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**Global  
Investment Strategy & Macro**

## Geopolitics

Market Commentary/Strategy

**Thai Succession – No Easy Options**Alastair Newton  
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### Investment Conclusion

- Political turmoil and civil unrest which we believe could follow the death of Thailand's revered King would likely be a significant and potentially sustained negative on market sentiment.

### Summary

- King Bhumibol's recent admission to hospital has led to renewed speculation over the possible consequences of his death in a country which remains politically polarised and where his presumed successor is widely believed to be less of a unifying factor.

### A Revered Ruler...

Even though he is reported to be suffering from little more than fatigue, the recent hospitalisation of the revered King of Thailand, Bhumibol Adulyadej (aged 81), has given rise to fresh speculation over the implications for the country as a whole when he dies.

King Bhumibol has long been regarded as the 'stabiliser of last resort' in a society which is deeply – and seemingly insolubly – polarised politically. Certainly, the red-shirted supporters of former premier Thaksin Shinawatra and the yellow-shirted backers of the current government headed by Abhisit Vejjajiva both claim loyalty to the king as at least part motivation and justification for their respective stances.<sup>1</sup>

Although some commentators have recently questioned the perception of the king as the 'glue' holding Thai society together, few if any doubt that the consequences of his death are unpredictable, with significant potential downside risks.

### ...And A Less Popular Prince

In principle at least, King Bhumibol's death should result in the smooth succession of his only son, Crown Prince Maha Vajiralongkorn. However, Prince Maha enjoys nothing like the popularity of his father and we believe that there is every possibility that the "red shirts" of the so-called United Front of Democracy Against Dictatorship (UDD) would look to capitalise on this to promote their cause. That cause, to be clear, is not dispensing with the monarchy in favour of a republic but returning to government either Mr Thaksin himself or, at minimum, his supporters (currently grouped together under the banner of *Phak Puea Thai* (PTP), successor to TRT and then PPP).

Given the propensity of Thais to take to the streets in large numbers at such times, this would leave the military facing the prospect of looking to defend an unpopular monarch-elect against (probably large-scale) popular protests – likely further complicated by (equally large-scale) counter-demonstrations by the "yellow shirts". Even though, the army has – by general consensus – shown significantly more willingness over the past three years or so since the 2006 coup to act against red-shirted demonstrators than yellow, a one-sided crackdown against the "red shirts" would seem a high-risk strategy; and heavy-handed even-handedness could see the army's popularity sink to the sort of lows which followed its 1992 crackdown which reportedly resulted in the death of dozens of demonstrators. Having taken some years to recover from this (and despite the *coup d'état* which it staged in 2006), the army remains at some pains to avoid plumbing such depths of popularity again, as is clear from the constitutional amendments which it pushed through in 2007 and which permit it what amounts to the major say in the running of the country without exposing itself to the risks inherent in being in government itself.

### The Kingmakers

We reckon the two men who are likely to call the shots for the authorities in these circumstances are: Prem Tinsulanonda, a former general who is now the King's chief counsellor and widely seen as the proverbial "power behind the throne"; and the army's chief-of-staff, currently General Anupong Paochinda but from next year likely to be General Prayuth Chan-ocha who could stay in that office until 2014 and who is widely seen as even more conservative than the incumbent.

<sup>1</sup> In fact, Mr Abhisit cannot depend on the whole-hearted support of the "yellow shirts" whose backbone, the so-called People's Action for Democracy (PAD), has already intimated that it might contest for seats in the next general election in opposition to his Democrat Party.

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Unfortunately for them, they may have no option but to support the Crown Prince come what may. In theory, they could ease him to one side in favour of his sister, Princess Maha Chakri Sirindhorn, who is very popular with Thais of all political suasions.<sup>2</sup> But most experts believe that this would be very difficult culturally (and the Crown Prince himself, a former army officer who may well have his own loyalists in the military, may not be inclined to step aside quietly).<sup>3</sup> Other possible moves would likely smack of republicanism, which is a track down which they would not wish to venture.

### The Thaksin Factor

An already potentially delicate situation would, in our view, likely be further complicated by interventions from Mr Thaksin himself – who remains popular with rural Thais in particular – at least from outside the country and possibly by attempting to stage a return to Thailand. Although General Anupong has been quick to replace senior officers who were promoted at then Prime Minister Thaksin's insistence, there are 36 generals on active service (only five fewer than in the US army which has around four times the manpower) and it would be unwise to assume the total loyalty of all of them to their chief-of-staff in such circumstances.

### Insurgency Issues

An additional potential "complication" is the long-running separatist insurgency in Thailand's southern states. Neither intensified military operations against the insurgents (whose identity remains something of a mystery) nor efforts to boost economic opportunities in what is one of Thailand's poorest regions has had much success in diminishing the level of violence. It is, in our view, very possible that the separatists would look to take advantage of any political turmoil and/or preoccupation on the part of the military which followed the death of the king.

### The Bottom Line

In short, we believe that markets will – rightly – see the death of the king as a probable trigger for significant civil unrest. We would not rule out the possibility of martial law being imposed and/or another military *coup*; or of a protracted period of even deeper political uncertainty and instability than has become more or less the norm in Thailand in recent years.

Nevertheless, there is at least a possibility that a *de facto* constitutional crisis of this sort could ultimately result in a reversal of the retreat from democratic reform which we believe has been the trend in Thailand since 2006; and in the eventual establishment of a more genuine and stable democracy than the country has seen to date. But we are some years at least away from that time.

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<sup>2</sup> Princess Maha is, in fact, the King's second daughter. But her older sister, Princess Ubolratana Rajakanya, renounced her status some years ago to marry and live in America; and, even though she returned to Thailand – divorced – in 1998, she is not thought of as a possible successor to King Bhumibol.

<sup>3</sup> Thailand has had 18 coups in all since 1932, several of which have been triggered by rivalries in the upper echelons of the military.

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