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Executive Summary

The Thailand Tourism Report examines the enormous long-term potential of the country's tourism market, but raises short-term concerns about the impact of slowing tourist arrivals as a result of the deteriorating economic environment in Europe and North America.

The report examines how best to maximise returns in the Thai tourism market, while minimising investment risk and also explores the impact of the increasingly precarious-looking external macroeconomic environment on the Thai hospitality sector, which has proven particularly resilient so far.

The report also analyses the growth and risk management strategies being employed by the leading players in the Thai tourism sector, as they seek to maximise the tremendous growth opportunities offered by the local market.

Key Findings

Thailand's tourist industry is on target to perform well in 2012. Between January and September, tourist arrivals totalled 15.96mn, representing growth of 8.7% year-on-year (y-o-y). The rate of arrivals growth has picked up from the first half of the year, indicating that Thailand remains an attractive destination even in a deteriorating global economic environment. With the final three months of the year traditionally forming part of Thailand's high season, tourist arrivals are likely to continue at their current high rate towards the Christmas season. As such, **BMI** retains its forecast for full-year 2012 tourist arrivals of 20.5mn.

In October 2012 it was confirmed that Thailand will host its first Formula One race in 2014.This marks only the third country in Southeast Asia to host a Formula One race and is likely to provide a considerable boost to Thailand in terms of visitor arrivals and pre-race investment in infrastructure and construction. It is unclear as yet where the race will be held, but tourist officials are planning to maximise gains from the race by offering visitors the chance to tour Thailand, as well as the race location.

On 1 October 2012, Bangkok's Don Mueang airport reopened to international flights following a period of refurbishment. Don Mueang had been Bangkok's main international airport until the new Suvarnabhumi airport was opened. Don Mueang is now intended to be a terminal for budget flights, with a shuttle bus connection to Suvarnabhumi. Thai AirAsia is the largest airline operating from Don Mueang, alongside Nok Air, Orient Thai and T-Wair.

- **Key Changes**
  BMI assesses the prospects for a strong performance in 2013, with 2012's encouraging performance indicating that Thailand has returned to pre-2008 trend growth.

- **BMI** looks at the IPOs coming up in the airline sector and examines how this may affect struggling national carrier Thai Airways.

SWOT Analysis

Thailand Tourism SWOT	
Strengths	▪ Thailand benefits from a reputation as one of the most attractive countries in the region. Several tourism subsectors, particularly beach tourism, have a strong brand image. ▪ The industry appears relatively resilient to domestic problems.
Weaknesses	▪ Concerns have been raised that not enough attention has been paid to the effects of tourism on the country's environmental and cultural heritage.
Opportunities	▪ The government has committed itself to sustained support for the tourism industry and the future looks promising. A focus on improving transport links and promoting tourism for the Green Season is expected to be hugely beneficial. ▪ Low-cost airlines in the region improving access to less well known Thai destinations.
Threats	▪ Bird flu is a key risk, especially if human-to-human transmission develops. ▪ Islamist unrest in the south could spread to Bangkok. ▪ Major flooding, as in late 2011, could act as a disincentive to foreign tourists.

Thailand Political SWOT	
Strengths	▪ Thailand remains committed to democratic ideals as reflected by the peaceful transition of political power following general elections in 2011. ▪ Genuine efforts by the ruling government to reconcile political interests between the urban middle class and the rural poor are beginning to gain widespread political support from the public.
Weaknesses	▪ Thailand's political scene remains volatile, especially considering that the country has returned to an inherently unstable coalition government. The urban upper and middle classes maintain a dominant influence at the expense of the interests of the rural poor, who make up a far larger percentage of the population and form a backbone of support for the current opposition. ▪ The army is widely seen to still play an influential role in Thai politics, a view reinforced by the December 2008 change of administration which followed the dissolution of the then-ruling People's Power Party.
Opportunities	▪ Changes to the 2007 constitution – which effectively trimmed the say of the electorate – could be one step towards reconciliation between the opposing political camps, although amendments are likely be resisted by the army and the People's Alliance for Democracy movement, which staged the marathon anti-government protests in 2008. ▪ The new government has expressed its commitment to continuing a mix of populist and market-friendly economic policies, which has brought renewed attention to massive public infrastructure projects. Although economic headwinds remain, these initiatives are likely to help to boost consumer and investor confidence over the longer haul.
Threats	▪ The current political situation presents risks to broader political stability given the seemingly intractable tension between the rural poor and the urban middle-upper classes. An added complication is that the 2007 constitution handed too much power over to the military, setting the stage for possible future coups. ▪ Violence has increased in Thailand's three southern-most provinces after attacks from suspected Muslim separatist groups. Since 2004, more than 4,700 people have died in attacks, with the situation, if anything, becoming more serious.

Thailand Economic SWOT	
Strengths	▪ Thailand's economy has performed relatively well over the past few years despite the stumbling block of political uncertainty, although many challenges arguably remain. ▪ Thailand's vulnerability to capital outflows has been reduced substantially, with the country now boasting a sizeable foreign exchange reserve pile. This has significantly narrowed the chances of a repeat of the 1997 crisis.
Weaknesses	▪ Risks to the economy remain, including weak business and investor sentiment – despite comparatively low interest rates – and a structural overdependence on exports. The vulnerability brought by the latter is evident in the recent global slowdown. ▪ The size of the skilled workforce is relatively small, meaning that productivity gains could become increasingly hard to achieve as the pool of cheap rural labour has been depleted.
Opportunities	▪ The Puea Thai Party-led government is likely to maintain populist policies, including the rice price guarantee, large scale infrastructure projects and welfare subsidies for lower income groups in Thailand. ▪ Investment, which has taken a serious knock over the past year owing to falling external and domestic demand, will very likely resume its recovery when political problems are resolved and the global economy stabilises.
Threats	▪ Volatile prices for many of Thailand's key export commodities (rice, rubber and sugar) is likely to damage the livelihoods of many farmers and force the government to continue to offer burdensome subsidies. ▪ Thai exports have benefited substantially from China's recent economic boom, and while recent signs suggest otherwise, a slowdown in the Chinese economy is therefore of non-negligible concern. ▪ Continued political turmoil risks damaging Thailand's attractiveness to foreign investors, who may opt to deploy their capital in more stable regional competitors such as Vietnam and Indonesia.

Thailand Business Environment SWOT

Strengths	▪ The 2012 Index of Economic Freedom compiled by the Heritage Foundation and the Wall Street Journal regards Thailand as a 'moderately free' economy, in 60th place worldwide and 10th place regionally. ▪ Thailand ranked at a very strong 17 out of 183 countries under the 'ease of doing business' category in the World Bank's 2012 Doing Business Report.
Weaknesses	▪ Protection of intellectual property in Thailand is poor. This is reflected by its place on the Priority Watch List of countries in the US Trade Representative's 2012 Special 301 Report. ▪ Thailand is finding it difficult to attract foreign direct investment amid growing regional competition and domestic political woes, fuelling fears that investors that have previously warmed to the country are now turning instead to low-cost China.
Opportunities	▪ Thailand has been trying to move up the value chain to differentiate itself from China, which now dominates the supply of labour-intensive goods. New sectors of the economy, including petrochemicals, the auto sector and food processing, have registered buoyant growth in recent years. ▪ A more vigorous effort to protect intellectual property rights would help to bolster Thailand's attractiveness to foreign investors. ▪ The government's proposal to slash the corporate tax rate from 30% to 18% could help increase Thailand's appeal to foreign investors and narrow the gap with other regional economies.
Threats	▪ Thailand's privatisation programme was thrown into doubt after the government was forced to shelve the controversial privatisation of the state-owned power company EGAT following a mass demonstration by workers. Most recently, unions have staged protests against what they see as a stealthy plan by the government to auction off parts of the unwieldy and chronically loss-making State Railway of Thailand to the private sector. ▪ Corruption is still a major barrier to doing business in Thailand, with the country ranked 80th in Transparency International's 2011 Corruption Perceptions Index, equal with China.

Industry Forecast Scenario

Arrivals

Thailand has become increasingly popular as one of the world's leading travel destinations, with over 19mn foreign tourists and visitors coming to the country in 2011. International tourism contributes to the Thai economy to a greater extent than in any other Asian country, although expenditure per tourist lags behind Hong Kong and Singapore, where prices are considerably higher. The government hopes to raise annual economic growth in the country to 8% and supporting the tourism industry is an essential part of this strategy.

Thailand's tourist industry is on target to perform well in 2012. Between January and September, tourist arrivals totaled 15.96mn, representing growth of 8.7% y-o-y. The rate of arrivals growth has picked up from the first half of the year, indicating that Thailand remains an attractive destination even in a deteriorating global economic environment. With the final three months of the year traditionally forming part of Thailand's high season, tourist arrivals are likely to continue at their current high rate towards the Christmas season. As such, **BMI** retains its forecast for full year 2012 tourist arrivals of 20.5mn.Thailand's strong recovery in the first half of 2011 was not derailed by the major flooding in November, with full-year arrivals reaching 19mn, representing an impressive increase of 34%. This was Thailand's highest ever number of tourist arrivals and demonstrates that the country has recovered strongly from the problems of 2008-2010. In particular, greater political stability in 2011 allowed tourist confidence to recover, while the global economic recovery in the first part of the year gave a further fillip to arrivals. Before the 2004 Indian Ocean tsunami, the Thai government's goal was to raise the number of annual tourist arrivals to 30mn over six years, pitching the country near the top tier of the world's most visited destinations.

This now looks ambitious but growth should still be strong from 2012. With the advent of low-cost airlines in the region improving access to destinations across Thailand, the government is promoting the construction of 300,000 hotel rooms, almost doubling the current number, to accommodate for the projected increases in tourist numbers. For many industry operators, the move is reminiscent of the Visit Thailand Year initiative in 1987, which helped increase national tourism income by 34% in 1987 and by a further 58% in 1988.

In this vein, the ministry of tourism launched a new marketing campaign in April 2012, designed to boost tourist arrivals throughout the year. Named the 'Miracle Year of Amazing Thailand', the campaign will focus on attracting visitors from other Asian countries, in order to compensate for any potential downturn in arrivals from Europe and North America, where the economic environment remains uncertain. The campaign also aims to boost domestic tourism, particularly between north and south Thailand. This domestic angle will be focused on three royal birthdays occurring in 2012, the celebrations for which Thais will be encouraged to attend. Thailand currently has a relatively limited domestic tourism market, with the majority of resources directed towards the international tourist market.

Statistics show that arrivals fluctuate considerably by month, with December usually recording the highest arrival rate and June the lowest. A new initiative targeting off-peak tourism has been launched, as part of wide-ranging marketing plans approved by the TAT. The Green Season in Thailand promotion focuses on the off-peak period between May and September (the monsoon season).

Table: Arrivals, 2010-2017

	2010	2011	2012e	2013f	2014f	2015f	2016f	2017f
Total Arrivals, '000	15,936	19,230	20,718	21,608	22,388	23,353	24,347	25,399
Total Arrivals, '000, % change y-o-y	12.63	20.67	7.74	4.29	3.61	4.31	4.26	4.32

f = BMI forecast. Tourists are non-residents staying overnight. Tourists is sum of all regional tourists. Same-day and arrivals calculatedusing proportions from 2001 in UNWTO data series as historic data are missing. Mode of arrivals and purpose of trip calculated using proportions from the UNWTO. Source: World Tourism Organization (UNWTO), National Statistics Office (NSO)

Accommodation

Table: Hotels Data, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Accommodation ('000; unless stated)								
Overnight stays in hotels by tourists	284,144	330,436	351,343	363,843	374,804	388,374	402,343	417,122
Hotels ('000; unless stated)								
Number of hotels or accommodation establishments ('000)	7.33	7.86	8.46	9.14	9.85	10.59	11.36	12.17
Number of hotel rooms	381	399	420	443	468	494	520	548
Occupancy rate (%)	37.14	41.55	42.85	45.21	47.72	50.32	53.01	55.85
Average length of stay by Tourists (nights)	1.86	2.15	2.13	2.11	2.09	2.07	2.05	2.03

f = BMI forecast. Tourist guests forecasted using tourist growth rate. Source: UNWTO

Expenditure

Table: Tourism Expenditure And Economic Impact, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Expenditure (%, unless stated)								
Tourist expenditure (US$mn)	23,383	30,817	33,286	35,498	38,306	41,793	45,728	50,050
Tourism expenditure contribution to GDP	7.3	8.9	9.6	9.5	9.3	9.1	9.1	9.0
Tourism expenditure contribution to export of goods	12.1	13.7	14.6	14.3	13.8	13.5	13.3	13.0
Tourism expenditure contribution to export of services	68.2	75.6	74.2	72.6	72.5	74.0	75.6	77.4
Economic Impact (EGPmn, unless stated)								
Direct Industry Employment ('000)	2,422	2,468	2,532	2,602	2,677	2,755	2,835	2,920

*f = BMI forecast, * Individual expenditure relates to investment in services with an identifiable individual consumer† Collective expenditure relates to investment in services that cannot be assigned to a particular group of tourists. Source: World Travel & Tourism Council*

Inbound Tourism

Table: Inbound Tourism, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Arrival of tourists at national borders, by region ('000, unless stated)								
Africa	128	138	139	146	153	159	164	169
% change y-o-y	13.81	7.80	0.94	4.80	5.17	3.47	3.14	3.20
Latin America	845	953	1,080	1,114	1,104	1,099	1,099	1,098
% change y-o-y	-1.02	12.77	13.44	3.12	-0.89	-0.45	-0.04	-0.04
Asia Pacific	9,952	12,437	13,398	14,060	14,679	15,463	16,229	17,039
% change y-o-y	15.19	24.97	7.72	4.94	4.40	5.34	4.96	4.99
Europe	4,442	5,101	5,294	5,389	5,499	5,642	5,823	6,016
% change y-o-y	9.42	14.84	3.77	1.81	2.04	2.60	3.21	3.30
Middle East	569	601	807	898	952	990	1,032	1,077
% change y-o-y	17.64	5.59	34.28	11.26	5.99	4.03	4.22	4.40

