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DRAFT

POLITICAL RISK IN THAILAND

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(WHO-11/7/80)

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| TO Betsy Harper | FROM Bill Overholt | DATE 7 November 1980 |
| SUBJECT Political Risk in Thailand | | |

This memo responds to your request today for an estimate of the political risk involved in a three year facility for Thai Military Bank. I respond with the caveat that, while Thailand is a country I have followed for more than a decade, I have not visited it for more than two years and have not been able to undertake more than a brief review of the files at this time. The following is therefore based on my knowledge of Thai history, on a thorough country risk study done two years ago, and on informal journalistic attention since then. I would prefer to write from a recent visit, particularly given recent military events, but nonetheless have considerable confidence in the following points.

1. The Thai government changes frequently at the top. However, the frequent changes and coups at the Cabinet level must not disguise the considerable continuity and the flexibility in response to social change which are the most important characteristic of the country's top leadership. For BT purposes the system is stable although the Cabinet is unstable.
2. Thailand has significant problems with communist and Muslim insurgent groups as well as some student discontent. However, none of these threaten the system in the three-year time frame. The communist insurgents used to be materially supported by the Chinese, but the Chinese are now committed to support the stability of the Thai government in order to contain Vietnam. The guerrillas are attempting with some success to shift over to Vietnamese support, but the transition is difficult and divisive. Hence there is no substantial threat in the three-to-four year period (and probably beyond) of a Nicaragua-type situation. The threat is further diminished by the patriotic unity which derives from the Vietnamese confrontation.
3. The students have in the past temporarily turned out a military government. That occurred, however, at a time when international and domestic conditions were considerably more messy than today. Because of the Vietnamese problem, the military is in a more decisive mood today, and has greater support from other sectors of the population, than before. Moreover, the students are also patriotic.
4. The Vietnamese military buildup on the Thai frontier, and the friction over Thai support of Kampuchean refugees and guerrilla groups, is very serious. However, China has pledged to react strongly to any repetition of the Vietnamese incursion into Thailand on June 23, 1980. Further minor incursions are possible, but a massive war would be so costly to a debilitated Vietnam (which, however, can defeat the Thais), and the Chinese-ASEAN-U.S. response would likely be unified and strong (while avoiding direct military engagement in Thailand), that the scenario is relatively unlikely.
5. In short, there is virtually no likelihood of forceful overthrow of the Thai government by insurgents, virtually no likelihood of a coup bringing to power anti-military leadership which would renege on TMB obligations, and fairly low likelihood of military engagements with foreign forces which would destabilize the country. I therefore have no problems with the proposed deal.