

Losing King Bhumibol Concerns Don't Deter Faber Bet on Thailand

Thursday 9 July 2009, by [MELLOR William](#), [TEN KATE Daniel](#) (Date first published: 8 July 2009).

Thailand's prime minister pauses briefly and swallows hard as he addresses the question few of his compatriots dare contemplate: life without King Bhumibol Adulyadej, the world's longest-reigning monarch.

"I am under no illusion — it will be a very difficult time for all of us," says Abhisit Vejjajiva, who in December patched together a multiparty coalition government and became troubled Thailand's fifth prime minister in four years.

American-born King Bhumibol, 81, whom many Thais regard as semi-divine, ascended the lotus throne in 1946, when Harry Truman was in the White House and Josef Stalin ruled the former Soviet Union. He has been the lone stabilizing presence in a land that has been rocked by 15 successful or attempted coups d'état, 16 different constitutions and 27 changes of prime minister during his reign. The stern-faced monarch with few official powers but much influence has at least twice intervened to halt bloodletting.

Thailand's need for stability has grown more acute with the emergence of a seemingly unbridgeable, color-coded societal chasm between wealthier city dwellers and those that live in the countryside — warring factions that use symbolic hues to literally wear their allegiances on their sleeves.

On one side: the urban elite, based largely in Bangkok, who have adopted the king's traditional color of yellow. On the other: the majority rural poor, who pledge equal loyalty to the king yet sport red shirts to show their support for billionaire Thaksin Shinawatra, the populist prime minister overthrown in a 2006 coup.

Rival Factions

Street demonstrations organized by the rival factions led to the occupation of Bangkok's two main airports in November and triggered the cancellation of an April meeting of Asian leaders — events that brought unwelcome publicity to the Land of Smiles. A more orderly mass protest was staged on June 27 and others are planned in the coming months.

Amid the chaos, some investors see opportunity in Southeast Asia's second-largest economy behind Indonesia. As of July 7, Thailand's stock index had surged 30 percent this year compared with a 0.8 decline in the Standard & Poor's 500 Index. During the same period, overseas investors increased their shareholdings by a net \$621.4 million after being net sellers of \$4.8 billion in stocks last year.

Publicly traded companies in Thailand are trading at just 11 times estimated 2009 earnings, making them the second- cheapest in Asia after Pakistan. They currently offer a dividend yield that averages 4.7 percent compared with 3 percent for U.S. stocks and as little as 1 percent for Chinese equities, according to data compiled by Bloomberg. That makes Thailand a buy, says Marc Faber, who manages \$300 million in Asian shares at Hong Kong-based Marc Faber Ltd.

'Paid to Wait'

"I can get here relatively recession-resistant businesses that are well run with a dividend yield of 6 percent or 7 percent," says Faber, publisher of the Gloom, Boom & Doom Report, who has been buying shares in Thai banks and food producers this year. "If you buy good businesses, it would be most unusual if you did not make good money in 5 or 10 years. And with these dividends, in Thailand you are paid to wait."

Investors with that kind of time horizon may need to consider what will happen when Thailand has a new sovereign. Already, concerns about the king's advanced age and uncertainty over the succession have begun to blunt confidence that the royal prerogative will remain powerful.

Regional Influence

That could trigger Thailand's biggest crisis since 1932, when the military and civil servants overthrew the absolute monarchy, says Stephen Vickers, Hong Kong-based chief executive officer of FTI International Risk Ltd., which advises investors in Thailand.

"In Thailand, the king is the God-bolt that holds the rotor blades to the helicopter," Vickers says. "Investors have lived through many coups and it's easy to become blase, but when the king passes away, it will be significantly more serious than before."

A smooth royal succession would be welcomed throughout Southeast Asia, a market of 575 million people. Fertile, tropical Thailand, with a population of 67 million, is the world's biggest exporter of rubber and rice, two mainstays of the regional economy.

Even with an abundance of natural resources and a business-friendly environment, Thailand hasn't been immune from the global recession. Unemployment will nearly double this year to 2.5 percent from 1.3 percent in 2008, according to the National Economic and Social Development Board. That jobless rate is still low by international standards. Global unemployment may reach 7.4 percent, according to a May 28 forecast by the Geneva-based International Labor Organization.