Table: Inbound Tourism, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Arrival of tourists at national borders by country ('000)								
Malaysia	2,059	2,500	2,410	2,622	2,744	2,864	2,933	2,997
China	1,122	1,721	1,499	1,625	1,723	1,825	1,932	2,040
Japan	994	1,128	1,107	1,109	1,115	1,116	1,121	1,120
Russia	645	1,054	712	849	964	1,093	1,222	1,332
Korea	805	1,006	960	1,112	1,261	1,424	1,605	1,697
India	760	915	1,100	1,254	1,447	1,676	1,930	2,143
Laos	715	892	903	914	926	939	952	965
United Kingdom	811	845	646	669	689	710	750	749
Australia	698	830	805	691	616	616	614	611
Singapore	604	682	676	680	682	686	689	691

f = BMI forecast. Source: TAT

Outbound Tourism

Table: Outbound Tourism, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Expenditure (US$mn)								
International tourism expenditure of residents	6.57	7.67	7.75	8.35	9.28	10.31	11.47	11.65
Total Resident Departures	4,222	4,665	4,712	5,019	5,491	5,987	6,539	6,503
% change y-o-y	9.51	10.49	1.01	6.50	9.41	9.03	9.22	-0.54
Resident departures by destination region ('000; unless stated)								
Africa	7.17	7.17	7.33	7.46	7.65	7.86	8.09	8.35
% change y-o-y	35.36	-0.11	2.22	1.77	2.62	2.78	2.94	3.16
North America	95.69	102	102	104	108	112	116	121
% change y-o-y	9.15	6.14	-0.03	2.41	3.55	3.74	3.92	4.17
Latin America	2.09	2.12	2.19	2.27	2.43	2.63	2.82	3.07
% change y-o-y	44.10	1.29	3.40	3.89	6.87	8.24	7.19	8.84
Asia Pacific	4,052	4,486	4,530	4,831	5,295	5,783	6,326	6,281

Table: Outbound Tourism, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
% change y-o-y	9.55	10.73	0.97	6.64	9.61	9.21	9.39	-0.71
Europe	37.33	38.54	41.87	43.14	44.36	45.50	46.60	47.73
% change y-o-y	-0.56	3.24	8.63	3.03	2.83	2.56	2.42	2.43
Middle East	28.16	29.47	29.42	31.08	33.57	36.29	39.25	42.52
% change y-o-y	11.55	4.62	-0.15	5.63	8.03	8.09	8.15	8.33
Resident departures by destination country ('000)								
Malaysia	1,459	1,796	1,823	1,908	2,044	2,195	2,360	1,894
China	655	671	661	727	826	935	1,052	1,183
Hong Kong	450	480	493	523	568	618	672	732
Singapore	430	398	398	422	452	480	510	544
Vietnam	274	332	339	363	401	442	485	537
Macau	212	196	244	268	315	369	430	500
Japan	170	169	163	186	219	249	292	330
Indonesia	124	146	114	121	134	147	163	181
Taiwan	91.66	102	89.39	89.33	88.15	86.77	85.22	83.45
USA	95.69	102	102	104	108	112	116	121

f = BMI forecast. Source: UNWTO

Market Overview – Travel

Commercial Airlines

Thailand's major airports are operated by state-owned enterprise **Airports of Thailand** (AOT). The six airports operated by AOT are Suvarnabhumi International Airport (Bangkok), Don Mueang Airport, Chiang Mai International Airport, Hat Yai International Airport, Phuket International Airport and Chiang Rai International Airport, all of which have consistently shown increases in passengers and cargo. Airports not operated by AOT are under the administration of the Department of Aviation.

Surging arrival numbers have led to problems of overcapacity in the country's main airports. In particular, Bangkok's Suvarnabhumi International Airport, which only opened in 2005, is feeling the pressure from high arrivals levels. AOT anticipates 51mn passengers will pass through the airport in 2012, well above its official capacity of 45mn. On October 1 2012, Bangkok's Don Mueang airport reopened to international flights following a period of refurbishment. Before Suvarnabhumi opened, Don Mueang was Bangkok's international airport and was used as a back-up terminal in 2010 when major protests closed Suvarnabhumi. Don Mueang is now intended to be a terminal for budget flights, with a shuttle bus connection to Suvarnabhumi. Thai AirAsia is the largest airline operating from Don Mueang, alongside Nok Air, Orient Thai and T-Wair.

Thai Airways International was established as Thai Airways Company in 1951, when the government purchased shares in three small private airlines and amalgamated their fleets in order to create a national carrier. Rapid growth ensued, with services reaching previously remote provinces of Thailand. In 1960 the company formed an alliance with **Scandinavian Airlines System** (SAS), and created Thai Airways International. By 1970 the airline was carrying 0.5mn passengers a year and was Asia's third largest airline. The 1990s saw further expansion of routes and frequencies of service.

The deregulation of air services in Thailand has resulted in the emergence of three secondary airlines – **Bangkok Airways**, **PB Air** and **Thai AirAsia** (a subsidiary of budget regional airline **AirAsia**) – and several low-cost airlines, including **Nok Air** (a subsidiary of Thai Airways, which has a 49% stake). Each plays a major role in offering access to some of Asia's newer destinations.

Orient Thai, formerly one of the major competitors for national carrier Thai Airways, launched a recovery strategy in mid-2011 to allow it to regain some of the ground it has lost from increasing competition in the airline sector. The airline plans to buy 12 **Boeing** aircraft by the end of 2012, to replace its ageing **McDonnell Douglas** aircraft. The airline has suffered in recent years, with the underperformance of its low-cost subsidiary **One-To-Go** meaning that the latter had to be folded back into the Orient Thai brand. In addition, the crash of a One-To-Go aircraft in 2007, followed by its suspension in July 2008 for safety reasons, severely undermined the brand. Orient Thai will now be hoping to rebrand itself, although it faces fierce competition from a revived Thai Airways.

In May 2011, the board of Thai Airways approved the creation of a new regional airline, **Thai Smile**. This new airline is pitched at middle income passengers and therefore will not be in direct competition with the budget airline sector. Thai Smile began operations on July 7 2012 with a maiden flight from Bangkok to Macau. The airline operates one **Airbus** A320-200 aircraft but expects to take delivery of three more by the end of 2012, allowing it to add more routes, such as to Hong Kong, Cochin, Phuket and Singapore. The airline is part of Thai Airways' long-term plan to maintain its market shares in all segments in the country by establishing itself at all passenger income levels. This will be particularly important for the national carrier following its financial struggles in the global economic downturn.

Bangkok Airways operates flights to 14 destinations in Thailand, Singapore, China, Cambodia, Laos and Vietnam. The carrier provides more than 40 flights a day from its home airport of Ko Samui to Bangkok, Phuket, Pattaya U-Tapao, Krabi and Singapore. It also flies 49 times a week between Bangkok and Siem Reap, Cambodia, gateway to the Angkor Wat; and 14 times a week between Bangkok and Phnom Penh. The airline took a cautious stance during the 2008-2010 downturn and was rewarded by estimated profit of THB600mn in 2011, which it expects to rise to THB1bn in 2012. If the positive performance continues in 2012, Bangkok Airways is looking to open new routes to Laos and India to serve its mainly tourism-based market.

Capitalising on its good performance over recent years, the airline plans to hold an initial public offering in early 2013, altering its model as a wholly privately owned airline for the first time since it was launched in 1968. A 20-30% stake will be offered to the public, with airline president Puttipong Prasarttong-Osot stating that he expects the sale to garner approximately THB10bn. The airline plans to put these funds into its fleet expansion programme. The sale is likely to receive strong interest, as a result of Bangkok Airlines' strong growth potential.

The most recent market entrants are the Malaysian airline AirAsia and its subsidiary Thai AirAsia, which broke new ground with its low fares, no-frills concept. AirAsia first began operating on routes such as Kuala Lumpur-Phuket and Johor Bahru-Bangkok in 2003. After Thai AirAsia was established, also in 2003, it commenced domestic services from Bangkok to Chiang Mai, Haad Yai, Phuket and Khon Kaen, and operated international flights to Singapore and Kuala Lumpur.

Thai AirAsia operates 170 flights to and from Thailand each day. It also established a third national hub at Chiang Mai in January 2011. The airline established a market share of 25.0% in 2010, second only to Thai Airways, with 40.9%. However, the airline is concerned that its market share may be under threat at a time when it is only just beginning to recover from the tourist industry downturn. In 2009, Thai AirAsia posted a net loss of US$10.1mn but it returned to profit in 2010, posting a net profit of US$94.9mn, more than double its annual target. Further revenue growth in 2011 led to a 14% increase in profit, making Thai AirAsia one of the best-performing carriers in the region. A sign of the parent company's confidence in Thai AirAsia was its decision to list it on the Thai stock exchange in early 2012, with the airline hoping to raise THB6bn.

In a bid to compete with Thai AirAsia, Thai Airways established its own low-cost carrier, Nok Air. Nok Air is 49%-owned by Thai Airways, with the remainder owned by the Crown Property Bureau, the government-owned **Krung Thai Bank** (KTB), **Dhipaya Insurance** and private investors. With two Boeing 737-400s, the carrier started operations in June 2004 from Bangkok to six destinations: Chiang Mai, Khon Kaen, Udon Thani, Phitsanulok, Phuket and Had Yai.

The need to maintain passenger levels has encouraged closer links between Thai Airways and the smaller Nok Air. Since late 2009, Thai Airways has transferred some domestic routes to Nok Air, such as to Phitsanulok, Mae Hong Son and Khon Kaen. The airlines will also cooperate over scheduling, marketing and package holidays. The transfer of flights by Thai Airways was a vote of confidence in Nok Air, which returned to profit in Q408 following a restructuring programme. Nok Air posted net profit of THB220mn for 2011, despite the major flooding that forced it to move operations from Bangkok's Don Mueang airport in late 2011. With the airport having reopened in March 2012, the airline expects operations and revenue to pick up this year.

Nok is continuing to consolidate its position through an ongoing fleet expansion programme. It plans to increase its fleet to 10 aircraft in 2012. This will support its expansion in the region, after Nok Air launched its first international route in April 2012 flying from Bangkok to Nanjing in China. Nok Air is planning to launch an initial public offering (IPO) in the second half of 2013 in order to attract greater investment. The airline will offer up to 30% of the company, in an effort to raise THB2-3bn.

Low-cost airlines should be well placed to succeed in Thailand, largely due to the country's unique competitive advantages – a geographical location in the heart of the Association of Southeast Asian Nations (ASEAN), as well as being just a four-hour flight away from some of the most important Chinese and Indian urban centres.

Looking to gain some of this new market share, Australian low-cost airline **Jetstar Airways** started direct flights between Bangkok and Melbourne and Phuket and Sydney from November 2006. Jetstar, a wholly owned subsidiary of **Qantas**, flies both routes three times a week, using Airbus A330-200 aircraft.

The recovering tourism sector encouraged a number of new airline start-ups in Thailand, following a period of retrenchment and consolidation during the economic slowdown. Three new carriers began operations in 2011, with Thai-owned **Kan Air** beginning operations on February 25. The new airline flies domestic routes from its base in northern Chiang Mai, with the aim of increasing services to the south. The other airlines were **PC Air** and **Sunny Airways**, which started flights in August 2011, and specialises in charter flights. **Crystal Thai Airlines**, which was scheduled to start its low-cost operations in late 2011, now expects a 2012 launch.

Global Oil Products Price Outlook

BMI View: *As expected, there were wild swings in oil prices in September. In the months ahead, the only certainty in the oil market appears to be volatility, as supply fears due to political tensions around the globe continue to compete with weak global demand in establishing oil prices. Volatile, sideways trade will likely be a mainstay throughout the rest of the year, although Chinese stimulus, the results of the US and Venezuelan elections and tensions across the MENA region could lead to temporary, but significant spikes in oil prices – posing an upside risk to our 2012 forecast of US$110/bbl for Brent. We believe that the impact of Iranian outages is already fully priced-in. As such, we expect fundamentals to take centre stage going into 2013, and specifically demand-side factors to have the upper hand in influencing oil prices, and forecast that the average price of Brent will be capped at about US$102/bbl. Like Brent, WTI will trend downwards from a forecast of US$95/bbl in 2012 to US$92/bbl in 2013, but this discount will narrow as North American producers take measures to overcome the supply glut at Cushing.*

Table: BMI's Oil Price Forecasts And Bloomberg Consensus, Average Price (US$/bbl)

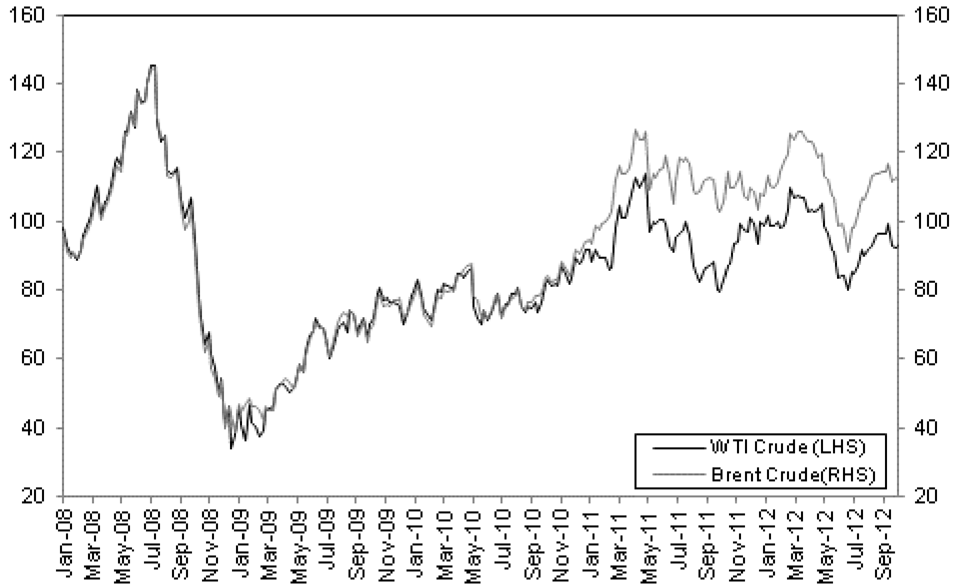
	2011	2012f *	2013f	2014f
WTI, US$/bbl	95	95	92	91
Brent, US$/bbl	111	110	102	99
Brent-WTI Spread	16	15	10	8
WTI Bloomberg Consensus		94.45	93.70	91.49
Brent Bloomberg Consensus		111.76	107.09	101.64
Brent-WTI Spread Bloomberg Consensus		17.31	13.39	10.15

*f = BMI forecast, * 2012 consensus = Q4 Bloomberg estimate + Q1-Q3 2012 average price. Source: BMI, Bloomberg (consensus correct as of October 3 2012).*

Our view that oil prices will remain volatile has played out in September 2012. Despite announcements of monetary expansion programmes in Europe and in the US, Brent traded at an average of US$113.03 per barrel (bbl), only a slight US$1/bbl increase on the price in August. This confirms our view that the market had already priced-in expectations that governments would take action to revive the global economy in August. The marginal gains registered in September reflect these expectations, while weak global macroeconomic data has tamed supply fears arising from political tensions in the oil-producing Middle East and North Africa (MENA) region.

