by intricate power dynamics and interactions, with the monarchy, military, and political parties playing pivotal roles. While the country has seen some progress towards democracy, military influence remains significant, constraining the influence of political parties. In terms of the economy, Thailand faces challenges in achieving robust economic growth, particularly due to its reliance on tourism and the impact of the COVID-19 pandemic. The country's high public debt raises concerns about future fiscal stability and the need for effective debt management strategies.

Thailand's national security is influenced by its geopolitical relationships and border control issues. The country's policies favor domestic entrepreneurs, presenting barriers for foreign businesses and investors. Border control challenges along the Myanmar border necessitate improved measures to mitigate unauthorized crossings and prevent strain on Thailand's resources. Additionally, cybersecurity incidents pose a long-term risk, highlighting the need for enhanced data security measures and capacity building.

Overall, Thailand faces complex challenges in its political, economic, and national security domains. Addressing these issues will require comprehensive efforts, including political reforms to enhance democracy, economic diversification to reduce dependence on tourism, prudent fiscal management to address the growing public debt, and strategic measures to strengthen national security and cybersecurity capabilities. By navigating these challenges effectively, Thailand can work towards a more inclusive, resilient, and prosperous future.