Stimulus Effect

Thailand's economy shrank 7.1 percent in the first quarter — the worst contraction since the 1998 Asian financial crisis. Exports plunged 26.5 percent and industrial production 10 percent in May — the seventh such monthly declines in both categories. In June, Standard & Poor's said it may lower Thailand's BBB+ credit rating. In April, Fitch Ratings lowered its rating for Thai foreign-currency debt for the first time in more than a decade, cutting it to BBB, the second-lowest investment grade.

Prime Minister Abhisit on May 29 introduced a stimulus package worth 1.4 trillion baht (\$41 billion) to spur growth. If the program works, Thailand's economy may shrink by only 3.5 percent this year, the Finance Ministry forecasts.

Royal Investor

The king's influence over the economy is personal. He's the country's leading investor. Through the monarchy's asset manager, the Crown Property Bureau, Bhumibol controls property and shares worth about \$33 billion, according to Porphant Ouyyanont, a Thai academic who has studied royal finances.

Bhumibol's investment arm holds controlling stakes in the country's No. 2 bank by market value, Siam Commercial Bank Pcl, and the largest publicly traded conglomerate, Siam Cement Pcl, and owns shares in hotel companies. The fate of that business empire — along with who controls it — is also tied to the royal succession because the king appoints the CPB director general.

Under the constitution, the king can also choose his own successor. The government has disclosed that the next monarch will be Crown Prince Vajiralongkorn, 57, a career soldier. Unlike his popular unmarried sister Princess Sirindhorn, 54, a one-time candidate for the throne who does charitable work, the twice-divorced crown prince has fought off unwelcome publicity about his personal life.

Nine Kings

Whatever the rules, the 227-year-old Chakri dynasty, which has provided Thailand's last nine kings, has been the one constant in a land of frequent political chaos. Bhumibol's great-grandfather Mongkut was immortalized in the Rodgers and Hammerstein musical *The King and I*. The filmed version of the work, starring Russian-born actor Yul Brynner, isn't shown in Thailand for being disrespectful of the monarchy.

The Chakri dynasty has a history of murky successions. The seventh king, Prajadhipok, abdicated in 1935 three years after losing his absolute powers in a coup by military officers and top civil servants. The throne was then passed to a 10-year-old nephew, Ananda — Bhumibol's older brother — who spent most of his reign at school and university in Switzerland and did not live long enough to have a coronation.

In June 1946, Ananda, then 20, was found dead in bed in the Grand Palace in Bangkok with a bullet in his forehead and a Colt pistol beside his body. Three men convicted of the murder were executed in 1955, although some historians describe the death as an unsolved mystery.

Boston-Born Monarch

Next in line was Bhumibol, who was born in Boston while his father, Prince Mahidol, was studying medicine at Harvard University. Like his brother, Bhumibol was schooled in Switzerland and returned there after his 1950 coronation and didn't officially resettle in Bangkok until the following year, by which time Thailand hadn't had a resident monarch for 16 years.

Bhumibol rebuilt the royal family's reputation by traveling throughout the countryside setting up model farms and irrigation projects. The king's popularity also gave him the power to halt military strongmen in their tracks. In 1973, he threw open the gates of his home, Chitrlada Palace, to provide an escape route for students protesting the military dictatorship after troops had opened fire on them.

In 1992, Thais watched on live television as a military commander who had seized power in a coup and whose soldiers fired on unarmed middle-class protesters prostrated himself before the monarch alongside a rival former general who had led the street protests. After a royal dressing down, the coup leader relinquished power.

Land of Smiles

Thailand, the only Southeast Asian country not to be colonized by the West, supported the U.S. during the Vietnam War. Bordered by Myanmar, Laos, Cambodia and Malaysia, the Land of Smiles prospered economically even in the face of frequent political upheavals.

Financial incentives for new business along with a cheap and skilled labor force helped Thailand establish itself as a world-class manufacturer of products ranging from cars to disk drives, according to Michael Dunne, Shanghai-based Asia Pacific managing director at J.D. Power & Associates, a marketing information services company. "It's Japan's industrial backyard — the place they're most comfortable," he says.

In 1978, Thailand's economic growth topped 10 percent for the first time. From 1987 to 1993, its average expansion of 10.1 percent outpaced even that of China.