Brent Premium To Narrow

Front-Month Brent & WTI Crude, US$/bbl, Weekly



Source: BMI, Bloomberg

This is the picture that is likely to endure throughout the rest of 2012: supply fears arising from political tensions will briefly prop up oil prices, which will fall again on the realisation that global demand remains too weak to support such high prices. It means that broadly sideways trade will continue to last through the year.

In 2013, we maintain that prices will trend lower, but remain high by historical standards. We forecast Brent to average US$102/bbl and WTI to average US$92/bbl. The assumptions underpinning this view are:

Political risks to supply dynamics will keep prices relatively elevated – especially in Libya and Sudan. Held back by technical challenges and the continued political standstill with Kurdistan, Iraqi production – which holds some of the most significant promise in terms of boosting global supply – could underperform;

Nonetheless, weak global growth will prevent any prolonged upward swing in prices. We forecast a slight global market surplus in 2013;

Our global production forecast show a healthy supply picture for 2013, with an additional 2.6mn b/d of new production, compared to our forecast of 1.6mn b/d rise in consumption. This theoretical surplus in the global oil markets – the first in five years- also underpins our oil price view for the coming years;

Saudi Arabia to maintain its commitment to capping global oil prices, making up for supply shortages with increased output;

The discount on WTI relative to Brent will continue, as liquids production from the US continues to rise thanks to shale oil and Gulf of Mexico (GoM) production. The easing of infrastructure bottlenecks, however, will lead to a narrowing in the WTI-Brent spread.

Volatile Ride Ahead

As expected, volatility was the name of the game for oil prices in September 2012. Announcements of the ECB's bond buying programme and a third round of quantitative easing (QE3) by the US Federal Reserve sent oil prices climbing steadily up to a five-month high in mid-September. However, this rally was abruptly ended by a flash crash that saw prices drop nearly US$10/bbl by September 19.

A key reason for the sudden correction was rumours of a ramp-up in Saudi crude oil production to tame prices, which is likely to be true. After all, on September 10, when prices started climbing steadily upwards, Saudi Arabian Minister of Oil Ali al-Naimi stated that current prices do not justify global supply and demand dynamics.

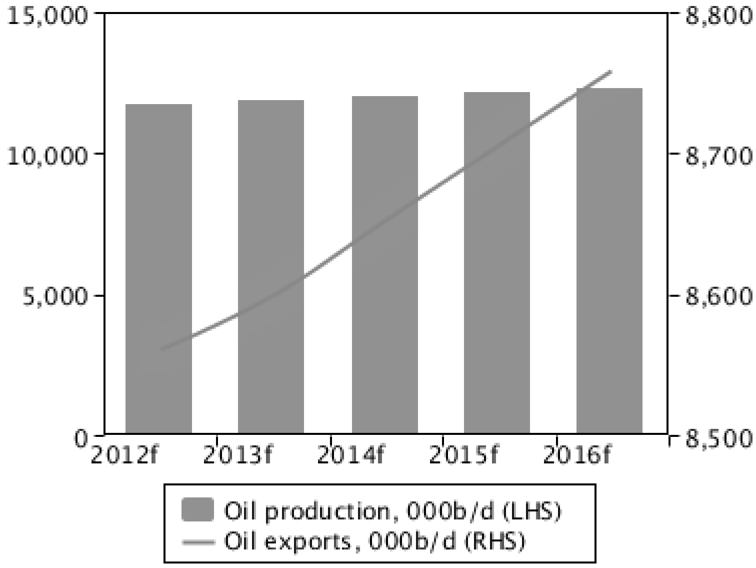
While catalysed by specific news relating to Saudi production, the pullback in oil prices from the key resistance that we have been highlighting at around US$115-117/bbl bolsters out view that the Q312 bounce was temporary. Brent prices have not recovered to mid-September highs and have hovered within the US$108-US$112/bbl range ever since. Optimism with regard to additional oil demand due to monetary expansion was quickly pared down by weak Chinese and Japanese economic data. Other upswings in oil prices in the second half of September, caused by the apparent ratcheting up of tensions in Middle East that threatened to reduce available supply – the resurgence of violence in Libya following the assassination of the US ambassador to the country, and the growing intensity of Iranian-Israeli rhetoric – had limited effects in sustaining a rally.

Bulls Move Aside

The return of production at key North Sea fields such as Buzzard following the completion of maintenance activity should also help loosen the Brent market until the end of 2012. Saudi production, which we forecast to increase in the near term, will continue to help cap oil prices.

Saudi Crude To Cap Price Increases

Saudi Arabia – Crude Oil Production & Exports, 2012-2016 ('000b/d)

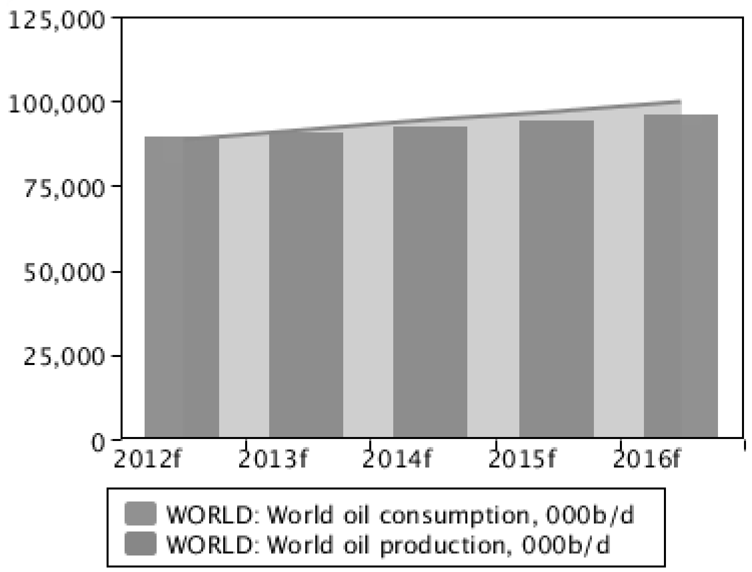


f = BMI forecast. Source: BMI, EIA

Poor consumer confidence in Japan and a second consecutive month of weak monthly PMI data from China should also slow the appetite for oil consumption in Asia. The ECB's bond-buying programme may have allayed fears in Europe but has not addressed fundamental weaknesses in some of the biggest economies in the region – Spain, and increasingly France. These will continue to dampen oil demand and ensure that supplies remain adequate for global needs.

Slight Surplus Expected

Global Oil Consumption & Production, 2012-2016 ('000b/d)



f = BMI forecast. Source: BMI, EIA

The Chavez Effect

However, we acknowledge that there are considerable supply risks that could push prices above our 2012 and 2013 forecasts of US$110/bbl and US$102/bbl for Brent, respectively:

- Tensions in the oil-producing Middle East – particularly a possible conflict between Iran and Israel, the Syrian civil war, and the resurgence of violence in Iraq – continue to cast doubt over the ability of key producers such as Libya and Iraq to meet supply requirements. This is significant as an increase in Libyan and Iraqi volumes has helped make up for Iranian and Sudanese crude outages in the global market;

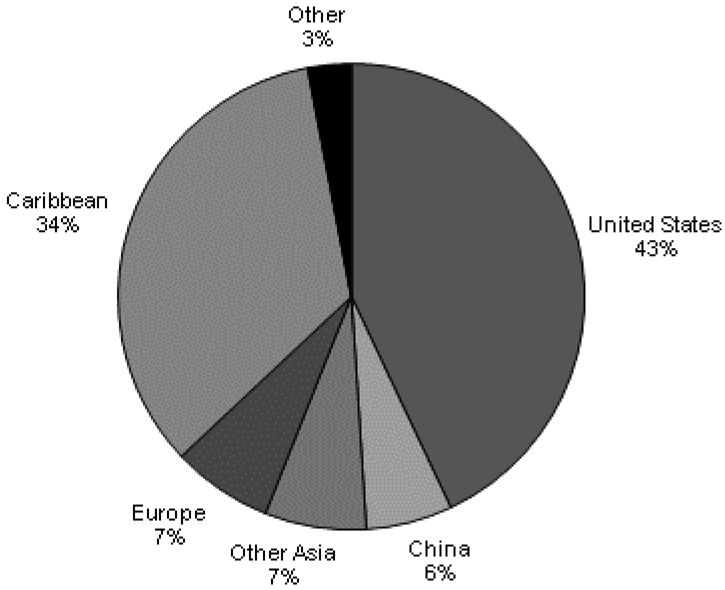
- It will take time for Sudanese oil to return to the market despite an agreement between South Sudan and Sudan to resume oil exports;

- The shut-in of the major Bonny crude pipeline in Nigeria following damage caused by oil thieves.

In particular, we highlight the upcoming election in Venezuela, where the outcome could shake up global crude supply and demand dynamics. In Venezuela, incumbent President Hugo Chavez will face his toughest electoral test yet. Even if Chavez walks off with a narrow win, as our country risk team predicts, there will still be much uncertainty about political continuity because of the poor state of the leader's health. Fears about disruptions to crude supplies from the OPEC producer could place upward pressure on prices that could last into early 2013.

Venezuela's Dependents

Venezuela – Crude Oil Exports By Destination, 2010



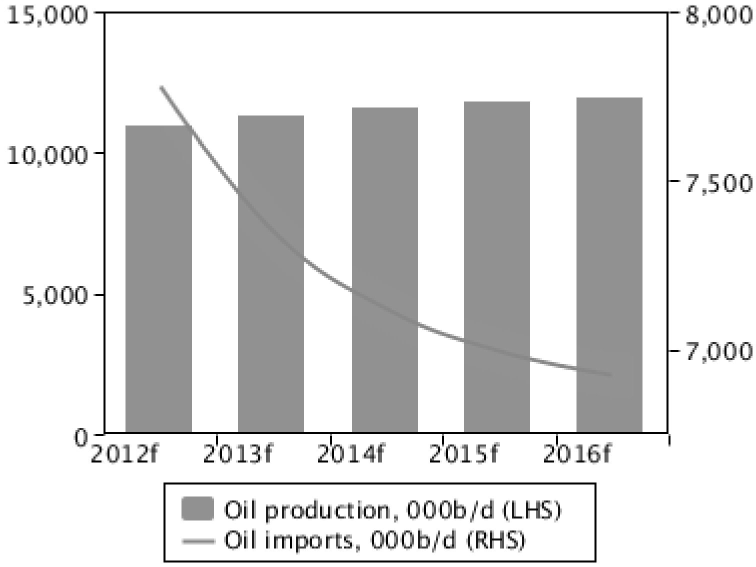
Source: EIA

Nonetheless, we note that in reality, the effect of a prolonged Venezuelan supply shock could be limited. The country's biggest export-market, the US, would likely continue to see an increase in domestic crude production that could push down its import requirement.

Elsewhere in the world, weak macroeconomics will continue to depress demand. In line with our view of the impact of other supply fear on current oil prices, we would expect any price increase brought about by political unrest in Venezuela to give way in 2013.

Posing Less Of A Fight For Global Oil Supplies

US – Crude Oil Production & Import Requirement, 2012-2016 ('000 b/d)



f = BMI forecast. Source: BMI, EIA

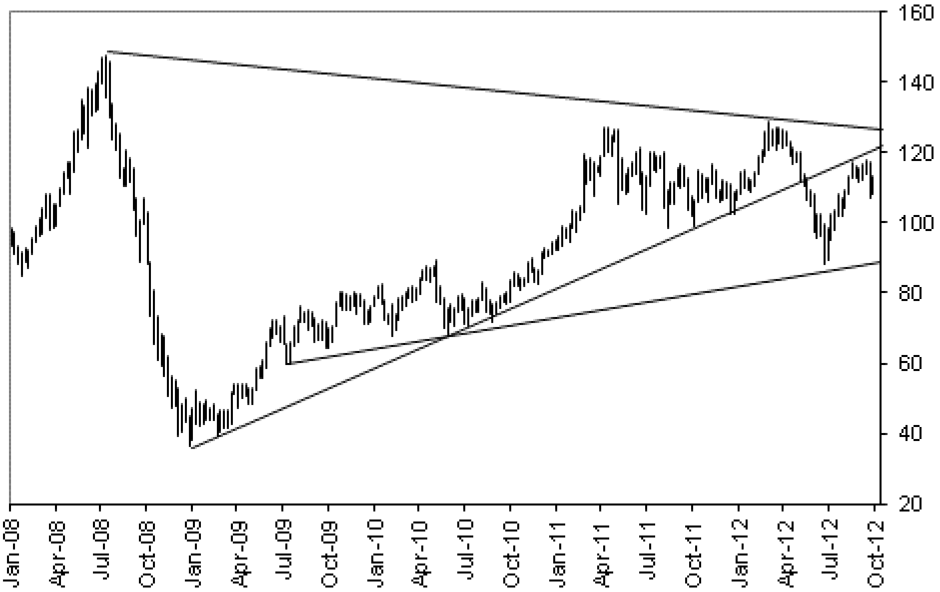
Leaders And Prices

Chinese stimulus poses a slight upside demand risk to our 2012 forecast. The government is under pressure to revive economic dynamism and boost political morale as it makes a historic generational change in leadership this coming November. This would most likely be announced in conjunction with the political changeover in the same month. Market anticipation of Chinese action in the run-up to November could prevent oil prices from slipping too dramatically in October despite gloomy economic data.

Yet, its impact could resemble that of the ECB and the Fed's announcements: an initial rally, tapered by a Saudi commitment to moderate prices and concerns about the efficacy of the stimulus thereafter.

