



 KCS Country Risk & Threat Advisory

KCS Group Europe
Risk & Threat Advisory Paper

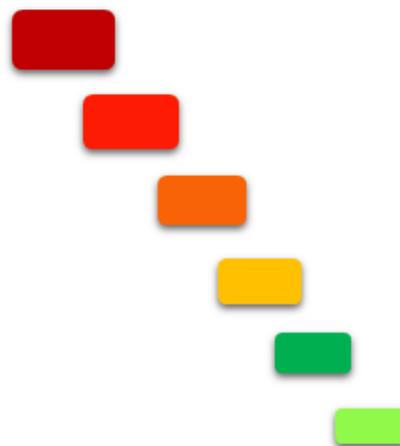
Political Risk Advisory Briefing: Thailand
April 2021

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	Country:	Thailand
	Population:	69m
	GDP (nominal):	\$543bn (2019)

THAILAND has a risk rating of 4 (Very Possible).

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|------------------------|--|
| 6 Very High | The assorted threats described in the report are almost certain to have a derogatory effect. |
| 5 High | The threats are extremely likely to negatively affect the business. |
| 4 Very Possible | There is a strong likelihood of problems arising in this country. |
| 3 Possible | There is a fair chance of problems arising in this country. |
| 2 Low | There is a low likelihood of any threats impacting business. |
| 1 Very Low | There are virtually no impediments to successful business in this country. |



Political

It is safe to say that Thailand has not been the most stable country over the last few decades, politically speaking. The country has seen so many coups take place that these have become just as common as an election. Since 1932, when the country ceased to be an absolute monarchy, Thailand has had 20 different constitutions and has had the fourth most coups in the world. The most recent of which took place in 2014 with current Prime Minister, General Prayut Chan-o-cha taking power.

Since the 2014 coup, Prayut Chan-o-cha has restricted civil liberties and political rights and has reinforced the idea of *lèse-majesté* in the country, of which the number of cases has dramatically increased since 2014. The criminal offence of criticising the royal family has not been put in place to protect the institution or to gather support from royalist voters but is there purely for control. Both the current King and his predecessor expressed their disagreement with *lèse-majesté*, arguing that the people should be allowed to criticise the monarchy otherwise the stifling of criticism leads to growing resentment. Despite the monarch's - reservations, the Prime Minister has carried on with his suppression of "dissent" just to exercise more control on the Thai people.

However, the recent protests in Thailand against the Prime Minister and calling for reform has led to speculations of another military coup (which would be the country's 14th military coup). During the protests in September 2020, Thai citizens noticed an increasing military presence in Bangkok and even saw a few tanks on the streets. It was said the presence of military personnel and the tanks was part of a "military exercise". Even though the protests have taken a number of breaks over the past year, a strong military presence has still remained, however, this is to enforce the strict Covid-19 measures that each district has. Despite all of this, the fact that the country has had 13 coups since 1932, this means that it is not unbelievable for there to be another amongst the growing discontent toward the Prime Minister and the monarchy.

As surprising as it sounds, another coup is unlikely to be a huge disruption to businesses in Bangkok and the rest of Thailand. The last coup which took place in 2014 was almost completely peaceful. There was hardly any violence, with a heavy military presence on the streets and the imposition of a curfew. The curfew incidentally led to few sporadic disturbances of young people rebelling against the curfew. The actual coup was quick, only lasting three months before there was total transition. Additionally, the disruption to businesses was very minimal. The only businesses that were affected by the previous coup were the nightlife

industry, such as bars, pubs and nightclubs but that was because of the curfew, which was in place for roughly the duration of the coup. Despite this, there still should be a concern for those wishing to penetrate and operate successfully in a country that has a proclivity for military coups.

Economic

Like with practically every other country, the Covid-19 pandemic has taken its toll on the Thai economy. Pre-pandemic, Thailand's GDP was \$543.65 bn USD and the Thai Baht was the fastest growing currency in Asia until early 2021. However, because of Covid-19, Thailand's economic growth contracted at its fastest pace in more than two decades, by 6.1%, which is one of the sharpest declines in the East Asia and Pacific region and the country's worst decline since 1998, due to a decline in external demand affecting trade and tourism, supply chain disruptions and weakening domestic consumption. Seeing as Thailand is heavily dependent on exports (~60% of GDP in 2019 were attributed to exports) Covid-19 has severely affected key sectors of Thailand's economy like tourism and agricultural exports.

Covid-19 has not just affected Thailand's economy as a whole but has also negatively affected the psyche of the individual worker. Some people are truly terrified of Covid-19 (because of government media campaigns and bombardments) so they want to keep the borders shut and continue to have lockdown. Despite the very real threat that Covid-19 poses, they also want to sell their products and allow foreigners and tourists into Thailand to boost the tourism industry to make more of a living. At the moment, many workers and business owners are in this difficult situation.