Currency Crisis

Just as Thailand was in the vanguard of Asian economic growth, it also led the region off a cliff in the late 1990s. "Thailand had gone deeply into debt, had invested in many projects that were clearly inappropriate and had allowed speculative markets in stocks and property to run riot," according to a 2007 United Nations Development Program report.

In July 1997, Thailand could no longer keep its currency, the baht, pegged at 25 to the U.S. dollar. Within six months, the baht halved in value and half of the loans held by Thai banks defaulted. Hundreds of companies collapsed.

Within weeks, the currency contagion had spread through most of Asia. "Thailand was at the forefront of the East Asian miracle and was then pivotal in bringing things to an end," says Uwe von Parpart, Hong Kong-based chief Asian economist at Cantor Fitzgerald Capital Markets Ltd. "It has been at the forefront of the good and the bad."

Vacation Paradise

Thailand, with its golden temples and ancient history, also ranks high as a tourist attraction. Its diversions, ranging from grand hotels near coral reefs to raunchy pole-dancing bars, attracted 14.6 million visitors and \$27.4 billion in revenue last year, according to the government. As street violence blunts Thailand's reputation as a vacation paradise, visitor arrivals are expected to fall to 10 million people this year.

The country has expanded its manufacturing capacity, as carmakers including Toyota Motor Corp., Isuzu Motors Ltd., Honda Motor Co., General Motors Corp. and Ford Motor Co. produced 1.4 million vehicles valued at \$20 billion in Thailand last year and exported vehicles to 130 countries, according to J.D. Power.

Even amid the prosperity, the gap between rich and poor has continued to grow. While many Bangkok-based investors grew prosperous from the boom years, farmers missed out. Average household income in the capital was 35,000 baht a month in 2007, according to the National Statistic Office. In the northeast, monthly household income was the equivalent of about \$340 and some 13 percent of the population lives on less than \$1.35 a day — the official poverty line.

Color-Coded Conflict

That divide has transformed the country's political life into a color-coded conflict. The Yellow Shirts are largely based in Bangkok, a city of 9 million people whose streets are jammed with traffic as Mercedes-Benz sedans vie for space alongside emission-spewing tuk-tuk motorized rickshaws and the occasional elephant.

Opposing them are the Red Shirts, largely rural poor hailing from the impoverished northeast. They back Thaksin, 59, a billionaire businessman who was ousted three years ago for what the military claimed was corruption. Red Shirt leaders play down the revolutionary significance of their chosen color, with one advocate, Veera Musikapong, telling reporters it simply looked better against dark skin.

In the past four elections from 2001 to 2007, voters have returned pro-Thaksin governments. On the past three occasions, the elected governments have been removed from office by a combination of

street protests, military pressure and censure in the courts.

Rural Relief

In 1998, Thaksin, a former police officer turned telecommunications tycoon, established his own political party, Thai Rak Thai (Thais Love Thais). Three years later, the party swept to power by winning 248 of 500 parliamentary seats.

The first Thaksin government gave microcredit grants to villages to start businesses and introduced a low-cost health care program — crucial support in a country where 1.4 percent of the population are HIV positive, according to 2008 UN estimates. At the same time, he sent police squads after drug traffickers. Some 2,500 people died in the enforcement effort, not all of them involved in drugs, an operation condemned by Amnesty International for its brutality.

In 2005, Thaksin was re-elected with an even bigger parliamentary tally of 377 seats. That same year, Yellow Shirt leader Sondhi Limthongkul, a former Thaksin supporter, began a campaign of street protests against the prime minister, saying that Thaksin used his office to advance his business interests.

Election Boycott

In January 2006, Thaksin's family sold its controlling stake in publicly listed Shin Corp. to Temasek Holdings Pte., an investment arm of the Singapore government, for the equivalent of \$2.15 billion, in a deal structured so that the Shinawatras paid no tax. That arrangement inspired Yellow Shirt demonstrations in Bangkok led by television station owner Sondhi. Thaksin dismissed the protest, saying Sondhi's real motivation was vengeance for being denied a broadcast license.