Range-Bound Ahead

Front-Month Brent Crude, US$/bbl (weekly chart)



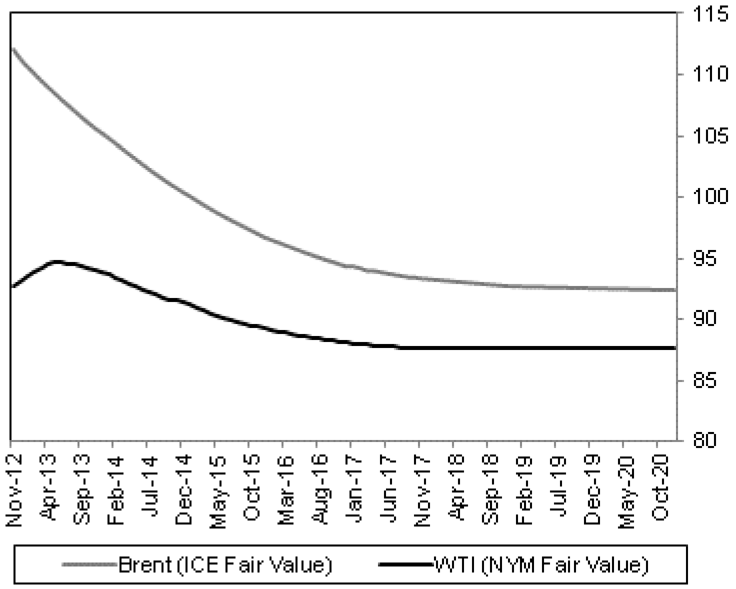
Source: BMI, Bloomberg

We are more bearish about prices going into 2013 than market consensus, based on our belief that the market will eventually adjust to supply-demand fundamentals. The fall in prices in 2013 applies to both Brent and WTI, though we expect the spread between the two benchmarks to narrow.

WTI's discount to Brent will remain in place as US liquids production continues to push higher, thanks to the US shale boom and from its offshore resources in the GoM. However, the supply glut at Cushing because of a rapid expansion in output should ease further in 2013 as producers take steps to overcome infrastructure bottlenecks. Recent developments include an increase in rail capacity for the transportation of Bakken crude, which has helped to direct flows away from Cushing and towards regions where higher prices can be obtained. It has also been announced that the crucial Spearhead pipeline, which links the Chicago area to Cushing, will not be rationed in November as physical oil traders move to narrow the WTI-Brent discount.

Closing The Gap

Brent & WTI Forward Futures Curve, 2012-2020 (US$/bbl)



Source: Bloomberg

These efforts will see the spread narrow alongside its European counterpart. Current futures contract prices also show traders taking positions that reflect this movement. Nonetheless, a faster erosion of this discount to Brent would likely only take place when an expected increase in pipeline capacity occurs in 2014.

Market Overview – Hospitality

Tourism Infrastructure

Thailand has marketed itself for many years as an exotic, natural, friendly and exciting destination, with tourism infrastructure including leading five-star hotels, innumerable restaurants and one-person tour operators. The country has engaged in progressive liberalisation of its hotel, restaurant and travel agency businesses since the late 1990s, and has radically altered its foreign business laws in order to facilitate further inflows of foreign investment. There has been a mixed response to liberalisation. Some hotels have been keen to seek foreign capital, while those with their own financial stability have tended to disagree with opening up to multinational corporations.

As foreign investment in the tourism sector has increased, Thailand has also sought to develop diversity within the industry. The spa and health business is perhaps the fastest growing niche market. The strength of this sector was demonstrated in December 2009 when it was voted the region's spa capital of the year at the AsiaSpa Awards, reflecting the swift development of the country's spa industry. Thailand's first spa was opened in 1992 and the number of official spas has now risen to 585, employing 11,240 people according to the Thai Spa Association (TSPA), established in 2003. The spa industry benefits from Thailand's worldwide reputation as a centre for massages and beauty treatments, with many spas attached to resorts that specifically offer spa-based holiday packages, providing a further incentive for tourists to visit Thailand rather than other countries in the region. Although the spa industry stagnated during the downturn, it now appears to have recovered strongly, with a number of resorts launching marketing campaigns focused on their spa offerings

Thailand is also building up its medical tourism sector, aiming to benefit from the nearby example of India. Significant business is being generated around visitors to the country's hospitals and medical centres. According to the TAT, the cost of getting a check-up in Thailand is a fraction of what it costs in more developed countries. Language problems notwithstanding, a number of major Thai hospitals have learned the basics of the travel business and are marketing themselves to local tour operators. Many are also regular participants at international trade shows such as ITB Berlin and the Arabian Travel Mart.

The government estimates that 1.6mn foreign nationals receive medical treatment in Thailand each year, with many of these visiting specifically for this reason. The government is promoting medical tourism, despite some domestic criticism that this will take trained doctors away from the state-funded system to better-paid private hospitals. Nonetheless, the government offers a specific visa for medical tourists, as well as promotional offers for partner clinics. As a result of such initiatives, the government is targeting revenue of THB100bn from the medical tourism sector by 2015.

Linked to the 'health-and-holiday' concept is the promotion of long-stay visits, which is mainly targeted at attracting retirees seeking a pleasant climate and a low cost of living to stay for extended periods in Thailand. Senior citizens from Europe and Japan are the primary targets. Thailand has launched a retirement visa, which is similar to a long-stay visa. This is relatively easy to acquire, as long as proof of financial solvency can be provided. The Thai government estimates that such investment in private medical services will encourage growing numbers of Westerners to retire in Thailand. Cooking is also becoming a major niche tourism sector, with a number of cookery schools offering full- or part-time courses in Thai cookery. These are often linked to a wider tour of the country and located in major cultural centres, such as Chiang Mai, or beach resorts like Phuket. In addition, many cookery schools offer the option of a home-stay, allowing pupils to experience life in a Thai home.

The TAT is also promoting the growing number of Buddhist temples and centres where visitors can practice meditation. Thailand has become a leading centre of Buddhist learning and has a growing number of nationwide meditation retreats in cities, on beaches and in forests.

Despite the relatively low level of investment in tourism, efforts are nonetheless under way to rapidly expand its infrastructure. According to the World Tourism Organization, Thailand will only be able to manage expansion if it matches the increase in visitors with a massive boost to accommodation, airport and public transport infrastructure.

Accommodation

Founded in 1963, the Thai Hotels Association (THA), formerly called the Thai Hotels Association For Tourists, represents leading hotels from all parts of the country. The THA reported earlier in 2012 that average occupancy at its members' hotels in 2011was 59.2%, which was lower than expected. Occupancy was lowest in northern Thailand, with an average rate of 45%, while the popular southern coastal regions enjoyed rates of up to 65%. This national occupancy rate may reflect the statistical impact of the floods in late 2011, which closed many hotels and triggered mass cancellations, as well as the fact that many leading hotel chains have been opening new properties in Thailand recently. A report from global consultancy firm Smith Travel Research in September 2012 indicated that occupancy rates had picked up well in 2012, returning to pre-2011 levels. In particular, rates in Phuket had risen sharply, averaging 76% over the summer period.

International hotel operators and investors see plenty of opportunities in the country. While Bangkok remains a major point of future interest, real growth has been in the resorts and upcountry provinces, with much of the attention focused on new resorts in southern Thailand. Brands such as **Accor**, **Sheraton**, **Hilton**, **Marriott**, **Crowne Plaza** and **Le Meridien** are expanding in Phuket, Pattaya, Hua Hin/Cha-am, Ko Samui, Krabi, Phangnga and other resorts.

Thailand's ancient northern capital of Chiang Mai is experiencing a rise in hotel construction. There are approximately 350 hotels in the city, with an increasing number of luxury and boutique hotels. These hotels handle an estimated 1.5mn foreign tourists and almost 2mn Thai visitors a year, as well as being on the backpacker trail en route to Myanmar. Following a construction lull during the tourism downturn, several new hotels are due to open in Chiang Mai. Accor opened a new All Seasons branded hotel in April 2011, while **Furama Hotels** opened a four-star hotel in 2011. The city is due to open a new convention centre by the end of 2012, which will boost business visitors to the city.

Northern Thailand is expected to attract investor interest as the government moves ahead with plans to make Chiang Mai a northern aviation hub, and regional highway linkages are strengthened with neighbouring Laos and Myanmar.

In Krabi, more than 1,000 upmarket rooms are due to be opened in the next two years by companies including **Central Hotels and Resorts** and Hilton Hotels International. A number of investors have shown interest in Koh Lanta, a relatively new tourist destination in Krabi. Investors include **Dusit Thani Group**, **Central Group**, **The Grand Hotel Group** and **Thai Nakorn Pattana**. Krabi has a number of luxury hotels, including a Sheraton, Rayavadee and Twin Lotus. While local operators have generally welcomed the expansion of tourism to raise the profile of the area, there are concerns that a large influx of visitors may threaten the stretches of empty beaches and undisturbed mangrove forests that are a major part of Krabi's appeal.

Accor is one of the major international hotels chains and has steadily increased its presence in the country. It currently operates 11 hotels in the country, including in Bangkok, Phuket and Ko Samui. Most of Accor's 10 brands are present in Thailand, including All Seasons, Ibis, Novotel and Mercure. Four All Seasons hotels are in partnership with **Fico** group, which will expand Accor's presence in Bangkok. Another seven projects are for the Novotel, Mercure and Ibis brands and will be in Bangkok, Ko Samui, Krabi and Phuket. In total. Accor has eight hotel projects in the pipeline for 2012-2013, with four opening in the final quarter of 2012 and four in 2013.

Marriott International is also continuing to focus on Thailand and will open three new properties in 2012. This will bring its total number of hotels in Thailand to 16 under five brands: JW Marriott Hotels & Resorts, Marriott Hotels & Resorts, Renaissance Hotels & Resorts, Courtyard and Marriott Executive Apartments. In a sign of the country's popularity as a family destination, Marriott also has 271 villas in Thailand under its Marriott Vacation Club International scheme.

Anantara Resorts, a regionally based operator, opened a new hotel in Krabi, bringing its number of hotels in Thailand to five. In August, **Westin Hotels & Resorts** (owned by **Starwood Hotels & Resorts**

Worldwide) opened its first establishment in Thailand in Phuket. The Westin Siray Bay Resort and Spa has 261 rooms, six restaurants and a number of spa facilities.

Local Thai hotel group **Kata** is also expanding strongly. The group specialises in mid and high-end resorts and particularly targets foreign visitors choosing Thailand as a wedding destination. The group operates six major resorts in Thailand and in early 2012 announced that it was launching a new brand, Beyond Resorts, to focus on luxury couples' holidays.

Thailand is also seeing a growing number of boutique hotels open as the industry begins to recover from the downturn. These are traditionally focused around the beach resorts, often on private beaches, but are increasingly opening up in the major cities. Many boutique hotels opened in Bangkok in 2011, with new hotels including the Hansar Bangkok and the Bangkok Tree House, just outside the city limits.

Ecotourism

One of the unforeseen consequences of the 2004 Indian Ocean tsunami was that visitors ventured beyond the beaches for which Thailand is renowned. Consequently, the government has been looking to promote other forms of tourism in inland and coastal regions, such as ecotourism.

Ecotourism is widely accepted to mean a form of tourism in natural areas that is based on responsibility towards maintaining the area's ecosystem. In recent years, the government's policy on tourism has been moving towards more sustainable tourism development, with an emphasis on community participation and preserving natural resources.

The number of ecotourism visitors to Thailand is minimal but the country is keen to increase the number of travellers coming to see the country's national parks – in particular, areas close to the Mekong River rich with sites of prehistoric and archaeological significance.

About 13% of Thailand's land area is set aside for environmental protection. It has 79 national parks, 89 wildlife and non-hunting sanctuaries and 35 forest reserves. Plans are being made to increase the number to more than 100 national parks in the next few years to protect the environment. Thailand has had designated national parks since 1961, with the first being Khao Yai National Park. These areas of outstanding natural beauty are easily accessible by road.

The country is also taking care of its coastal heritage. Since the 1970s, it has established 18 marine national parks. Many of the activities available on and around Thailand's crystal clear seas are environmentally sound. Diving, sea canoeing, windsurfing, biking, walking, swimming, snorkelling and sailing are all non-invasive forms of tourism.

Thailand has a great opportunity to promote ecotourism, especially when compared with other countries in the region. It enjoys benefits such as well-developed infrastructure and a myriad of tourist attractions and activities.

H1N1 And H5N1 Update

In the latter part of 2010 there was some concern that H1N1 virus (swine flu) was making a resurgence in some countries around the world, notably the UK. However, on August 10 2010, the World Health Organization (WHO) said the H1N1 virus had moved into the post-pandemic period. Consequently, it will no longer provide specific updates on the virus on its website. By August 6 2010, more than 18,449 people worldwide had died from H1N1. By far the majority of the deaths were in the Americas, where there were at least 8,600 fatalities, reflecting the region's status as the first site of the outbreak. In June 2010, the WHO said: 'In Asia, overall pandemic influenza virus transmission remains low, except in parts of tropical South and South East Asia, particularly Singapore, Malaysia and Bangladesh. In Singapore, overall levels of acute respiratory infections remained slightly below the epidemic threshold and the proportion of respiratory samples testing positive for pandemic influenza virus increased slightly to 34%. In Malaysia, limited data suggests that pandemic influenza virus transmission has begun to decline since plateauing during May 2010.'

The WHO continues to monitor the spread of bird flu (H5N1 virus), which remains prevalent across Asia. As of October 2012, the most of the human deaths have still been in Indonesia, where there have been 152 deaths from 184 confirmed cases. China has reported 42 cases (28 deaths) and Vietnam has reported 120 (60 deaths).

Fears persist about the H5N1 virus, particularly in terms of the implications that widespread human-to-human transmission would have for tourism industries across the region. Cross transmission between birds and humans involves considerable mutation of flu strains, with virulent strains such as H5N1 emerging every so often. The H3N2 pandemic, which originated in Hong Kong in 1968, killed between 750,000 and 1mn people. High demand for poultry, crowded market places and unhygienic rearing and feeding conditions make many countries in Asia fertile breeding grounds for cross-infection and the mutation of flu strains.

The H1N1 virus is actually a new strain of the virus not previously detected in pigs. The first cases of the virus were reported in Mexico and spread quickly to North America and around the world.

To understand the possible impact of avian flu and swine flu on tourism in Asia we can take a look at the SARS outbreak, which spread through much of Asia during the first half of 2003. Travel advisories had a major impact on the region as the number of visitor arrivals plunged during the second quarter of the year.

Given the highly uncertain picture it is difficult to incorporate the risks posed by either virus into our core forecast scenario. The flu variable is very much a wildcard when it comes to forecasting methodology. Unless human-to-human transmission begins to escalate, the threat posed by bird flu and swine flu will remain an intangible factor. Our core forecasts should therefore be viewed while bearing in mind the downside risk posed by a potential human flu pandemic.

