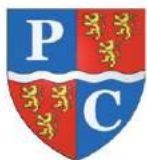


**Pozières  
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# Thai Referendum



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## SPECIAL REPORT - THAILANDS POLITICAL RISK OUTLOOK

Thailand's political risk outlook took a significant tumble in 2014 when the military seized power in a coup. The military junta has since overseen a contracting economy, a falling growth rate and a 78% decrease in foreign direct investment. [Recent revelations from the Panama Papers also](#) highlight the high levels of capital flight taking place with an estimated 25% of Thailand's total outward foreign direct investment (OFDI) stock going to three main tax haven destinations of the British Virgin Islands (BVI), the Cayman Islands, and Mauritius.

**Asean member nations 2016 economic forecast**  
(annual percent change unless indicated otherwise)

|   | 2013 | 2014 | Est. 2015 | Forecast 2016 | 2017 | 2018 |
|---|------|------|-----------|---------------|------|------|
| <b>GDP at market prices (2010 US\$)</b> |      |      |           |               |      |      |
| <b>Cambodia</b>                         | 7.4  | 7.0  | 6.9       | 6.9           | 6.8  | 6.8  |
| <b>Indonesia</b>                        | 5.6  | 5.0  | 4.7       | 5.3           | 5.5  | 5.5  |
| <b>Lao PDR</b>                          | 8.5  | 7.5  | 6.4       | 7.0           | 6.9  | 6.9  |
| <b>Malaysia</b>                         | 4.7  | 6.0  | 4.7       | 4.5           | 4.5  | 5.0  |
| <b>Myanmar</b>                          | 8.5  | 8.5  | 6.5       | 7.8           | 8.5  | 8.5  |
| <b>Philippines</b>                      | 7.1  | 6.1  | 5.8       | 6.4           | 6.2  | 6.2  |
| <b>Thailand</b>                         | 2.8  | 0.9  | 2.5       | 2.0           | 2.4  | 2.7  |
| <b>Vietnam</b>                          | 5.4  | 6.0  | 6.5       | 6.6           | 6.3  | 6.0  |

Source: World Bank.

To make matters worse, the new constitution being proposed by the Military Junta, which is supposed to return the country to democratic rule, is severely flawed and merely entrenches the rule of an unelected council chaired by members of the military and other trusted members. A vote on the proposed constitution takes place on August 7 and has been accompanied by the introduction this week of draconian laws imposing up to 10-year prison sentences for anyone campaigning ahead of a referendum on the constitution. To show they mean business the Thai Election Commissioner, Somchai Srisuthiyakorn, today filed charges against members of a Facebook group for "...comments on Facebook using foul and strong language" in relation to the referendum. Somchai told reporters "We want them to be an example".

As it becomes clear that democracy in the true sense will not be returning to Thailand anytime soon, international investors now have to re-evaluate how they approach potential opportunities in the country.

## QUESTIONS

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From a political risk perspective, some of the conditions that investors need to consider are –What impact will continuing military rule have on social and economic stability? What relationship will the Military Junta have with the international community? How easy will it be for foreign investors to protect their longer term investments?

When we look at the situation with these questions in mind, the situation actually becomes far less negative.

## THAI STRATEGY

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The Military Junta is currently pursuing an astute and rather adroit multi-alignment strategy with the international community to ensure that should one door close, another will open.

The [Bangkok Post](#) recently reported that the Royal Thai Army had announced that it is in the process of setting up a procurement committee to evaluate Chinese and Russian tank models in order to select a new main battle tank (MBT) for service in the Royal Thai Army (RTA). The Royal Thai Army is courting security relationships with both Russia and China rather than its traditional supplier the United States.

Conversely, the Thai government continues to align with the United States on trade despite the continued uncertainty around the possibility of trade sanctions due to continued military rule. While the EU has paused free trade negotiations with Thailand in protest at the military coup, actual sanctions are unlikely.

Demonstrating the lack of international will for any serious sanctions, the Thai Commerce Minister, Apiradi Tantraporn, this week flew to the United States to [renew talks with the country](#) on trade and investment cooperation. Trade



cooperation between the two countries increased as early as last year when the United States agreed to reinstate the Generalized System of Preferences (GSP) last

year for a period of four years. Government sources within the Thai government have also recently intimated that it is highly likely that Thailand will join the US-led Trans-Pacific Partnership (TPP).

