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## Thai Vote May Test Economic Resilience That Lured Dow, Ford

By Daniel Ten Kate and Tony Jordan - Jun 22, 2011

The economic resilience that saw companies from [Ford Motor Co. \(F\)](#) to [Dow Chemical Co. \(DOW\)](#) invest in Thailand even amid its worst political violence in two decades may be tested next month as polls indicate a win for the party removed from power twice in the past five years.

Pheu Thai, backed by exiled former Prime Minister [Thaksin Shinawatra](#), led the ruling Democrats by 13 percentage points in a poll released June 18 by the National Institute of Development and Administration. The army, which deposed Thaksin in 2006, has warned voters to avoid picking the “same thing” as previous times; disputes over the last election led to airport seizures, arson attacks and protests that killed more than 100 people.

Clashes between rural and urban voters in the country of 67 million people didn't stop successive governments embracing trade and foreign investment or deter tourist arrivals, which jumped to a record in 2010. The economy last year grew the fastest since at least 1995, and Thai stocks were among the world's 10 best performers.

“Our companies have endured coups over the last few decades and survived,” [Hugh Young](#), who helps manage \$70 billion in Asian equities at Aberdeen Asset Management Asia Ltd., said by e-mail. “We're just watching and hoping for the best” from the July 3 vote, he said.

The ability of the world's top exporter of rice and rubber to also attract manufacturers that account for 40 percent of gross domestic product makes the economy more vulnerable to global setbacks than domestic troubles. Thai GDP fell 2.3 percent in 2009 amid a global recession, then jumped 7.8 percent last year. The government's planning agency sees growth between 3.5 percent and 4.5 percent this year as global demand slows.

### Firing Zones

Exports rose to an 18-year high in June 2010, a month after the military set up live firing zones in Bangkok to end a two-month protest that killed 91 people.

Dow Chemical, the largest U.S. chemical maker, has been operating in [Thailand](#) for 45 years and its venture with local partner Siam Cement Pcl “is one of our best in the world,” country manager Molly Zhang said. Midland, Michigan-based Dow plans to open a plant later this year that's part of a \$3 billion investment, she said.

“We have been growing through Thailand's recent history and remain optimistic about the economic and business opportunities moving forward,” Zhang wrote in an e-mail.

## Automaker Hub

Most industrial firms are situated around Rayong, an area about 100 miles (161 kilometers) southeast of Bangkok. Automakers such as [Toyota Motor Corp. \(7203\)](#), [General Motors Co. \(GM\)](#) and Ford Motor Co. have used Thailand as a global production hub due to tax incentives and trade arrangements that grant access to Southeast Asia's 592 million consumers.

"The success of Thailand's [auto industry](#) is the result of nearly two decades of commitment by the government to establish and build a globally competitive auto industry and supporting infrastructure," said Peter Fleet, president of Southeast Asian operations at Ford, which has invested \$1.3 billion in Thailand over the past three years.

More than 7,000 Japanese companies making products like automobiles, televisions and air conditioners are now in Thailand and more are coming, said Yoichi Yajima, who works with [Japan's](#) External Trade Organization in Bangkok.

"Politics and the economy are completely separated, and history proves that," he said. "Even with many changes in administrations in the past, the policy of preferential treatment for foreign companies and the manufacturing sector has remained intact."

## Less Than Potential

While its favorable investment laws, scenic beaches and abundant natural resources have helped it emerge as [Southeast Asia's](#) second-biggest economy, Thailand may still be failing to live up to its potential. The conflict is an extension of political upheaval that has seen nine coups and more than 20 prime ministers since [King Bhumibol Adulyadej](#) took the throne as an 18-year-old in 1946.

"Unfortunately Thailand is slipping," said Nandor von der Luehe, chairman of the Joint Foreign Chambers of Commerce in Thailand. "It's not that Thailand becomes worse as such, but the other ones are lifting the bar."

Thailand attracted less foreign direct investment than Indonesia and [Vietnam](#) over the past three years after outpacing them from 2005 to 2007, Asian Development Bank statistics show. Government and policy instability were cited as the [biggest concerns](#) for doing business in Thailand among 13,000 executives surveyed in the [World Economic Forum's 2010-2011 Global Competitiveness Report](#) released last year.

## Price of Unrest

The [tourism industry](#) has also expressed concern, even after arrivals rose 13 percent last year to a record 15.9 million. In the first five months of 2011, arrivals climbed 24 percent to 8.2 million compared with the same period last year, according to the Department of Tourism.

"Though the number of tourist arrivals is improving, it would have been better without the unrest," said Kongkrit Hiranyakit, president of the Tourism Council of Thailand. "We are stepping backward and can't grow in line with our potential because of politics."

Prime Minister [Abhisit Vejjajiva](#)'s Democrat party is trailing in polls against Pheu Thai, which is led by Thaksin's sister, Yingluck Shinawatra. Thaksin retains support in Thailand's poorer northern areas for his programs of cheap health care and micro-credit even after he was ousted and fled a jail sentence for abuse of power, a verdict he says is unfair.

## Poll Numbers

Of the 500 parliamentary seats up for grabs, 375 are chosen in districts and 125 through proportional representation. About 30 percent of the 1,247 people surveyed in a June 13 poll by the National Institute of Development and Administration will choose Pheu Thai candidates in their constituencies, while 17 percent favor the Democrats. For the party list, 30 percent backed Pheu Thai and 17 percent supported the Democrat party, it said.

An Assumption University poll published today showed the party-list contest may be tightening, with 30 percent of the 5,349 people surveyed still undecided. Some 44 percent of respondents will choose Pheu Thai and 39 percent will vote for the Democrats. The poll, conducted in 28 provinces between June 1 and June 21, has a 7 percent margin of error, the university said today in an e-mailed statement.

The prospect of Thaksin's allies winning the most seats in an election for the fifth straight time has prompted overseas investors to withdraw more than \$1 billion from Thai stocks over the past month on concerns it would provoke a backlash among a royalist elite that has used the military and court rulings to overturn his last three victories. The SET Index has fallen 0.9 percent this year, lagging behind Southeast Asian markets, after a 41 percent advance in 2010 that was among the world's best.

## Wealth Gap

A wealth gap in Thailand has helped fuel the conflict, with Thaksin's base in the north and northeast earning an average income about one third that in Bangkok, according to data from the National Statistical Office.

"The nation's economic development plan has been focused on the top-down model for a decade," Olarn Chaipravat, the head of Pheu Thai's economic team, said today in Bangkok. "It's time to change. In the next decade it should be a bottom-up model, focusing on [income distribution](#)."

Both major parties have promised handouts to the poor and a [minimum wage](#) increase of between 25 percent to 99 percent in some areas, a move that manufacturers fear may erode their competitiveness.

"There is general acknowledgement that the current minimum wage is insufficient given the higher cost of living," Finance Minister [Korn Chatikavanij](#) said. "There's a question of social justice and equal distribution of economic gains that needs to be addressed."

## 'Thailand Always Survives'

As Thais seek to reconcile their economic and political divide with [King Bhumibol](#), 83, hospitalized for the past 21 months, long-term residents like David Lyman seek to keep things in perspective. All the

governments since absolute monarchy ended in 1932 have been pro-business, said Lyman, the chairman of law firm Tilleke and Gibbins and a governor of the American Chamber of Commerce.

“In spite of its inept governments and its continued chaotic political situation, Thailand always survives,” Lyman said.

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