Risk/Reward Ratings

Table: Asia Pacific Tourism Risk/Reward Ratings

	Tourism Rewards	Country Rewards	Rewards	Market Risks	Country Risk	Risks	Tourism RRR	Regional Rank
	Rewards			Risks				
Hong Kong	80	63	73.3	80	76	77.8	75	1
Thailand	**82**	**62**	**74.0**	**66**	**55**	**59.8**	**70**	**2**
Australia	53	72	60.8	81	86	83.5	68	3=
New Zealand	45	85	60.9	77	89	83.5	68	3=
Singapore	63	56	60.3	85	77	80.5	66	5
South Korea	62	70	64.9	70	63	66.6	65	6
Malaysia	55	61	57.3	75	61	67.1	60	7
China	50	55	52.0	77	44	59.0	54	8
Japan	23	77	44.1	68	68	68.1	51	9
Sri Lanka	47	54	49.7	64	39	50.3	50	10=
Vietnam	37	62	46.9	65	48	55.6	50	10=
Cambodia	55	63	54.9	33	39	36.3	49	12
Laos	47	49	47.5	64	24	41.8	46	13
India	42	46	43.2	37	56	47.5	44	14
Indonesia	23	42	30.5	67	45	55.2	38	15

Scores out of 100, with 100 highest. Source: BMI

BMI Security Ratings

BMI's Security Ratings service, which integrates closely with our Country Risk service, offers a comprehensive comparative analysis of security risk in three key areas – interstate conflict, terrorism and physical safety for expatriate workers – across major states in each region. The ratings are combined to form a composite security rating to provide an overall guide to long-term trends and risks. We integrate our short-term political and economic ratings with the terrorism rating, to indicate a state's vulnerability to a sustained terrorist campaign or major terrorist attack. In all instances, the rated period is two years, with each country assigned a score out of 100, with a low score indicating a high level of risk.

Table: Asia Pacific Regional Security Ratings

State	Interstate	Terrorism	Criminal	Composite domestic risk	Regional rank	Composite security risk	Ranking
Singapore	91	87	99	93	1=	92	1
Australia	98	83	92	88	4	91	2
Japan	90	92	91	91	3	91	2=
Taiwan	71	95	79	87	6=	82	4
South Korea	68	86	88	87	5	81	5
Malaysia	81	84	69	77	8	78	6=
North Korea	48	98	88	93	1=	78	6=
Vietnam	60	98	71	85	6=	76	8
China	80	85	59	72	9	74	9
Thailand	**84**	**66**	**71**	**68**	**10**	**74**	**9=**
Indonesia	88	68	52	60	11	69	11
Philippines	84	49	40	45	13	58	12
India	68	47	53	50	12	56	13
Pakistan	46	26	37	31	14	36	14

Scores out of 100, with 100 the highest. The 'Composite security risk' is the principal rating. It comprises 'Interstate' risk – the risk of becoming a primary party to an interstate conflict that threatens significant damage to homeland; 'Terrorism' risk – the risk of terrorist groups (domestic or international) being able to launch a major attack/sustained campaign; and 'Criminal' risk the risk of (politically motivated) violence against expatriate workers. Each of the three risks is given equal weighting. The 'Composite domestic risk' rating comprises 'Terrorism' and 'Criminal' risk, each of which is given equal weighting. Each rating (State, Terrorism, Criminal) is assessed subjectively by our analysts within a clearly defined methodology, incorporating a minimum of six conceptually distinct elements. Source: BMI

Table: Asia Pacific State Vulnerability To Terrorism Index

State	Terrorism	Short-term political	Short-term economic	Composite	Regional rank
Taiwan	95	84	84	90	1=
Singapore	87	94	90	90	1=
South Korea	86	81	89	85	3
China	85	77	86	83	4
Japan	92	80	63	82	5=
Vietnam	98	76	58	82	5=
Australia	83	86	68	80	7
Malaysia	84	74	74	79	8
North Korea	98	70	30	74	9

Table: Asia Pacific State Vulnerability To Terrorism Index

State	Terrorism	Short-term political	Short-term economic	Composite	Regional rank
Indonesia	68	73	71	70	10
Thailand	**66**	**63**	**76**	**68**	**11**
Philippines	49	66	64	57	12
India	47	61	62	54	13
Pakistan	26	48	46	36	14

Scores out of 100, with 100 the highest. The 'State vulnerability to terrorism index' is the principal rating. It comprises the 'Terrorism' rating and BMI's Country Risk 'Short-term political' and 'Short-term economic' ratings, which are given equal weighting. The 'State vulnerability to terrorism' rating quantifies the exposure of a state to a successful major terrorist attack/campaign, evaluating first how likely one is (Terrorism) before considering the vulnerability of the political and economic environment to a sudden shock. As such, it incorporates subjective analysis of 15 conceptually separate analytical elements, as well as 13 separate objective data points; na = not available. Source: BMI

Thailand's Security Risk Ratings

Terrorism Risk

Thailand's terrorism risk rating is 66. The violence in the south has escalated, with insurgents conducting several coordinated attacks, as well as targeting critical infrastructure such as telecommunications towers. The most disturbing development was the series of attacks on the general population since the start of 2008. There are concerns that the insurgency is no longer focused on establishing an independent Muslim Pattani state, but that it is developing into sectarian violence, with teachers and similar public-sector employees bearing the brunt of many attacks because they are the most visible and accessible government employees.

Physical Safety Risk

As a result of the intensifying insurgency in the south, Thailand's physical safety risk is a poor 71. The government has attempted to protect communities from the violence, but some strategies have inevitably drawn village communities further into the conflict.

Conflict Risk

Thailand's interstate military and diplomatic relations remain relatively robust, with relations remaining strong with ASEAN states. Thailand will have to manage its bilateral defence relations carefully in the coming quarters. Since the coup in 2006, Thailand's military relations have deteriorated, as demonstrated by the US Government halting its Foreign Military Financing programme. The overthrow of Thaksin Shinawatra has, indirectly, increased the risk of clashes with neighbour Cambodia in a border dispute over the ownership of the Preah Vihear temple complex. Tensions have been heightened particularly since Thaksin accepted the role of economic adviser to Cambodian leader Hun Sen.

South East Asia Security Overview

Strategic Outlook For The 2010s

South East Asia will face a number of challenges to its security in the 2010s, largely in the form of Islamist militancy, piracy, weak borders and rising competition between China and the US for influence in the region. One of the biggest unknowns in the region is the future of Myanmar. If the regime there were to collapse suddenly then regional insecurity would be greatly increased.

South East Asia In A Global Context

South East Asia will remain one of the world's most important regions for the following reasons:

Population Size
It is one of the most heavily populated parts of the world, with an estimated 593mn people in 2010, according to the UN. The population is still rising rapidly, with the UN forecasting a 10% increase to 656mn in 2020, and to 706mn in 2030.

Rapidly Expanding Economies
South East Asia's economies are generally expanding rapidly and the region is a key destination for foreign investment, business and tourism. It is also rich in commodities and natural resources.

Islamist Militancy
Islamist militants have been active in South East Asia for some time. The region has 258mn Muslims (16% of the global total), according to a January 2011 report by the Pew Forum, providing a significant pool of potential recruits.

International Piracy
The Malacca Strait and waters around Indonesia are major zones of pirate activity. The Strait is one of the world's main maritime 'chokepoints', and there are fears that terrorists could block the channel.

SinoUS Competition For Influence
The US dominated South East Asia during the Cold War but in recent years Chinese influence (especially commercially) has been increasing. This raises the likelihood of a concerted struggle for influence between Beijing and Washington.

Challenges And Threats To Stability And Security

South East Asia faces multiple challenges to its security over the coming decade and beyond. These include:

Poor Governance And Political Instability
Most South East Asian states are vulnerable to political instability and suffer from relatively poor governance. The most obvious example is **Thailand**, which has been wracked by periods of protests (mostly in Bangkok) and has seen five changes of leadership since 2006. This instability reflects a deep-rooted power struggle between traditional Bangkok-based royalist elites represented by former prime minister Abhisit Vejjajiva (2008-2011) of the Democrat Party, and new elites and the predominantly agricultural north eastern provinces, represented by exiled former premier Thaksin Shinawatra and his younger sister, Yingluck, leader of the Puea Thai Party. Yingluck was elected prime minister in July 2011.

Opponents of Thaksin style themselves as the Yellow Shirts, while his supporters call themselves Red Shirts. Given the animosity between the two sides, the general election of July 3 2011 passed surprisingly smoothly. However, we believe the risk of instability will prevail for some years, especially with Yingluck's party seeking to amend the constitution. In the event of a return of mass street protests, we would not totally rule out another military coup.

The Philippines is also prone to political instability, with two 'People Power' popular uprisings against corrupt presidents (in 1986 and 2001), and several repeated attempts during the 2000s. During the past decade the Philippines has occasionally been hit by rumours of an imminent military coup, although most of these were speculative and actual mutinies were foiled and failed to attract the support of the top brass. Given deep inequalities in the Philippines, high levels of political corruption, and on again-off again attempts by elements of the establishment to push for constitutional change (*chacha*), we see scope for renewed instability in the years ahead.

Indonesia has achieved a high degree of stability under President Susilo Bambang Yudhoyono (2004) following the chaos of the immediate post-Suharto years. That period resulted in three changes of president in six years (19982004) and the near disintegration of the state, as separatist movements took advantage of central government weakness to break free. It remains to be seen whether the stability achieved under Yudhoyono represents a maturing of Indonesia's political culture or is an anomaly that will end once he steps down in 2014.

Cambodia, **Laos** and **Vietnam** are de jure or de facto one-party states experiencing rapid economic growth and social change. We do not preclude rising public unrest, especially if governments fail to translate rapid economic growth into higher living standards. Indeed, the popular uprisings which shook the Middle East and North Africa in 2011 show the speed at which pent-up public dissatisfaction with authoritarian regimes can reach boiling point.

Rapid Population Growth And Urbanisation

Although birth rates have declined, populations are increasing fairly rapidly in most South East Asian countries, with total fertility rates (TFR, the average number of children a woman is expected to have in her lifetime) above the population replacement level of 2.1. The Philippines is forecast by the UN to have the highest TFR in the region (3.1) in 20102015, while Thailand will have the lowest TFR of 1.5, which is already below replacement level, having fallen from 3.9 in 1980.

High birth rates mean governments and private sectors must create sufficient jobs to absorb the expanding labour force. To some degree a rising population will mean greater demand for goods and services, and thus more demand for workers. However, in many cases, job creation is proving difficult, and this is leaving a vast segment of unemployed or underemployed young people who have only limited prospects for social and economic advancement. In the Philippines an estimated 10% of its workforce has moved abroad in search of work. These deficiencies in upward mobility are naturally a source of discontent and mean politically radical groups have a sizeable pool of potential recruits.

Several South East Asian states are also expected to experience substantial urbanisation over coming decades. Cambodia, Laos, Myanmar, Thailand and Vietnam are still predominantly rural, with only a third of their populations living in cities. As more people migrate to the cities, this will place ever greater strains on urban infrastructure and social services. This could increase scope for political instability or force rural migrants to work in the underground economy. These conditions in turn provide opportunities for organised crime to flourish.

Organised Crime

Organised crime is common in many parts of South East Asia (although hardly uniquely so) because of weak institutions, high levels of poverty and corruption and a degree of lawlessness in some countries. In addition, increasing globalisation has allowed criminal groups hitherto mainly restricted to one country to develop operations overseas. As with many underdeveloped regions of the world, organised criminal groups trade in drugs, people (prostitutes, but also children and illegal migrants), weapons and counterfeit goods.

Nonetheless, most foreign visitors to South East Asia are unlikely to be physically targeted by criminal gangs, although they are at risk of petty crime and deceit. Most criminal syndicates are arguably more likely to pose a threat to domestic rather than foreign businesses.

Islamist Militancy

South East Asia's Muslim populations have long practiced a moderate form of Islam, and the vast majority still does. However, since the 1990s the region has come under greater scrutiny for its ties with radical Islam. For example, in 1995, al-Qaeda operatives used South East Asia as a staging ground for a failed plot (Operation Bojinka) to destroy a dozen transpacific airliners flying towards the US – a series of attacks that was later carried out on a smaller scale on September 11 2001. The 9/11 terrorist attacks prompted national and global intelligence agencies to intensify their efforts to crack down on South East Asian terror cells.

There are several reasons why the region, particularly Indonesia, will remain vulnerable to terrorism or a source of terrorism in the near future:

- The region's sheer geographical size and population. Indonesia and the Philippines are large archipelagos with thousands of small and sparsely populated islands where the government's presence may be limited. This provides terrorists with places where they can hide and train.

- Despite fairly robust economic growth, tens of millions of people in Indonesia and the southern Philippines remain in deep poverty. Their lack of opportunities for social advancement could make them vulnerable to recruitment by radical groups.

- There are powerful religious organisations in Indonesia, which although not terrorist in nature, espouse 'radical' messages to their supporters. The Indonesian authorities have at various times been reluctant to crack down on these groups for fear of creating a backlash.

- There is a significant foreign presence in South East Asia that provides potential targets for terrorists. These include foreign businesses, tourists and travellers, aid workers and Christian missionaries. Singapore, too, could potentially be targeted, because it is the region's leading financial centre and a pro-Western state.

Main Islamist Militant Groups In South East Asia

Jemaah Islamiyah

Jemaah Islamiyah (JI) is one of the most prominent Islamist militant groups in South East Asia, having received notoriety in the international media for orchestrating the October 2002 Bali bombing. This was the worst single act of terrorism on Indonesian soil, killing 202 people, including 152 foreign citizens (88 were Australian). JI was founded in the early 1990s with the aim of forming an Islamist super-state consisting of Indonesia, Malaysia, the southern Philippines, Singapore and Brunei. Of these countries, it has been most active in Indonesia, carrying out bomb attacks on the Marriott Hotel in Jakarta in 2003, the

Australian embassy in 2004, Bali (albeit on a smaller scale) in 2005, and on the Marriott and Ritz-Carlton hotels in Jakarta in 2009.

By the start of the 2010s most of JI's top operatives had been killed or captured, with Noordin Mohammad Top, the Malaysian-born mastermind of the 2009 Jakarta attacks, dying in a gun battle with Indonesia's anti-terror police in Central Java in September that year. Nonetheless, the Islamist terror threat persists. In May 2010 the Indonesian police announced that they had foiled a plot by Aceh-based militants to carry out a Mumbai-style hotel siege and attack Yudhoyono, government officials, and foreign guests at Indonesia's national day ceremonies on August 17. Once the government had been eliminated, the militants planned to declare an Islamist state under shari'a law. The militants were also reportedly planning to target the US president, Barack Obama, who eventually visited the country in November 2010.

