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Thai Strife Threatens Investment

By [PATRICK BARTA](#) And [ALEX FRANGOS](#)

BANGKOK—Thailand's standing as a major investment destination is coming under question as its government fails to resolve the country's bloody political crisis and economic damage mounts.

Sporadic street battles continued in parts of Bangkok's central business district on Tuesday, though they were noticeably less ferocious than the previous five days, when at least 37 people were killed and many more wounded. There was one reported death on Tuesday.

Still, a political solution seemed as distant as ever. The government rejected a cease-fire plan backed by leaders of the so-called Red Shirt movement that involved using the country's Senate as a mediator. Government officials said they won't negotiate until the protesters—who want new elections to oust a government they believe serves only Thailand's elites—agree to disperse.

There was little sign of that happening on Tuesday, as new food supplies appeared in the protesters' heavily fortified camp in a ritzy Bangkok shopping zone, despite a multiday military clampdown aimed at depriving the area of necessities. It wasn't clear how the food, carried in takeout styrofoam containers in a pickup truck, got in.

The government announced a two-day public holiday was being extended to Friday as many areas remained too dangerous to enter. Police banned the sale of tires in Bangkok without police permits so demonstrators couldn't set fire to them around the city.

The crisis was already causing severe damage to Thailand's economy before the latest spasm of violence. But the killings have added a new dimension, forcing businesses to contemplate more drastic steps to ensure safety of their employees and causing some foreign investors to wonder if Thailand's deep social divides can ever be repaired.

Some companies are considering moving employees to hotels near the airport so they can escape more quickly if street violence spreads, while others are shifting their foreign direct investment, or FDI, to other countries entirely.

"Unless the crisis is resolved, law and order restored and a credible process of reconciliation begun, Thailand will probably lose out in the FDI stakes for a long time," says Manu Bhaskaran, chief executive of Centennial Asia Advisors, an economic consulting firm in Singapore. Even longtime investors are wondering "should I be engaged at all" in Thailand, says David Fernandez, a managing director at J.P. Morgan in Singapore.

Tüv Süd, a German company that conducts product testing and industrial certification, with operations throughout Asia, was about to make an acquisition of a Thai oil-and-gas-services firm when the protests intervened.

"Because of the instability we are holding off," says Ishan Palit, chief executive of Tüv Süd's Asia operation. With his German bosses generally eager to expand in Asia, those resources will now go to places such as Malaysia or

Indonesia, he says. "Until two weeks ago, the view was still that it was going to come back and be all right," he says. But now, "it's gotten more serious."

Thailand's problems are "a bit more fundamental" than the past, adds Shane Oliver, head of investment strategy at AMP Capital Investors in Sydney. "It makes it difficult to justify major allocations to Thailand," he says. "I can find other countries that are more attractive without having to worry about the political situation," he says, including stock markets such as South Korea and Taiwan.

Thailand's conflict stems in part from tensions between Thailand's sizable rural underclass—who make up a majority of voters—and urban elites perceived to control the country's key economic and political institutions. The protesters are led at least in part by former prime minister Thaksin Shinawatra, a tycoon who cultivated their support through populist policies and easy credit before he was removed in a 2006 coup. He lives in self-imposed exile to avoid imprisonment on a corruption conviction, but supports the movement financially from abroad.

The latest violence broke out after government authorities decided to impose a new security perimeter around the protesters' main camp in a bid to squeeze their supplies. Protesters have fought back by throwing Molotov cocktails and rolling burning tires toward the soldiers, with more gunfire heard late Tuesday.

Thailand remains a critical part of the global supply chain and an extremely important place for investors, with 65 million consumers and far better infrastructure for manufacturing than most of its neighbors. It has survived political crises before, including violence in the 1970s and 1990s, and is still on track to post gross domestic product growth of 4% to 5% this year on the back of strong consumer spending and demand for exports made far outside the conflict areas. The country could rebound quickly if a resolution is found.

But Thailand was already struggling to fend off less developed, lower-cost, neighbors such as Cambodia and Vietnam in attracting FDI in recent years. For the past two years, it received less FDI than Vietnam, even though the latter's economy is far smaller.

The country's intractable political problems are contributing to the problem. David Simister, chairman of the Thailand unit of real-estate services firm CB Richard Ellis, says demand for office and industrial space from multinationals has been somewhat subdued since 2005, when protests first started rocking the capital in the leadup to the 2006 coup that deposed Mr. Thaksin.

Now the situation has reached a new level of seriousness, he says. "This is uncharted and the level of tension is much higher." The company has moved its operations from central Bangkok to a suburban office space and set up 100 employees in temporary workstations.

Other businesses are also scrambling. The Stock Exchange of Thailand, which has remained open, is now operating out of an undisclosed location after its leaders decided its main office tower was too close to the fighting.

Other companies are struggling to reroute product shipments and supplies around conflict areas, while some staff are having a hard time getting to work because of the lack of public transportation.

"Virtually everybody is now being touched," says Paul Quaglia, a director at Bangkok-based security consulting firm PSA Asia. Multinational companies are "are not running for the exits—but they're starting to look at their maps to see where the exits are," he says.

Inside the government's fragile perimeter on Tuesday, the smell of rotting garbage wafted across the landscape as bags of uncollected rubbish piled up along mostly empty roadways. A burned-out bus and sandbags blocked one broad avenue that had been the scene of some of the most vicious fighting in previous days. Condominium towers were pockmarked with bullet holes and a few shops, including a 7-Eleven convenience store, had been looted.

A new routine seemed to be settling into the protesters' main encampment, however. Around midday, a pickup truck loaded with hot takeout meals pulled into an area near the protesters' rally soundstage, and other food stations appeared to be well-stocked. A network of motorbike taxis buzzed visitors around the area and Red Shirt guards set up new checkpoints close to their camp to regulate the limited flow of vehicles.

The number of protesters was down significantly from recent weeks but remained relatively unchanged from the weekend, when a core group of a few thousand or so people dug in.

—Wilawan Watcharasakwet contributed to this article.

Write to Patrick Barta at patrick.barta@wsj.com

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