Domestically too the Military Junta has used its power to unveil a raft of much needed infrastructure development and improvement investments. Foreign investors from China, Singapore, the US and Japan have been competing for government tenders for more than [US\\$50 billion dollars](#)' worth of infrastructure projects to improve ports, rail capacity and a [US\\$500 million solar energy investment](#).

To accompany these investments, The Deputy Prime Minister has also [released](#) a large set of incentives for foreign investors which include Double Depreciation on new assets in machinery, equipment, tools, computers, software, vehicles and constructions, Triple R&D expenses until 2019, a 10-15 year corporate income tax (CIT) exemption, an ability to apply for grants from the Thai Baht Competitiveness Fund and personal income tax exemption for qualified foreign experts.



The World Bank's recent [Doing Business 2016 report](#) which measures regulatory quality and efficiency ranked Thailand 49<sup>th</sup> out of 189 in total ease of doing business. What was more reassuring for foreign investors however was the improvement in the ever important *Enforcing Contracts* criteria where Thailand ranked higher than developed countries like the Netherlands, Italy and Ireland. Thailand also ranked highly (37) in the *Protecting Minority Investors* criteria. In recent years a number of countries who have relied foreign direct investment have invested heavily in improving these critical areas which was reflected by the fact that although China ranked 84<sup>th</sup> in *Total Ease of Doing Business*, it ranked 7<sup>th</sup> worldwide in the *Enforcing Contracts* criteria.

## MOVING TOWARDS THE REFERENDUM

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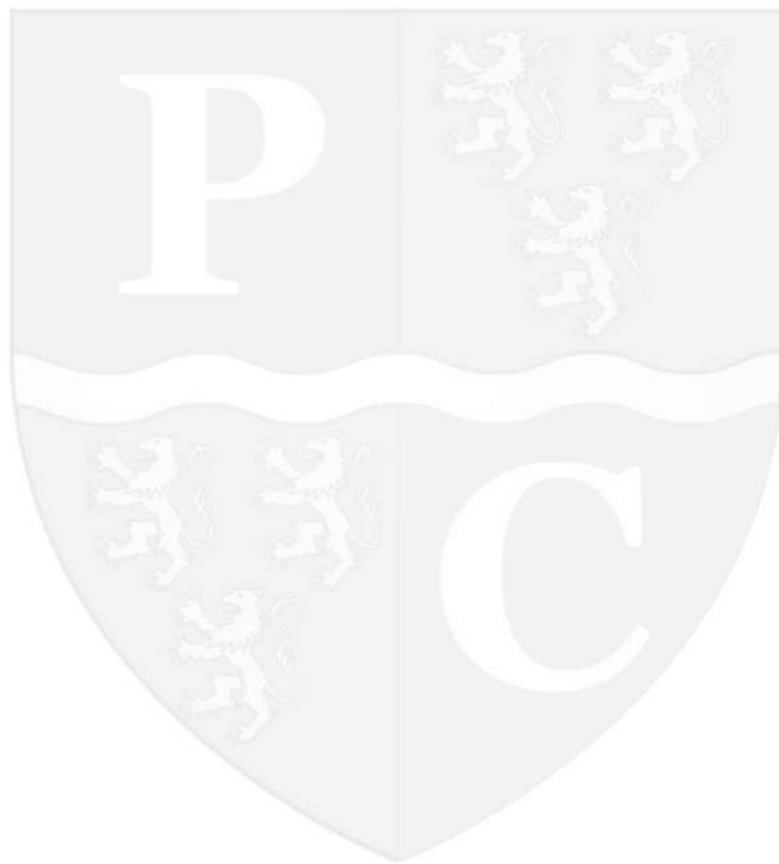
If the proposed constitution is approved by voters on August 7<sup>th</sup>, it will be the twentieth constitution that Thai's have lived under since 1932. The general sense on the streets of Bangkok as well in rural areas is that the more things change the more they stay the same.

While Military and Authoritarian rule remains a problem in Thailand and while traditional patrimonial power structures and endemic corruption continue to plague the economy, foreign investors still have a number of positives to point towards when developing their investment methodologies in Thailand.

June 2016



**Pozières Consulting Inc** is a Political Risk Advisory firm, providing bespoke analysis and business intelligence through our worldwide network of analysts and sources. We work with clients to identify, analyse and contextualise strategic Political Risks and turn them into tangible, actionable business insights. We utilise a combination of in-depth thematic research, innovative analytic tools and tailored business intelligence gathering to provide a bespoke service to clients. For comprehensive Political Risk advice and a confidential consultation, contact us at [info@pozieresconsulting.com](mailto:info@pozieresconsulting.com)



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