These plans were extremely ambitious and complex, and this would have mitigated against their success. Indeed, it is doubtful if the militants would have been able to assassinate so many important officials. Nonetheless, the scheme shows that the terror threat in Indonesia is not over. With this in mind, in August 2010 the Indonesian authorities detained the radical cleric Abu Bakar Bashir, whom they consider to be the driving force behind JI. Indonesia's Detachment 88 linked Bashir to a militant training camp in the westernmost province of Aceh, the only region of Indonesia to incorporate shari'a law. In December 2010 Indonesian police foiled a terror plot to attack a Chevron oil facility and tourists in Riau province, on the island of Sumatra.

In February 2011 Bashir went on trial charged with plotting acts of terror and in mid-June he was sentenced to 15 years in prison. This was reduced to nine years in October 2011. In July Indonesia's national counterterrorism chief stated that Islamist militants were now using parcel bombs and targeting minority groups to push their radical agenda. At the end of that month a key Indonesian bomb maker, Umar Patek, was arrested in Pakistan. His arrest was deemed significant because of his knowledge of the links between South East Asia's militant groups. In mid-April 2011 a suicide bomber detonated himself in a mosque inside a police compound 200km south east of Jakarta, injuring around 30 people.

In March 2012, Indonesian police shot dead five suspected Islamist militants in a raid in Bali. The men were believed to be plotting new attacks, including one against a beachfront bar popular with tourists. This demonstrated the persistency of the terror threat, and security officials believe that militants are keen to raise their profile with new attacks.

Abu Sayyaf

Abu Sayyaf is a small but deadly Islamist group in the Philippines that was formed in the 1990s by Abdurajak Abubakar Janjalani after he returned from the Middle East and Afghanistan. After Janjalani's death in 1998, his brother Khadaffy led the group until his own death in 2007. Khadaffy's successor, Albader Parad, was killed in February 2010. All three died in battles with Philippine government forces. Abu Sayyaf has been fighting for an independent Islamist state and has attacked or kidnapped foreign tourists, aid workers and Christian missionaries, as well as conducted bomb attacks. Its main strongholds have been the islands of Jolo and Basilan.

In 2004, Abu Sayyaf bombed a ferry in Manila Bay, resulting in 116 deaths, making it the Philippines' worst terror attack. The group developed close ties with al-Qaeda thanks to the support of Mohammed Khalifa, a brother-in-law of Osama bin Laden, and Jemaah Islamiyah (*see above*). Abu Sayyaf's links with al-Qaeda prompted the US to deploy several hundred troops to the southern Philippines in 2002 in support of Philippine military operations against the group.

While the Philippine government has scored successes in its campaign against Abu Sayyaf, reducing the number of militants to around 350 from a peak of 5,000 in early 2000, the authorities see the group as very dangerous, and fear that it is rebuilding its ties with militant groups in the Middle East. In July 2011 government forces clashed with Abu Sayyaf militants in Jolo in what was the heaviest fighting in many months. In early 2012, the militants took Australian, Dutch and Swiss nationals as hostages. All three were captured in the south of the Philippines. Meanwhile, the Philippine military carried out an airstrike that killed 15 Islamist militants on Sulu in February 2012.

Moro Islamic Liberation Front

The Moro Islamic Liberation Front (MILF) broke off from the Moro National Liberation Front (MNLF) in 1981 to wage an intensified war for an independent Moro (Muslim) state in the southern Philippine island of Mindanao. The MNLF had been fighting for a Moro state since the 1960s, but gradually adopted a moderate path, which prompted its hardliners to form MILF. In 1989 the Philippine government created the Autonomous Region in Muslim Mindanao (ARMM), consisting of several Muslim provinces, in a bid to placate local Muslim populations. However, MILF considered the move insufficient and continued its armed struggle. Nonetheless, since 1997 MILF has been conducting on-off negotiations with the Philippine government to end the conflict, which has killed more than 120,000 people.

Progress towards peace negotiations between MILF and the Philippine government in 2010 was encouraging. Indeed, fighting between MILF and the Philippine military had largely ceased following the suspension of military offensives by former president Gloria Macapagal Arroyo in July 2009. Official dialogue resumed in February 2011 after a long break, and in early August the president, Begnino Aquino III, held a meeting with MILF leader Murad Ebrahim in Tokyo. However, on August 23 2011 MILF negotiators rejected government proposals on the basis that they did not grant their territory sufficient autonomy. Renewed violence broke out in late October 2011, and the government launched a new offensive against MILF rebels, but President Aquino resisted calls from some politicians to abandon peace talks.

Encouragingly, MILF's leadership has been working to remove extremist elements from the frontlines, in order to minimise unnecessary hostilities that may derail the prospects of a permanent peace accord with the government. In addition MILF has deepened its ties with the less radical MNLF, with the two signing a unity accord in late May 2010. This development underscores our view that MILF is seeking to transform itself into a more mainstream organisation. However, a key risk to these peaceful moves is the emergence in early 2011 of a MILF splinter group known as the Bangsamoro Islamic Freedom Fighters (BIFF), with around 100 members. The group is led by Ustadz Ameril Umbra Kato, a hardline commander who was behind an outbreak of violence in August 2008. Any new attacks by this group could complicate peace negotiations. MILF formally expelled Kato in March 2011, prohibiting him from using the group's name in any communications. In early August 2011 clashes took place between MILF and BIFF fighters, causing hundreds of people to flee. On May 6 2011, MILF formally abandoned a planned clause to seek secession from the Philippines in any peace agreement after pressure from Malaysia, the main facilitator of peace talks. Negotiations between the government and MILF have continued over the course of 2012.

Insurgents In Thailand's South

Since January 2004 Thailand's three predominantly Muslim southernmost provinces, Pattani, Yala and Narathiwat, have been wracked by an insurgency that is estimated to have resulted in 5,000 deaths, mostly civilians. The local population has long bemoaned its marginal economic and social status in predominantly Buddhist Thailand, and believes it has more in common with its Malaysian neighbours. The current insurgency has consisted of small-scale attacks on military and police facilities, but successive Thai governments under Thaksin Shinawatra, General Surayud Chulanont, Samak Sundaravej and Abhisit Vejjajiva all failed to bring the conflict to heel, despite a variety of economic incentives and military measures.

Despite the durability of the insurgency, the militants have shown little sign of wanting to expand it to key tourist areas or the capital, Bangkok. Although there have been concerns that the militants could attract the operational involvement of radical groups such as al-Qaeda or Jemaah Islamiyah, this has not happened. Nonetheless, we believe Thailand remains an attractive target to South East Asian Islamist militant groups, because of the large presence of Westerners in the country. Fears of a possible terrorist attack against American or Israeli interests increased in January 2012 after Thai police arrested a Lebanese man with a Swedish passport for possession of large quantities of chemicals, which could be used to make explosives. The man was allegedly linked to Iran-backed Shi'ite Islamist group Hizbullah, prompting speculation that Tehran was preparing to strike American and Israeli interests beyond the Middle East in the event of a US-Israeli attack on Iranian nuclear facilities.

Piracy In The Malacca Strait

Piracy is a major risk in the Malacca Strait and the waters around Indonesia, and there have long been concerns that terrorists could bomb a tanker in the Strait, blocking it to international trade. In March 2010 the Singaporean authorities issued a warning about a potential terror attack on oil tankers passing through the Strait, citing 'intelligence [from] our liaison partners'. In addition, the government boosted security at Changi International Airport and new casino resorts as a precaution. It did not say who would orchestrate such attacks, but for many years Islamist militants have been believed to favour targeting the Strait to disrupt global shipping.

Around 40% of world trade passes through the Malacca Strait. Malacca is the main channel between East and South Asia, the Middle East, Europe and Africa. It is especially important for China and Japan, since 80% of Chinese oil imports and 90% of Japanese inbound crude shipments pass through it. Defence planners in Beijing and Tokyo have long feared that terror attacks, piracy, or interdiction by hostile navies could choke off their trade and oil supplies. Singapore is the world's top container shipping port and refuelling hub, and any temporary shutdown of the port would be a tremendous economic blow to the citystate.

Militant groups have a proven capability to attack large ships. In 2000 Islamist militants used a small boat to carry out a suicide bombing against the *USS Cole* in the port of Aden, Yemen, and in 2002 they attacked the French oil tanker *Limburg* in the Gulf of Aden. More recently Somali pirates have shown an ability to seize large vessels, including an oil supertanker in 2008. While joint maritime patrols by Indonesia, Malaysia and Singapore have helped curb piracy, the overall threat to shipping in the Malacca Strait is real.

Fortunately, there are alternative routes to Malacca should it become blocked. The first is the Sunda Strait, which separates Indonesia's largest islands of Sumatra and Java. However, this route is considered difficult to navigate (especially for large vessels), because of shallow patches, strong tides, oil platforms and tiny uninhabited islands. There is also the route through the Lombok and Makassar straits, which are wider, deeper, and less congested. However, this route is 1,600 nautical miles longer, requiring a further 3.5 days' travelling time, which adds to shipping costs.

Overall, the rising volume of Asian trade, especially with emerging markets in the Middle East and Africa, means the Malacca Strait is likely to become more important and more congested, increasing the risk of a terror attack or piracy. China is building pipelines across Myanmar to bypass the Strait, and Malaysia is planning a trans-peninsular pipeline, but these schemes will not compensate for any disruption in Malacca.

The South China Sea/Spratly Islands

The South China Sea is a potential flashpoint in South East Asia. Most notably, ownership of the Spratly and Paracel Islands, which consist of thousands of small islands in the sea, is disputed between Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam. Not all of these countries claim all the islands; rather, they each claim part of the archipelago, and have deployed small numbers of military forces there. The islands are believed to contain oil and gas deposits and vast fish stocks, which increase their perceived value to the claimant country.

For many years the countries with claims to the Spratly and Paracel Islands have been concerned about China's increasing assertiveness in the South China Sea. China is progressing with long-term plans to develop a blue-water (oceangoing) navy and has already developed a large new underground naval base in Hainan Island, in the southernmost part of the People's Republic, which can be used to project power in the South China Sea. Given that virtually all maritime trade between East Asia and Europe/the Middle East must pass through the South China Sea, there are concerns among some defence planners in Japan, Taiwan, and Vietnam that the Chinese People's Liberation Army Navy (PLAN) could interdict their vessels in the area in the event of a geopolitical crisis. We believe such action is highly unlikely, given that this could be construed as an act of war and could prompt US intervention.

Other Regional Threats

Thai-Cambodian Border

The Thai-Cambodian border is a potential flashpoint owing to the presence of the disputed Preah Vihear temple. In 1962 an international court ruling awarded the temple to Cambodia, but many in Thailand do not accept this status. Recent years have seen both countries use the dispute to stoke nationalist fervour and have deployed troops to the region, resulting in small but deadly skirmishes. The latest of these took place in late April/early May 2011, resulting in at least 18 deaths. Despite these occasional hostilities, neither side wishes to see full-scale armed confrontation.

New People's Army

Besides Islamist militants, the Philippine government has fought a Maoist insurgency led by the Communist Party of the Philippines and its armed wing, the New People's Army (NPA), for more than 40 years. The NPA has been a threat to government forces, as well as civilian communities in various parts of the country. Both the US and the EU designate the militant group a terrorist organisation. Despite the offer in 2007 of an amnesty by Macapagal Arroyo that promised to forgive certain crimes committed 'in pursuit of political beliefs', the NPA has continued to wage hostilities against Manila. However, in early June 2010 guerrilla leaders stated that they were ready to resume talks with the Philippine government under Aquino. Aquino named a new peace panel in October 2010 and formal talks, hosted by Norway, resumed in mid-February 2011 after a six-year hiatus. In April 2011 the Philippines' chief negotiator, Alexander Padilla, expressed hopes that the entire peace process could be completed in 18 months to three years. He said that a failure to reach agreement with the NPA leadership would risk bringing to power more radical rebels. One of the key sticking points was the demand by rebels that more of their comrades be released from detention. Nonetheless, the rebels continued to attack foreign and domestic mines in the southern Philippines in 2011, citing their pollution and the displacement of indigenous people. The government countered that the guerrillas use these social concerns as an excuse to extort money from mine operators.

The Future Of Myanmar

The future of Myanmar remains a major risk factor for South East Asian security. Myanmar is important for the following reasons:

- It lies at the intersection of China and India, and has been the subject of competition for influence between Beijing and New Delhi, with the former generally holding the upper hand. Myanmar's isolation under international sanctions has allowed China to increase its influence in the country.

- China sees Myanmar as a crucial transport corridor connecting its landlocked inner western provinces to the Indian Ocean and the world markets. China is building new pipelines from Myanmar's gas fields and ports to its industrial centres, so that less oil to China needs to be shipped via the Malacca Strait.

- Chinese access to Myanmar's ports could eventually allow the Chinese navy to increase its ability to project power in the Indian Ocean, which is shaping up to be a major arena of 'Great Power' competition.

- A Myanmar closely allied to the US would allow Washington to increase its influence in South East Asia. Like India, the US worries about rising Chinese influence. Indian dominance over Myanmar could counter some of China's geopolitical clout in the region.

- Myanmar is vulnerable to separatist pressures and any full-scale collapse of the country could lead to massive refugee flows into China, India, Thailand and Bangladesh, none of which are necessarily well placed to cope with them.

- Myanmar is a major centre of illegal trafficking of gems, timber, drugs and labour (including prostitutes).

- The country emerged as a potential ally of North Korea in the late 2000s and there were reports that Pyongyang was assisting Naypyidaw in developing a nuclear programme.

Following the first elections in more than 20 years in November 2010, Myanmar remains dominated by the military, albeit in the civilian guise of the Union Solidarity and Development Party. However, President Thein Sein reached out to the US and other Western countries in 2011, resulting in US Secretary of State Hillary Clinton making a landmark visit to Myanmar in November of that year. Myanmar also held by-elections in April 2012, in which opposition leader Aung San Suu Kyi's party made strong gains. The EU and US subsequently moved to ease longstanding sanctions, although not all restrictions were lifted. Hopes are high that Myanmar can be reintegrated into the global economy. Despite these positive initiatives, **BMI** sees a risk of political instability and even chaos if the regime eventually collapses or is replaced by a weaker and untested government. Myanmar is a highly diverse country, and the experiences of Indonesia and Yugoslavia in the 1990s showed that when a long period of authoritarian rule collapsed, ethnic separatism and civil war (or quasi-civil war in Indonesia's case) followed, leading to atrocities, refugee flows and the spread of organised crime, all of which proved detrimental to economic development.