Thaksin responded by calling a snap general election, which the three main opposition parties boycotted. After Thaksin's inevitable victory, the king made his most significant intervention in politics since the 1992 bloodbath. He gave a speech in April 2006 calling the election undemocratic because of the absence of serious opposition. Two weeks later, the courts annulled the election, and Thaksin remained as head of a caretaker administration pending a new poll.

Before voting could take place, the military staged its coup on Sept. 19, 2006, while Thaksin was in New York attending a meeting of the United Nations General Assembly.

People Power

In December 2007, the military-backed government held new elections, which a pro-Thaksin party named People Power won. In February 2008, Thaksin returned to Thailand. He fled the country six months later to avoid corruption charges, saying he wouldn't get a fair trial. In October 2008, he was sentenced to two years in jail in absentia for helping his wife buy government land while he was in office.

People Power's first prime minister, Samak Sundaravej, 74, was removed from power after nine months by the courts for taking money — the equivalent of just \$2,345 — to host a television cooking show. The party then chose Thaksin's brother-in-law Somchai Wongsawat, 61, as prime minister in a parliamentary vote.

In November 2008, rampaging Yellow Shirts, who claimed Thaksin bought the votes of ignorant farmers, invaded and succeeded in shutting down Bangkok's two main airports, stranding 400,000 travelers for a week and costing the country \$8 billion in lost tourism and airline revenues, according to the Bank of Thailand.

Airport Protest

A week later, the courts dissolved the government for alleged vote buying in a suit brought at the recommendation of Thailand's Election Commission after one of the government's senior politicians was found guilty of committing election fraud. The airport protest then ended.

In July, charges were filed against leaders of the yellow shirt airport protests, which include breach of aviation law and illegal assembly, Thai newspapers reported. Among those facing charges is Thailand's foreign minister, Kasit Piromya, who reported to police on July 6 to hear the charges, Foreign Ministry spokesman Thani Thongphakdi confirmed to Bloomberg News. Kasit earlier this year told reporters in Bangkok that he had done nothing wrong. The ministry spokesman said Kasit, who addressed the crowds from a stage at the airport during the protests, would keep his ministerial position.

'Bonsai Democracy'

"Thailand has a bonsai democracy," says Jaran Ditapichai, a Red Shirt leader. "Whenever it grows up, someone cuts it back."

In April, the Red Shirts agitated for a new election by gate-crashing a summit meeting of Asian leaders in the Thai coastal resort of Pattaya. The siege forced some of the region's most powerful figures, including Chinese Premier Wen Jiabao, to flee by helicopter.

Meanwhile, the exiled Thaksin was broadcasting speeches his opponents interpreted as calls for a republic. In messages played at mass rallies, he used the phrase "patriwat prachochoen," which roughly translates to "people's coup." Nevertheless, Thaksin — whose exact whereabouts are often unknown — has been careful to pledge loyalty to the king.

His words resonate among the 80,000 inhabitants of Bangkok's Klong Toey shantytown, says Prateep Unsongtham Hata, a 5-foot-tall (152-centimeter-tall) activist known throughout Thailand as the "angel of the slums." Born in Klong Toey, as a teenager she organized slum dwellers to fight the bulldozing of their homes and was a leader of the 1992 pro-democracy protest that was fired on by the army before the king intervened.

'No Hope'

"In the past, people had no hope," Prateep, 57, says. "Then, when Thaksin came in, they could see tangible democracy. They could be healthier, have more food and better job opportunities. But now they find democracy has two classes."

Thailand, which is 95 percent Buddhist, is already beset by another security problem — a secessionist Muslim insurgency in three southern provinces near the Malaysian border that has claimed more than 3,400 lives since 2004. In June, Abhisit said Thailand may allow more local autonomy and consider Shariah law to defuse the insurgency, which has recently targeted teachers, Muslim worshippers and policemen.

By comparison, the toll in the yellow-red confrontation has been small. Last year, at least seven people died and hundreds were injured in street battles, grenade attacks and shootings related to the protests. In April, Yellow Shirt leader Sondhi escaped death when gunmen sprayed his car with more than 50 bullets. Red Shirt leaders claim that at least 10 of their people were killed during protests the same month.

Health Speculation

The king has remained above the political fray in recent years and his nonattendance at several key ceremonies has triggered speculation in the international press about his health. On Dec. 5, Bhumibol failed to deliver his customary birthday address to the nation for the first time. The king, now bent with age, appeared on television in June presiding over a Buddhist ceremony marking the anniversary of his brother's death and was also seen receiving an award in government pictures dated June 24.