Pre-pandemic, Thailand's largest exporter was the United States but has recently been overtaken by China. During the pandemic, Thailand kept its borders with China open which allowed both countries to trade and for tourists to enter. But there has been a strong Chinese presence in Thailand before coronavirus, which has increased since then. A number of Chinese firms have been buying land and properties in mainly Bangkok but also other places like Phuket. Additionally, China's foreign direct investment in Thailand is expected to increase significantly over the next few years as Chinese investors are planning to expand their local footprint. Besides existing investment from Chinese manufacturing businesses in Thailand, new industries, such as technology, services and food and restaurant business have also expressed interest in expanding into Thailand. Some Chinese investors are also looking for local business partners through joint venture or merger and acquisition deals in Thailand.

Legal

Before the 2014 coup, Thailand was governed within the framework of a constitutional monarchy, where the Prime Minister is the head of government, the monarch is the head of state and the judiciary is independent of the executive and legislative branches. After the coup, however, the 2007 constitution, which reduced the authority and the powers of the executive and strengthened the independent judiciary, was revoked. Now, the supposed independent judiciary makes judgments based on political considerations rather than existing Thai laws. As such, corruption within the judiciary has increased drastically, and business in particular have found that favourable judicial rulings and decisions are based on payments and bribes.

Similar to the UK, the monarch of Thailand has very few powers. Apart from royal assent, the power to grant pardons and being head of the armed forces, the monarch is mostly a symbolic figurehead. Even though the powers of the King are severely limited, King Vajiralongkorn still has considerable influence in the country and controversially has directly interfered with the Thai government on several occasions. For example, the controversial amendments to the constitution in 2017 were not only backed by the King but his office had also suggested some of the amendments that related to royal power. Additionally, King Vajiralongkorn issued an emergency royal decree in 2019 that his sister, Ubol Ratana's candidacy for the prime ministership in the 2019 general elections was "inappropriate and unconstitutional." After the announcement of the decree, Ratana was disqualified from running by the election commission.

Despite the current King's controversies, the monarchy is still very popular in Thailand despite the recent unprecedented protests. It is remarkable that after 20 different constitutions and many, many military coups, the monarchy is still in place. The reason for this, is that traditional institutions, like the monarchy, are very important to the Thai people.

Social

in early 2020, demonstrations began against Prime Minister Prayut Chan-o-cha and the constitutional amendments of 2017. The protests were initially triggered by the dissolution of the Future Forward Party (FFP) in late February 2020. The FFP was a progressive political party, that was founded on a platform to restrain the military's power in Thai politics and improve social and economic inequality. This first wave of protests were put to a halt due to the Covid-19 pandemic but resumed in July 2020. The second wave protests expanded into anti-government demonstrations, with people calling for the dissolution of parliament, the

drafting of a new constitution and an end to the intimidation of the people. However, the vivacity of the ongoing protests has somewhat changed when people started targeting the monarchy.

Calling for reform in the monarchy has ultimately changed the dynamic of the protests. Before, the people were united in their discontent with the Prime Minister and the government, however, as soon as some of the protests started attacking the monarchy, it caused a rift in the protests. As stated earlier, the monarchy is still a very popular institution in Thailand, and when the monarchy was brought into the protests, it caused the royalists protests to distance themselves from the others. It is because of this reason the momentum of the protests has slowed. If the people had focused the protests solely on the Prime Minister and the amendments to the constitution, it is likely that said protests would be considered more of a threat to the current political status quo. To reiterate a point earlier in this briefing, if Thailand were to experience another coup as a result of these protests (the likelihood of which decreases the longer pandemic goes on) then it should have minimal disruption on foreign businesses in Thailand.

Corruption

The Corruption Perception Index (CPI) from Transparency International ranks Thailand as 104th least corrupt country in the world with a score of 36/100 (the lower the score, the more corruption there is in the country). An abysmal score but it does not mean that businesses will not be able to operate because of said corruption. As mentioned earlier, the judiciary has become one of the more problematic areas when it comes to corruption in Thailand. Companies have expressed insufficient confidence in the independence of the courts and claim the legal framework to be inefficient when it comes to settling disputes and challenging regulations. Foreign companies, who have had difficulty operating in Thailand, have expressed that the legal process in Thailand tends to be slow and litigious and have stated that other third parties (some of which are Thai companies who have the backing of the government) sometimes affect judgments through extra-legal means, i.e., bribes and or patronage.

However, a grey area like corruption is something that can be worked around, especially in Thailand. While the corruption is endemic and permeates through society, the difference in Thailand is that the corruption is open and is a common part of business practice. For example, instead of calling it a bribe, people ask if there is a "special fee" they can pay the official to speed up the process, or if they can pay the fine "on-the-spot", or if they can "help" the official in some way. If one does not want to participate in this process, one does not have to but

businesses will find that bureaucratic dealings will take much longer to be processed. Additionally, if companies want to completely bypass having to deal with corrupt companies and or government bodies, KCS can find suitable companies to partner up with, if necessary, and identify which government bodies in particular are susceptible to corruption.

Business environment

In terms of the business environment and attitude, it does depend on where in Thailand you are taking your business. For example, like with the UK, there is a North-South divide in Thailand. Not only are there differences in language (dialects) and culture, but also in business practice. The south is very fast paced, they like things to be done quickly and efficiently to make money as quickly as possible. The North is a lot more relaxed about business, they generally speak slower than the Southerners and are a lot calmer about business. The same is for Bangkok where most foreign businesses are located.