Also problematic would be turmoil within the 490,000-strong Myanmarese army, which is one of the largest in Asia. The vast armed forces keep separatist regions in check, but if the military fractured, these regions might be expected to take advantage of the power vacuum and go their own ways. The putative new central government would face a dilemma over whether to allow breakaway states to become independent or fight to prevent their secession. There would also be the possibility of behind-the-scenes intervention or even major troop deployments by China, India, Thailand and potentially even the US.

China-US Rivalry In South East Asia

China-US competition in South East Asia is likely to feature more prominently over coming years. Traditionally, the US has been the preeminent 'Great Power' in the region. During the Cold War Washington developed close relationships (especially in the military sphere) with Thailand, the Philippines and Indonesia, as a means of containing Chinese and Soviet-backed communism in the region. However, in the post-Cold War era South East Asia's geopolitical importance waned, and the US military withdrew its substantial presence in the Philippines in 1992.

For much of the 1990s and the 2000s the US was too concerned about events in Iraq, Bosnia, Kosovo, North Korea and Afghanistan to give much attention to South East Asia. Nonetheless, the 9/11 terror attacks forced the US to turn its full attention to militant Islam, and while the prime foci of Washington's 'war on terror' have been Afghanistan and Iraq, the White House feared that al-Qaeda and its offshoots could find save havens in the southern Philippines and parts of Indonesia. In 2003 the Bush administration named Thailand and the Philippines as US Major Non-NATO Allies (MNNAs), a status that brings close defence cooperation with Washington. The US also became more involved in assisting the Philippines in its war against Abu Sayyaf militants.

Nonetheless, there has been a perception that the US' ongoing commitments in Afghanistan and previous deployment in Iraq have resulted in Washington neglecting South East Asia at a time when China has quietly been gaining influence through increased trade, investment, tourism and other cultural exchanges. With China emerging as a new anchor for the region, the US was at risk of becoming less important.

Consequently, the US has been seeking to revive its influence in the Asia Pacific region, and in late 2011 announced that it would deploy more military resources there. To Washington's advantage, it is unlikely that South East Asian states would willingly acquiesce to Chinese hegemony. Beijing's attempts to assert its sovereignty in the South China Sea since 2010 have led to a regional backlash. Most notably, Vietnam has a long history of strained relations with China. Vietnam was the last sovereign state that China attacked (in 1979) and Hanoi remains wary of Beijing's rise, despite the fact that they are both one-party Communist states pursuing similar economic reforms. The US is cognisant of Vietnam's apprehension and has been working since the late 1990s to boost bilateral relations, apparently with the unstated intention of developing Hanoi as a potential counterweight to Beijing. Although the US fought a bitter war with Vietnam in the 1960s and 1970s, around half of all Vietnamese were born after the US defeat in 1975 and thus do not have direct experience of the conflict. Vietnam therefore does not suffer from high degrees of anti-Americanism that would preclude an alliance with the US. That said, there is reluctance by Hanoi to become too dependent on Washington for security. In the early 2000s there was speculation that the US would seek to establish a military presence at Cam Ranh Bay in southern Vietnam, following the withdrawal of the Russian navy in 2002 after a 23year stay, but this did not happen. Vietnam appears to be sticking with its 'three no's' policy of no foreign bases, no formal military alliances and no use of its territory to attack another country.

In late 2009 the Obama administration began a tentative outreach to the military regime in Myanmar, with the aim of luring Naypyidaw back into the international fold. While Washington undoubtedly wants to see Myanmar become a 'normal country' (ie: democratic and open to business), the Obama initiative clearly had the goal of reducing Chinese influence there. In November 2011, Hillary Clinton visited Myanmar and said if the regime pursued genuine and lasting reforms it would find a partner in Washington. While her visit was a major diplomatic breakthrough – she was the first American secretary of state to visit the country in 50 years – we caution that Myanmar is not on an irreversible course towards rapprochement with the West. A similar historic visit to North Korea by the Madeleine Albright in 2000 failed to lead to a sustained breakthrough and Washington remains at odds with Pyongyang more than a decade later. Therefore, we believe it will be some years before Myanmar's sincerity can be determined.

Outlook For South East Asia

Over the coming decade, we expect increasing competition between China and the US for influence in South East Asia. Beijing's power will grow, in tandem with China's economic rise, but Washington will also step up efforts to engage the region. The EU and Japan will also remain important trade partners for the region. With the US having withdrawn its military forces from Iraq at the end of 2011, and aiming to end combat operations in Afghanistan by the end of 2013, Washington will turn its attention more towards Asia Pacific. Japan will continue to be a big donor and investor in South East Asia, and also sees cooperation with Hanoi as a possible hedge against China, but Tokyo's geopolitical influence in the region will remain limited by Japan's weak economy and its domestic political paralysis.

Owing to its geographic and demographic size, the future of Indonesia is crucial for South East Asian stability. Yudhoyono is considered a highly capable leader but he is constitutionally required to step down in 2014, and if his successor mismanages the country, this could lead to more instability. An upsurge in Islamist terrorism could be a wild card for Indonesia.

The future of Myanmar will also be a key determinant of South East Asian security. A collapse of military rule there, if followed by chaos or civil war, would lead to new refugee crises and create a security vacuum for criminal groups and armed gangs to flourish in. Myanmar could also become the arena for an intensified proxy conflict between China and India.

Global Assumptions

Our global aggregate real GDP growth forecast for 2012 remains 2.6%, though it has dipped slightly for 2013 to 3.0% from 3.1% previously. Our overall outlook on the global economy remains unchanged. Most of our high-frequency global indicators suggest that output growth is slowing and global trade is stagnant at best, while demand and confidence are at cyclically low levels. Inflation continues to trend down as well. Since mid-2010, we have argued that the global economy is on the cusp of recession but that it would probably take a major policy error to tip it over the edge. The potential for recession still looms large, with China facing a hard landing amid a major economic transition, the eurozone contracting and the US facing a fiscal emergency in the new year.

Table: Global Assumptions, 2011-2017

	2011	2012f	2013f	2014f	2015f	2016f	2017f
Real GDP Growth (%)							
US	1.7	2	2.1	2.5	2.5	2.3	2.4
Eurozone	1.6	-0.6	0.6	1.4	1.7	1.9	1.9
Japan	-0.7	1.5	1.2	1.2	1.2	1.2	1.3
China	9.1	7.5	7.1	6	6	6.1	6
World	3.1	2.6	3	3.3	3.5	3.5	3.5
Consumer Inflation (ave)							
US	3	2.1	2	2	2.2	2.2	2.3
Eurozone	2.6	2	1.7	1.8	1.9	2.1	2.2
Japan	-0.2	0.1	0.4	0.8	1.3	1.8	2.3
China	5.6	3	3	2.9	2.8	2.7	2.7
World	4.1	3.4	3.3	3.2	3.2	3.2	3.3
Interest Rates (eop)							
Fed Funds Rate	0	0	0	0	0	1	2.25
ECB Refinancing Rate	1	0.5	0.5	0.5	0.5	1	1.5
Japan Overnight Call Rate	0.1	0.1	0.1	0.1	0.1	0.25	0.5
Exchange Rates (ave)							
US$/EUR	1.39	1.27	1.22	1.2	1.2	1.2	1.2
JPY/US$	79.74	78	75	78	82.25	84.75	85.25
CNY/US$	6.46	6.35	6.45	6.55	6.6	6.6	6.6

Table: Global Assumptions, 2011-2017

	2011	2012f	2013f	2014f	2015f	2016f	2017f
Oil Prices (ave)							
OPEC Basket (US$/bbl)	107.52	107.05	99.1	96.15	95.2	93.25	93.3
Brent Crude (US$/bbl)	111.05	110	102	99	98	96	96

Source: BMI

Stimulatory policy looks to be confined to the monetary rather than fiscal side for the foreseeable future. In line with our long-standing view, the latter part of 2012 has seen an impressive degree of monetary stimulus, with the European Central Bank (ECB), the US Federal Reserve (Fed) and the Bank of Japan (BoJ) all announcing newly accommodative policies in September. The Fed took the biggest step with 'QE3': it will commence open-ended purchases of mortgage-backed securities of US$40bn a month until 'after' the economy improves, and indicated that the Fed funds rate would be anchored at 0-0.25% until at least mid-2015. The BoJ also decided to expand its government bond buying programme. The ECB, meanwhile, has revealed a framework allowing unlimited sterilised government bond purchases focused at the short end of the yield curve, dependent on a sovereign issuer committing to a formal macroeconomic adjustment programme. In addition, there will be no explicit cap on bond yields, the central bank will surrender its preferred creditor status and the Securities Market Program will expire. We have pushed back our expectations for central bank tightening accordingly, with the first Fed funds and ECB refinancing rate hikes only in 2016, as opposed to 2014 in our previous set of forecasts. While these measures will not solve the many problems plaguing the global economy – and in fact may cause a few of their own – they are a step in the right direction given the inaction on the fiscal front.

Most major emerging market central banks have also joined the monetary easing. However, they will be more concerned about inflation, particularly as their populaces would be harder hit by higher food and energy commodity prices in the wake of monetary stimulus in the developed world. Emerging market central bankers face a tough set of choices, as they may have to decide whether to prioritise currency competitiveness or domestic price stability.

Table: Global & Regional Real GDP Growth, % chg y-o-y

	2011	2012f	2013f	2014f
World	3.1	2.6	3	3.3
Developed States	1.4	1	1.5	2
Emerging Markets	5.6	4.9	5	5
Asia (excl. Japan)	7.2	6	6.2	5.8
Latin America	4.1	3.1	3.5	3.5
Emerging Europe	4.8	2.8	3.5	4.1
Sub-Saharan Africa	3.9	5.1	5.7	6
Middle East and North Africa	3.2	5.6	4	4.3

f = BMI forecast. Source: BMI

Table: Developed Market Exchange Rates, 2011-2014

	2011	2012f	2013f	2014f
Eurozone US$/EUR	1.39	1.27	1.22	1.20
Japan JPY/US$	79.74	78.00	75.00	78.00
Switzerland CHF/US$	0.89	0.94	1.03	1.07
UK US$/GBP	1.61	1.57	1.58	1.60

f = BMI forecast. Source: BMI

Table: Emerging Market Exchange Rates, 2011-2014

	2011	2012f	2013f	2014f
China CNY/US$	6.46	6.35	6.45	6.55
South Korea KRW/US$	1,107.84	1,175.00	1,150.00	1,100.00
India INR/US$	46.67	53.5	50.00	47.50
Brazil BRL/US$	1.68	2.00	2.15	2.28
Mexico MXN/US$	12.44	13.05	12.80	12.60
Russia RUB/US$	29.41	31.72	33.00	32.75
Turkey TRY/US$	1.68	1.81	1.77	1.72
South Africa ZAR/US$	7.26	8.20	8.00	8.00

f = BMI forecast. Source: BMI

Developed States

Our developed state aggregate growth estimate for 2012 has ticked down to 1.0% from 1.1%, while remaining steady at 1.5% for 2013. Our eurozone projection for 2013 is down to 0.6% (compared with 0.7% previously). Notably, we have revised our real GDP growth forecasts for France and Italy down for 2013, and now see no Italian growth in 2013. The announcement of a framework for the ECB to purchase government bonds, a constructive ruling from Germany's constitutional court and a victory for pro-euro centrist parties in the Netherlands have been broadly supportive of efforts by policymakers to contain the eurozone crisis. However, with the exception perhaps of the Dutch election, these policy events have met – rather than exceeded – expectations, and the crisis is still far from over. Meanwhile, we have bumped up our Swedish growth expectation to 1.1% for 2012 from 0.5% owing to stronger-than-expected first-half growth figures, though we have lowered our 2013 forecast to 2.0% from 2.3%.

Table: Developed States Real GDP Growth Forecasts, 2011-2014 (%)

	2011	2012f	2013f	2014f
Developed States Aggregate Growth	1.4	1	1.5	2
G7	1.4	1.3	1.6	2.1
Eurozone	1.6	-0.6	0.6	1.4
EU-27	1.7	-0.3	0.9	1.7
Selected Developed States				
Australia	2.1	2.1	0.9	2.3
Austria	2.7	0.6	1.2	1.5
Belgium	1.8	0.5	1.1	1.6
Canada	2.5	2	2.1	2.7
Denmark	1	0.5	1.2	1.7
Finland	2.8	0.1	1.6	1.9
France	1.8	-0.2	0.6	1.4
Germany	3	0.7	1.5	1.9
Ireland	1.4	-0.5	0.3	1.4
Italy	0.5	-2.3	0	1.1
Japan	-0.7	1.5	1.2	1.2
Netherlands	1.2	-0.6	0.6	0.9
Norway	1.6	1.4	0.8	0.6
Portugal	-1.6	-3.4	-1.7	0.1
Spain	0.8	-2.1	-0.5	0.5
Sweden	3.9	1.1	2	3.8
Switzerland	2.1	0.7	1.5	1.8
UK	1	0.2	1.7	2.3
US	1.7	2	2.1	2.5

Source: BMI

Emerging Markets

Emerging markets are set to grow by 4.9% in real terms in 2012, remaining relatively steady in 2013 at 5.0%. The latter represents a decline from our previous forecast of 5.2%, however, as our aggregate forecasts have fallen for each region in 2013. The biggest downward revision among individual countries since our last monthly update is Argentina, which we see experiencing major economic difficulty and a significant currency devaluation in 2013. Its growth forecast for that year has been reduced accordingly, to 0.9% from 3.7%. Other major downward revisions are in Indonesia, South Korea and Hungary, all of which will face both domestic and external headwinds to growth in 2013.

Table: Emerging Markets Real GDP Growth Forecasts, 2011-2014 (%)

	2011	2012f	2013f	2014f
Emerging Markets Aggregate Growth	5.6	4.9	5.0	5.0
Latin America	4.1	3.1	3.5	3.5
Argentina	8.9	3.0	0.9	2.6
Brazil	2.7	1.8	3.7	3.7
Mexico	3.9	3.8	3.4	3.0
Middle East	3.2	5.6	4.0	4.3
Sub-Saharan Africa	3.9	5.1	5.7	6.0
South Africa	3.1	2.5	3.3	3.9
Nigeria	7.4	7.1	7.3	7.2
Saudi Arabia	7.1	5.2	4.5	3.5
UAE	4.2	2.9	3.5	4.5
Egypt	1.8	2.3	3.1	5.3
Emerging Asia	7.2	6.0	6.2	5.8
China	9.1	7.5	7.1	6.0
Hong Kong	5.0	1.8	3.5	3.6
India	6.5	5.9	7.2	6.6
Indonesia	6.5	6.0	5.6	6.5
Malaysia	5.1	3.8	4.6	4.3
Singapore	4.9	2.6	3.6	3.4
South Korea	3.7	1.9	3.0	4.6
Taiwan	4.0	1.6	4.2	5.0
Thailand	**0.1**	**4.0**	**4.4**	**4.4**

Table: Emerging Markets Real GDP Growth Forecasts, 2011-2014 (%)

	2011	2012f	2013f	2014f
Emerging Europe	4.8	2.8	3.5	4.1
Russia	4.3	3.4	3.6	3.7
Turkey	8.5	3.0	4.7	5.2
Czech Republic	1.7	-0.7	0.8	1.9
Hungary	1.7	-1.2	1.2	2.3
Poland	4.3	2.5	2.7	3.6

f = BMI forecast. Source: BMI

We are below-consensus on growth in 2012 for the US, the eurozone, China, Japan, Russia and Brazil, according to the Bloomberg survey of analysts. For 2013, we are significantly below consensus on China and Brazil.

