



EMERGING MARKETS SPOTLIGHT



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OCTOBER 2020

Although emerging markets go right or wrong at the country level, there are some similarities between economies and markets within particular regions – the commodity dependencies of both Latin America and the Arab Gulf, or the euro-linkage of Central Europe, for example. One of these similarities has been the relative stability of the four South-east Asian markets (Thailand, Indonesia, Malaysia and Philippines) since the period of extreme economic and political volatility that broadly lasted 1996-2006. That stability has been weakened by the economic and social effects of coronavirus in a way, notably in Thailand. Thai politics have been deteriorating since the mid-2000s, with broad tensions between a more reform-oriented, largely provincial political movement and a more conservative, largely Bangkok-based elite with strong links to the royal family and the military. Since the 2014 coup this second group have been in power, under the military-backed government of former Army chief Prayut Chan-o-cha.

2020 has seen an upsurge in anti-establishment protests that began in February when the Election Commission banned the progressive Future Forward Party. Covid-related lockdowns led to a period of calm, but protests have picked up again in recent months. The protestors are demanding the resignation of the government, the dissolution of parliament and fresh elections under a new constitution. Their demands also include a reduction in the monarch's roles in government and the military – these are intensely controversial for the royalist elite and may prove a particular source of tension. The government seem unwilling at the time of writing to engage with the protestors.

Instead, the government is again relying on technocratic delivery of a strong economy to mollify popular unhappiness. With tourism continuing to look weak, and with policymakers now expressing concern about the 2021 tourist season, the Ministry of Finance (and its new head, Arkom Termittayapaisith, appointed as Finance Minister on 5 October) is turning to fiscal stimulus to support the economy.

One of the key measures is a consumption support scheme for the fourth quarter of 2020, modelled on the "Shop for the Nation" scheme deployed in 2019, but at a larger scale, allowing up to THB 30k (around US\$1,000) of consumer spending per citizen to be tax deductible from income taxes.

In addition, Finance Minister Arkom previously worked in the transport ministry, where he played a key role in several major transport infrastructure projects. Commentators assume that he has been picked for the Ministry of Finance to push more of these kinds of projects through with the aim of further supporting economic growth.

One consistent feature of economic policy in Thailand since 2006 has been the twin policies of running a large current account surplus and accumulating foreign exchange reserves, both in turn requiring the management of exchange rates to prevent the Thai baht strengthening against the currencies of trading partners. This policy looks to be continuing, with Thai foreign exchange reserves up 10% year to date to US\$238bn.

This policy, combined with the economic impact of Covid-19, has meant that monetary policy has had to be kept loose. The Bank of Thailand's policy interest rate, the one-day repurchase rate, remains on hold at a record low of 0.5%, while the monetary policy committee is reported to be considering unconventional monetary policy measures (for example, quantitative easing and/or negative policy rates). If fiscal policy, described by the central bank as "the main driving force behind economic recovery" is not sufficiently stimulative, and with policy rates near the zero lower-bound, unconventional policies may well be seen in Thailand.

Ultimately, the ‘fortress balance sheet’ approach to foreign exchange reserves offers economic stability and security, but is dependent on a model of under consumption and some degree of financial repression of people who are both workers and consumers. This can minimise financial market concerns about political unrest, and may, once again, allow the current government to face down its critics. With tourism also yet to show signs of recovery, we remain zero-weight Thailand and prefer to look for recoveries in the more domestically-driven part of the emerging market equity asset class.

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