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Thailand's coup d'etat – Implications for the Future and for Foreign Business

On 24 May General Prayuth Chan-Ocha, the commander-in-chief of the Royal Thai Army, announced a coup d'etat, so completing the process of ouster of the Pheu Thai Party government that has moved since November 2013 through street protests, an annulled election in February 2014, and the 7 May judicial removal of Prime Minister Yingluck Shinawatra, to military intervention.

The army moved quickly, issuing a declaration of martial law on 20 May. Prayuth then summoned senior politicians to a conference on 21 May aimed ostensibly at resolving the political rifts in Thailand. That meeting failed to make headway, and the military took control on 22 May through a National Peace and Order Maintaining Council, later renamed the National Council for Peace and Order ("NCPO").

The NCPO has since acted to suspend the constitution, disband the senate, seize television stations, close borders, and arrest more than 200 politicians, prominent

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journalists and academics. Troops fanned out across Bangkok and the country, and Prayuth ordered protesters from both the anti-government People's Democratic and Reform Commission ("PDRC"), led by Suthep Thaugsuban, and the pro-Pheu Thai United Front for Democracy against Dictatorship ("UDD"), or Redshirts, to disperse, with the king seemingly endorsing its actions. The coup took all sides in the political dispute alike by surprise, at least in its timing.

The army's move belied a general belief that a judicial rather than a military coup was the likeliest means to resolve the political crisis, which emerged from the introduction of an amnesty law in October 2013 that would have facilitated the return of the divisive former prime minister Thaksin Shinawatra. Before the coup, Prayuth had styled himself as unwilling to intervene; he has since emphasised security, pointing to grenade attacks and shootings in the streets of Bangkok.

Thailand's history of military coups (12 since the king's accession in 1946) mitigated the market response. A 1% fall in the Stock Exchange of Thailand has simply trimmed the 7.6% gain since the start of 2014. Ten year bond yields slipped to 3.52% from 3.57%, with investors noting that the central bank may cut rates and that the military government's ability to implement a budget should improve the fiscal outlook. Analysts also recalled the 2006 coup, when a 6% fall in share prices in the first fortnight preceded a 3% rise one month later.

Of course, this optimism could prove misplaced; the economy is slowing – GDP contracted 0.6% in the first quarter of 2013, and the coup will surely deter tourists, whose spending accounts for about 10% of GDP. As such, Air Chief Marshal Prajin Juntong, who now holds the main economic portfolios, will have to act with considerable aplomb if he is to forestall recession; this is a tall order however.

The biggest risk, though, is that this coup will acutely worsen the current political crisis, as Thailand's situation differs starkly from that in 2006.

The most crucial change is social, as increasingly prosperous farmers in the populous north and north east have received education, health care and welfare benefits, such as the rice pledging scheme, in exchange for ensuring Thaksin Shinawatra's electoral dominance; they now demand inclusion in the political system. The Redshirts are the most overt manifestation of this social shift, having evolved from a simple proxy for Thaksin's interests into a living, if amorphous, political movement in their own right. The army may thus find Thai society less quiescent than before – as flash protests in Bangkok on 25 May condemning the coup highlighted.

A further difference is the royal succession. The aged and revered King Bhumibol Adulyadej is ailing, but his son, Maha Vajiralongkorn, is widely unpopular. Some see the crown prince as linked to Thaksin, who built him a palace and whose popularity may be a prerequisite to his acceding to the throne. Accordingly, the “network monarchy” – a system by which the palace and conservative interests exert influence through the body politic in implicit contravention of Thailand's status as a constitutional monarchy – is fading. The oligarchy may thus see the coup as a means to tilt the system irrevocably against Thaksin – and, in effect, against popular democracy.

Prayuth and his colleagues now face a choice, with intense implications for Thailand's future. The military could act on the demands of the PDRC, altering the electoral system in favour of the Bangkok elites, or it could seek to act as a mediator. The initial signs are not good; Prayuth, who is a monarchist and who presided over

the 2010 massacre, has already announced the establishment of a “reform council” to draw up a new constitution; this practically fulfilling a key demand of the PDRC that reform should come ahead of polls.

Such blatant partisanship must surely provoke an angry response. The Pheu Thai Party has already aired the prospect of establishing a government-in-exile, and the Redshirt ire could well result in civil disorder, or even an organised campaign of shootings, bombings and arson attacks.

Whilst the army has swiftly arrested many leaders, Thaksin is still outside the country and the Redshirts will certainly regroup given time. The army may also itself stoke anger; it is not good at managing crowds – its riot gear is inadequate, and is as likely to maim as cause crowds to disperse – and protester casualties will trigger condemnation, even international sanctions if these are extreme.

In short, this coup differs from those before; much more is at stake, especially given the looming succession and the extensive social changes of recent decades. The military may thus act to implement constitutional changes that enshrine the dominance of the oligarchy. Any such move is sure to provoke an angry response from Thaksin, Pheu Thai and the Redshirts – raising the real prospect of serious civil disorder or even an insurgency.

It is critical that foreign investors and businesses monitor ongoing developments closely. This situation will rapidly evolve over the coming two weeks and much depends on the level of organisation of the Redshirts movement and the Thai military’s overt action against them.



Previous assumptions that military coups will not affect foreign businesses or interests operating in Thailand may not apply to this situation, which is more significant than in some prior instances.

Travel alerts and other reliable information from governments should be carefully monitored and those businesses who are heavily reliant on air-freight or on key distribution or “just in time manufacturing” should make contingency plans now in the event of disruption to air and road transportation.

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Steve Vickers and Associates (SVA) is a specialist risk mitigation and security consulting company. The company serves corporations, high net-worth individuals and insurance companies around the world. SVA assists clients both in mitigating risk and when necessary to respond swiftly and effectively to incidents and crisis situations.

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