It is a recommendation that if a foreign business wants to penetrate the Thai market, then unless you are an American business or citizen, you must have a Thai partner in which the ratio would be 49:51, with the Thai company owning the majority stake. That being said one can avoid partnering up with a Thai company, but this depends on how much investment and employment said company brings to Thailand. If one brings enough then they do not need a Thai partner. It is pertinent to know that if a company does wish to penetrate Thailand solo, they need to show a level of wealth and capital to prove they do not need a partner. However, firms need to be wary about showing signs of wealth, because if one shows too much then one risks making their firm a target to organised crime groups (OCGs), law enforcement and corrupt government departments.

Summary

Thailand is certainly going through a rough patch economically, socially and politically. With the Covid-19 amputating Thailand's key economic sectors and the tough political restrictions, Thailand will continue to go through this volatile stage. The mass social unrest and increased military presence in the places like Bangkok has sparked fears of yet another coup, which will cause some disturbance in the country that may put foreign businesses off from entering the market.

However, a low-cost workforce coupled with a low invest threshold (~\$25,000 USD) that allows a firm to penetrate the market without a Thai partner, has made doing business in Thailand a lot easier. However, as stated above, businesses wishing to move into Thailand without a partner need to be careful of how much wealth they show, as it will make them a target to OCGs and local law enforcement. This is where a company like KCS can assist. We are able to help businesses navigate through a precarious country like Thailand and help our clients either find a suitable business partner, or if they wish to penetrate the market alone, assist them in staying under the radar and monitor the situation in Thailand and keep them abreast of any alarming issues.

Snapshot overview: SWOT analysis

Strengths

- Low-cost work force.
- Not much capital is needed to penetrate the market without a Thai partner.

Weaknesses

- Open corruption within the police, the judiciary, and bureaucratic agencies.

Opportunities

- An eagerness for Thai businesses to start operating with foreign firms again.
- Infrastructure projects are one of the focuses for 2021. Additionally, the construction sector is one of the least corrupt sectors in Thailand.

Threats

- Depending on company size and how much wealth is shown, firms may be targets for OCGs and local law enforcement.
- Large Chinese and Russian presence, which may prove to be tough competitors.

GREY AREA DYNAMICS

Over the years, KCS has made it their business to find workable solutions to impossible problems. To do this, KCS has sought to establish clearly the intelligence gap between perception and reality.

In today's market where terrorism, organised crime, cybercrime and government sponsored cyber espionage and war appear to confront us daily, we need reliable tools to identify the risks well in advance. It was for these reasons that KCS created and developed the analysis of risk by Grey Area Dynamics or GAD's, as they are often referred.

GAD's are all the risks, weakness and threats that will, at one time or another, interfere, disrupt or at worst close down businesses. In the projects and work in which KCS have been involved in all over the world, it has been evident that the GAD's identified, can and do kill. This method of risk assessment and measurement goes well beyond standard due diligence and is a collective description of factors, which can be passive and non-passive, legal and illegal. Because GAD's are difficult to quantify or assess from a purely economic viewpoint, these considerations do not normally feature in most credit ratings, investment and banking reports, which focus only on sovereign risk.

The main categories of Grey Area Dynamics usually encountered are:

Passive/Legal

- Language & Dialects
- Local Customs & Traditions
- Local Staff – motivation and training
- Tribalism and Integration
- Cultural & Local sentiment
- Regulations, Taxes and Duties
- Currency & Capital exposure – payment methods and banking practice
- Environmental Hazards
- Pressure Groups
- Media Relations

Non-Passive/Legal

- Industrial & Labour Relations
- Absence or effectiveness of Legal Safeguards

- Government Policy and Nationalisation
- Overt and disguised/beneficial ownership
- Bureaucracy and Local Government
- Public or Media hostility

Passive/Illegal

- Bribery & Corruption
- Vested Interests and Cronyism
- Patronage
- Product diversion
- Parallel Trading
- Hidden Barriers to entry

Non-Passive/Illegal

- Counterfeit & Fraud
- Pilferage
- Unfair Market Competition
- Product Piracy
- Ethics and Corporate Espionage
- Organised Crime
- Threats to physical assets
- Kidnap & Extortion
- Religious Extremism
- Terrorism
- Civil Unrest
- Product Contamination

For a risk assessment to be thorough, it must encompass the potential for a broad array of economic, political and business situations that might affect a business venture. Evaluations limited just to political issues or financial factors may be completely misleading.

The degree of severity of a risk portfolio will also depend on the origin of the investing entity; for example, European companies often face different risk profiles to American corporations considering the same investment opportunity.

Grey Area Dynamics pose a challenge of diagnosis¹. The key to avoiding problems before they occur or solving them after they have begun to take a toll on performance, lies in their early identification and evaluation. Ignoring the impact of GAD's can be a costly business.

¹ KCS Group Europe won the European Service Provider of the Year, 1999-2000 at the European Risk Management Awards magazine International Risk Management for their work on GAD's. In 2004, the company won an award for Product of the Year from StrategicRisk.