

Political Risk Alert (14 May 2019)

Thailand: Legislative gridlock will follow election results

Event: The Election Commission (EC) announced the official results of the March 24 general election on May 8.

Significance: The official result show that a seven-party coalition led by the main anti-junta Pheu Thai Party just failed to achieve a majority in the 500-member House of Representatives, while the pro-junta Phalang Pracharat Party won fewer seats than Pheu Thai. However, with the 250-member Senate hand-picked by the military-led National Council for Peace and Order (NCPO), the junta will ensure that Prayut Chan-o-cha continues as prime minister and that the military remains the dominant force in Thai politics.

Analysis: After nearly five years of NCPO rule, 350 constituency seats were up for election on March 24, with the other 150 seats being allocated to parties based on a complex formula relating to the popular vote and constituency seats won.

The EC announced the official tally over two days: the winners of 349 constituency seats were declared on May 7 and 149 party-list MPs were confirmed on May 8. The May 8 announcement came after the Constitutional Court effectively upheld the EC's formula, which came under severe criticism from anti-junta parties for favouring smaller parties and so encouraging a fractured opposition.

The EC's formula for allocating party-list seats means that 27 parties will have MPs. By setting the threshold for parliamentary representation at one seat per 30,000 votes rather than the previously assumed one seat per 71,000 votes, it effectively reduced the strength that Pheu Thai's coalition believed it had following the announcement of the initial results in March. The anti-junta alliance now has 245 seats, so lacking a majority, rather than the 255 it claimed soon after the poll.

The conservative Democrat Party had an unexpectedly poor showing with just 52 seats having failed to gain a single seat in its traditional Bangkok strongholds, but the regional Bhumjaithai Party strengthened its credentials as a potential kingmaker with 51.

The country's new constitution, designed by the military, gives the appointed Senate a key role in choosing the prime minister. This means that a coalition led by Phalang Pracharat should eventually have little difficulty forming a government with Prayut at the helm. To secure 376 National Assembly votes in favour of Prayut's premiership, the pro-junta party will likely need the backing of just eleven further MPs, given that the support of 250 Senators is assured.

But beyond the choice of prime minister, things are less certain. As parliament must convene within 15 days of the official results being announced, pro- and anti-junta parties are now engaged in hectic horse-trading to strengthen their alliances.

Phalang Pracharat will probably attract support from pragmatic smaller parties. The Democrats and Bhumjaithai have yet to declare their allegiance, prompting pro- and anti-junta groups to court both to join their coalitions. At least some Democrat and Bhumjaithai MPs will likely join Phalang Pracharat's bloc.

The complete list of Senate candidates, kept under wraps by the junta, will require royal approval before the Senate can begin its first joint sitting with the House to elect the premier. The Senate will include serving military chiefs, former cabinet ministers and members of the now-dissolved National Legislative Assembly that had been set up by the NCPO.

If Phalang Pracharat's coalition is short of a House majority, it will find it tough to pass legislation. Prayut had previously relied on Section 44 of the 2014 interim constitution, which gave him sweeping powers to issue orders until the elections and the formation of a new government. He may struggle to reconcile himself to parliamentary deal-making and will now be exposed to heated debates and probably even no-confidence motions.

The new administration's first test will be the budget for the 2019/20 fiscal year (October-September) that is due to be presented in June. The opposition is expected to go on the offensive on issues such as military spending and social welfare, with the real prospect of a deadlocked parliament. A severe disruption of the legislature could force political parties to mobilise their supporters on the streets, with the possibility of triggering military intervention.

However, a minority government led by Phalang Pracharat would be able to rely on the support of the Senate on discussions related to laws affecting the political process or bills concerning important state affairs. Moreover, there will be policy continuity and some consensus on economic issues, with all political parties keen to reinvigorate a sluggish economy. Thai GDP growth has averaged around 3% in the last five years.

A priority will be to attract foreign investment and boost public spending under the Eastern Economic Corridor (EEC), a flagship infrastructure scheme aimed at transforming the eastern provinces of Chachoengsao, Chonburi and Rayong into technological and manufacturing hubs. The EEC seeks to promote investment especially in high-tech industries such as aviation, robotics and digital technology, enabling Thailand to escape a middle-income trap and become an advanced economy.

Yet despite being a critical component of a constitutionally mandated 20-year National Strategy, which obliges future governments to the NCPO's economic plan, the EEC will face political and economic headwinds, even with a pro-junta coalition at the helm.

Opposition parties will likely push for certain projects to be reassessed for their economic viability, including a high-speed railway line linking three major airports near the capital. Such demands for increased scrutiny and transparency will lead to delays in some schemes, while others with significantly high costs could be curtailed. The government will also have to grapple with a lack of the highly skilled workers that are crucial to technology-driven industries. The problem is exacerbated by an underperforming education system.

Any delays in forming a new government will dampen investor confidence, while prolonged signs of gridlock in parliament and a slowdown in regulatory reform efforts could deter investors from doing business in Thailand.

What next: While a pro-junta coalition led by Phalang Pracharat will form the next government, it will face strong opposition in the House, ensuring legislative gridlock. The administration will promote key economic initiatives including tax incentives as part of ongoing efforts to revive a slow-moving economy, but progress will be slow.

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