The task of maintaining stability is in the hands of 44-year-old Prime Minister Abhisit, a leader whose resume mirrors that of a U.K. politician. Born in Newcastle upon Tyne, England, to parents who were medical professors, Abhisit attended Eton College, the alma mater of 18 British prime ministers, before earning a degree in politics, philosophy and economics at the University of Oxford.

Rising Star

Returning to Thailand in 1986, he lectured at Chulachomkiao Royal Military Academy before being elected to Thailand's parliament in 1992 as a member of the country's oldest party, the center-right Democrats.

Abhisit joined others in his party pledging to strengthen Thailand's U.K.-style parliamentary system. In 1997, when the Democrats formed a coalition and introduced a new constitution that gave more powers to the parliament, Abhisit won a cabinet position advising then Prime Minister Chuan Leekpai.

In 2005, four years after the Democrats lost power to Thaksin's party, Abhisit became opposition leader. His coalition now controls 280 of 480 seats, though the pro-Thaksin opposition, now known as Puea Thai, is the largest single party.

To calm Thai politics, Abhisit has introduced a program for political reconciliation, which includes an election-free period to avoid poll-induced violence, possible amnesty for banned politicians and the promise of new elections after the constitution is changed.

Political Stability

"The question is: Will the government be able to guarantee both the succession and political stability?" Cantor Fitzgerald's von Parpart says. "That's going to be a lot easier under circumstances of economic normality rather than economic crisis."

Stability would also be welcome news for entrepreneurs such as Bill Heinecke, American-born founder of Minor International Pcl, a hotel and restaurant chain that has attracted investment from the king, who, together with the CPB, owns about 4 percent of shares.

The son of a Voice of America correspondent, Heinecke arrived in Bangkok as a teenager in the 1960s. Today his business runs 27 hotels, including Four Seasons and Marriott properties and the luxury Anantara resort chain.

At the height of the airport demonstrations in December, occupancy at the Bangkok Marriott plunged to 20 percent from 80 percent; it bounced back to 65 percent in the first quarter of this year. Minor's share price, which soared more than 700 percent between 1998 and 2008, has fallen 1 percent this year, trading at 7.8 baht on July 7.

'Back to Business'

To shore up overseas-investor confidence, Abhisit made a one-day visit to Hong Kong on May 15 and

followed that up with visits to Singapore and Beijing in June.

“Thailand continues to get back to business,” he said at a press conference in Hong Kong. Abhisit said the king is still performing his duties. “I can tell you His Majesty is very well aware of all the issues that are pertinent to the current situation.”

In an interview at his Italianate office in Government House in Bangkok five days later, Abhisit discloses that Bhumibol, who has 4 children and 11 surviving grandchildren, has already endorsed his only son as the next king.

“The crown prince is the designated heir,” Abhisit says.

A visit to investor Faber’s home 700 kilometers (435 miles) north of Bangkok highlights both Thailand’s allure and its risks for future investors.

Walled City

Swiss-born Faber first visited Thailand 36 years ago and moved his home there in 2000. Today, he lives in baronial splendor, surrounded by first editions of books such as Adam Smith’s *The Wealth of Nations*, in a teak house on the banks of the Ping River just outside the 1,000-year-old walled city of Chiang Mai.

As night descends on the ancient city’s golden temples, Faber decides it’s time for a beer and leaps astride a blue 1,150-cc Kawasaki motorcycle, arriving a few minutes later outside a neon-lit strip of tiny bars, where friendly girls from the poverty-stricken northeast become friendlier still for the price of an 80 baht “lady’s drink.”

Even at 8 p.m. on a Saturday, the bar girls far outnumber customers at Bar Linda, Faber’s favored watering hole. “A few months ago, this place would have been packed by now,” he says, gesturing down the row of near-empty bars.

Just up the road, a 10-meter-high (33-foot-high) illuminated portrait of the monarch gazes benignly upon the city. “Long Live the King,” the sign proclaims. That’s a sentiment investors, as well as Thais, endorse, even as they also quietly accept that the Land of Smiles will one day shed tears over the end of the Bhumibol era.

P.S.

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