



# Thailand's Tensions, and Resilience

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Thailand's imposition of martial law on May 20 came after months of protests and threats of violence between two opposing sides—the anti-government group called the People's Democratic Reform Committee (PDRC), known as the "yellow shirts," and the pro-government group called the United Front for Democracy against Dictation (UDD), known as the "red shirts." The PDRC demanded for the government to step down to pave the way for an appointed government. It vowed to escalate the protests until their demands were met, while UDD and the government condemned the PDRC's ultimatum and insisted on new elections. Risks of confrontation and violence were rising—and seemingly inevitable.

The imposition of martial law came as no surprise to us, especially given Thailand's past record of the army's intervention. We believe martial law could prove a temporary solution as it empowers the military to take control of the country's security and safety and proactively prevent violence and clashes between the two opposing sides. In our view, the Thai people will need to come together and decide on a coherent and compromised solution. We believe a resolution will eventually be reached given the resilient nature of the country.

The military coup in Thailand seemed designed to move the country out of what had developed into a political deadlock. The Thai Army now has the power to appoint a government that will likely help reform the country similar to what happened during 2006. Of course we need to monitor the situation, particularly in the case of the "red shirts," whose leader has now been deposed.

Thailand is in the throes of dramatic change and the recent announcement of a military coup is another indication of these changes. As we see it, the positive news is that with the introduction of military rule, the civil environment should be stabilized with no significant disruption of normal business operations. That said, it will take some time to reintroduce civil rule and this will likely require a revision of the country's constitution acceptable to all parties, and another cycle of elections.

Our investments in Thailand, as all of our investments, are made based on a long-term view. We believe the positive drivers of long-term growth for Thailand remain in place, including a very competitive business sector and Japanese investment, as well as the potential for growth from the increasing integration of Thailand's regions and the neighboring markets of Myanmar (also known as Burma), Cambodia and Laos into the global economic system.

The prognosis for Thailand is positive, in our view, given that direct foreign investors want stability in the country. The reality of the situation as we see it is that an elective government seems difficult to achieve today. We will have to continue to wait and see which government is installed next. During this period, we expect some ongoing short-term market volatility but we would not expect much disruption in existing company operations.

From a long-range view, we think many companies will be able to survive and prosper in Thailand. We do believe cooler heads should prevail over time, and the more positive economic trends Thailand has seen before the coup could return, including rising per-capita incomes. Thailand has a large middle class and a growing consumer population, which we believe bodes well for the economy going forward. As investors, we have been focusing on consumer goods and services, including banks and property companies, as people move to the cities and require housing.

We believe there will be continuing uncertainty in Thailand that could keep many investors at bay until there is more clarity and stability in the political environment. Tourism could likewise be affected if tensions continue to escalate. Nevertheless, we don't believe existing company operations are likely to be greatly interrupted, and we would view declines in certain Thai stocks as an opportunity to look for selective bargains there. Many Thai corporations have historically managed to weather various bouts of political upheaval and even thrive in spite of them, proving the strength and resilience of the Thai people.

## Thailand: Stock Market Performance (SET Index) and Key Events, 2002–2013



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