Table: BMI v Bloomberg Consensus Real GDP Growth Forecast, 2012-2013 (%)

	US	Eurozone	Japan	Brazil	China	Russia	India
Bloomberg Consensus, 2012	2.2	-0.5	2.3	1.9	7.7	3.9	na
BMI	2	-0.6	1.5	1.8	7.5	3.4	5.9
Bloomberg Consensus, 2013	2.1	0.4	1.2	4.1	8	3.7	6
BMI	2.1	0.6	1.2	3.7	7.1	3.6	7.2

na = not available. Source: BMI, Bloomberg

Company Profiles

Centara Hotels & Resorts

Company Overview Centara Hotels & Resorts (formerly Central Plaza Hotels) was established in 1980 with the objective of developing, managing and operating a chain of first class hotels throughout Thailand and the region. It is a core business unit of the Central Group, founded by the Chirathivat family, who are major owners, developers and operators of mixed commercial centres, retailing businesses, department stores and trading businesses throughout Thailand. Centara was listed on the Stock Exchange of Thailand in 1990. The company operates 55 hotels in Thailand and across the region.

Centara operates a chain of city hotels in Bangkok, resort properties in key tourist destinations in Thailand and quick-service restaurant and fast-food concepts. It has also branched out into the spa industry and runs 25 Spa Cenvaree properties.

The company experienced an unexpected decline in profit in 2010, posting losses of THB51.1mn. This loss came despite an 11.7% y-o-y rise in revenues, to THB9.5bn. Instead, the company noted that some of its losses came as a result of the poor performance of an investment equity fund, with occupancy rates remaining positive. The company's fortunes revived in 2011, as a result of booming tourist arrivals and returned to profit, posting a profit of THB550mn. Centara plans to continue its expansion programme in 2012, building on growing confidence in the Thai accommodation sector.

Centara views Pattaya as a particularly strong market, having opened two more hotels there in 2011: a Centara brand and a Centara Boutique Collection hotel. Another Centara Grand hotel will open in Pattaya in 2012. At the end of 2011, Centara ended a 25-year cooperation agreement with Accor, which will continue to expand in Thailand independently. The three hotels that were previously jointly operated have been rebranded as Centara-only.

Expanding abroad is also a key part of Centara's strategy. At the end of 2011, it had 17 properties outside Thailand in key markets such as the Maldives, Sri Lanka, Mauritius and Bali.

Key Statistics

- Established: 1980
- Employees: 2,500+
- Revenue (2011): THB11.5bn
- Net profit (2011): THB550mn

Key Personnel

- Chairman: Vanchai Chirathivat
- CEO: Kobchai Chirathivat
- Vice chairman: Suthichai Chirathivat

Contact Details	▪ Address: 1693 Phaholyothin Road, Chatuchak, Bangkok 10900, Thailand ▪ Tel: 662 937 2222 ▪ Website: www.centarahotelsresorts.com

Dusit Thani Hotels & Resorts

Company Overview

The Dusit Thani Hotels & Resorts group consists of five brands: Dusit Thani, Dusit Princess, dusitD2, Dusit Deverana and Dusit Residence. It has been operating for more than 30 years from its headquarters in Bangkok and employs 300 people across six branches, plus 150 mobile employees throughout the region.

The Dusit Thani Bangkok, the group's flagship property, opened in 1970 and since then the group has expanded in the luxury sector throughout Thailand, including hotels and resorts in major city centres and leisure resorts around the country. The company operates five-star city hotels and resorts in Thailand, South East Asia and the Middle East. It has anchored itself firmly in the hotel industry, sought to capture more market share and solidify its overall position as Thailand's leading hospitality group.

Dusit Thani is part of the Asian Hotels Alliance, which was established in 2001 by five hotel groups in the region: Dusit Thani, Landis Hotels & Resorts (Taiwan), Marco Polo Hotel Group (Hong Kong), Meritus Hotels & Resorts (Singapore) and New Otani (Japan). The company's chain of in-hotel Deverana Spas is also performing well.

The company performed poorly in 2009 as a result of the global economic slowdown. However, the firm returned to the black in 2010, posting profit of THB108.1mn. The hotel suffered during the floods in late 2011 and in December launched a campaign urging visitors to return to Thailand. Largely as a result of the floods, the company saw its profits drop in 2011, to THB31.04mn, although we consider it positive that it remained in profit. The company is continuing to expand in Thailand and beyond, with new openings in the Maldives underlining the group's increasing focus on its overseas business. Other major markets include the Philippines and the UAE. A sign of the group's emphasis on attracting overseas visitors is the redesign of its website to be available in Chinese, Arabic and Japanese, as well as in Thai and English.

Key Statistics

- Established: 1970
- Employees: 450
- Net revenue (2011): THB3.9bn
- Net profit (2011): THB31.04mn

Key Personnel

- Chairman: Chatri Sophonpanich

Contact Details

- Address: Dusit Thani Commercial Building, Rama IV Road, Bangkok, Thailand
- Tel: 662 636 3333
- Website: www.dusit.com

Thai Airways International

Strengths	▪	The carrier is expanding at a rapid pace, adding destinations and flights in China, India, the Middle East, South Korea, Japan and Europe. Fleet expansion is also taking place, including the purchase of Airbus A380 superjumbo aircraft.
Weaknesses	▪	State-run status militates against efficiency.
	▪	The economic downturn and political turmoil will discourage international passengers.
	▪	High oil prices continue to eat into the bottom line.
Opportunities	▪	Suvarnabhumi Airport should pave the way for a continued increase in high-yielding passenger levels.
Threats	▪	Aggressive regional expansion of low-cost Malaysian carrier AirAsia, and the entry of its low-cost subsidiary Thai AirAsia, is a significant threat to the carrier's market position.

Company Overview

Thai Airways International, Thailand's national carrier, operates domestic, regional and intercontinental flights from its base in Bangkok to destinations around the world and in Thailand. The airline's share capital amounts to THB14bn and is owned by the government. Thai Airways suffered heavily during the economic slowdown in 2008-2009, with rising fuel costs and decreasing passenger arrivals forcing it to cancel routes. In expectation of poor 2008 results, company president Apinan Sumanaseni resigned that November.

However, confirming the early stages of recovery in Thailand's tourism industry, the airline announced in January 2010 that it expected to improve its performance in 2010 after returning to growth in 2009. Thai Airways managed to turn this situation around by implementing wide-ranging restructuring and cost cutting, as well as agreeing a US$1bn loan from financial institutions. The airline has also reached an agreement with Airbus to delay the delivery of six Airbus A380s until 2012. The airline also decided to boost funds through a share offer, which took place in September 2010 and raised THB15bn.

Despite the political unrest in Q210 and the resulting effect on tourist arrivals, Thai Airways managed to post growth over the full year, with an end-year profit of THB15.3bn It has also opened new routes such as Bangkok-Johannesburg and benefited from increased cooperation with Nok Air. Although Thai Airways had been performing well in the first three quarters of 2011, high oil prices continued to undermine profit, while the major floods in late 2011 led to flight cancellations and losses. As a result, Thai posted a loss of THB10.2bn in 2011, although revenues actually rose, to THB194bn, from THB184bn in 2010.

Thai Airways' new airline, Thai Smile, began operations in July 2012. The new carrier plans to have four aircraft by the end of the year and will operate routes from Bangkok to destinations including Macau, Hong Kong, Cochin, Phuket and Singapore. The company hopes the airline will help it to expand further into the low-cost market and improve revenues.

In February 2012, the airline approved its new business strategy through to 2018, focusing on route expansion and business consolidation. Thai Airways will take delivery of 25 new aircraft by 2013 and 21 old planes are being decommissioned.

In September 2012, Sorajak Kasemsuvan was appointed as the new president of Thai Airways and tasked with improving performance at the struggling carrier. Although he has no experience in the airline sector, he previously managed the state-owned broadcasting company and has a good track record of working in large national companies.

Key Statistics

- Established: 1960
- Employees 26,546
- Fleet: 91 aircraft
- Total operating revenue (2011): THB194.3bn
- Net loss (2011): THB10.2bn

Key Personnel

- Chairman: Ampon Kittiampon
- President: Sorajak Kasemsuvan

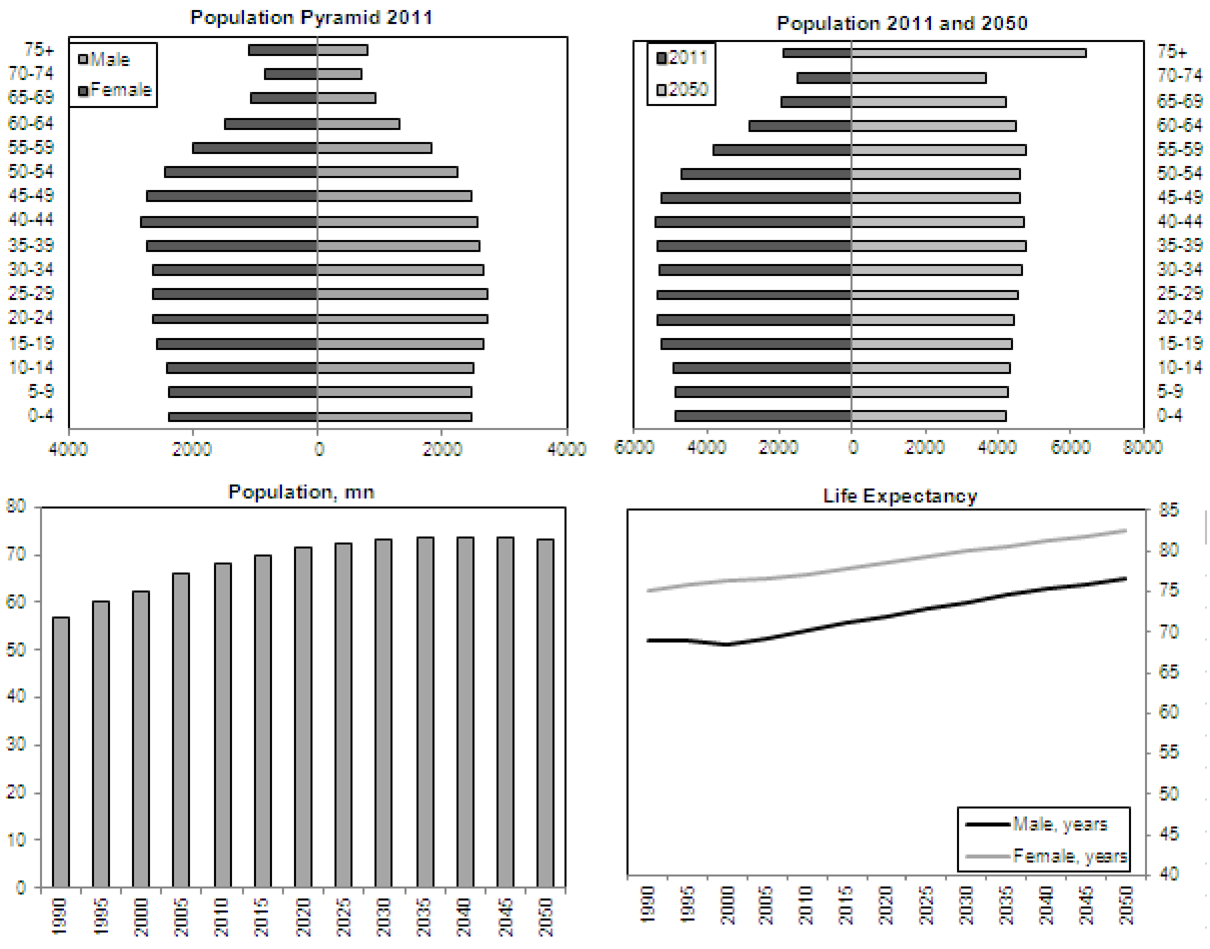
Contact Details

- Address: 89 Vibhavadi Rangsit Road, Bangkok 10900, Thailand
- Tel: 662 545 1000
- Websites: www.thaiairways.com

Demographic Outlook

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is key to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail Thailand's population pyramid for 2011, the change in the structure of the population between 2011 and 2050 and the total population between 1990 and 2050, as well as life expectancy. The tables show key datapoints from all of these charts, in addition to important metrics including the dependency ratio and the urban/rural split.



Source: World Bank, UN, BMI

Table: Thailand's Population By Age Group, 1990-2020 ('000)

	1990	1995	2000	2005	2010f	2012f	2015f	2020f
Total	56,673	60,140	62,347	65,946	68,140	68,870	69,887	71,371
0-4 years	5,411	5,379	4,966	4,842	4,850	4,850	4,821	4,694
5-9 years	5,684	5,375	5,353	4,951	4,838	4,844	4,844	4,817
10-14 years	5,914	5,660	5,355	5,334	4,940	4,884	4,833	4,841
15-19 years	6,083	5,772	5,327	5,347	5,328	5,134	4,928	4,824
20-24 years	5,765	5,796	4,981	5,445	5,348	5,370	5,303	4,912
25-29 years	5,277	5,617	5,209	5,417	5,402	5,344	5,283	5,255
30-34 years	4,702	5,257	5,537	5,553	5,298	5,300	5,282	5,193
35-39 years	3,903	4,696	5,444	5,527	5,415	5,285	5,165	5,175
40-44 years	3,008	3,923	4,946	5,325	5,411	5,377	5,294	5,067
45-49 years	2,403	2,992	4,038	4,787	5,182	5,240	5,272	5,173
50-54 years	2,313	2,337	2,947	3,871	4,589	4,783	4,990	5,096
55-59 years	2,024	2,199	2,237	2,787	3,672	3,986	4,371	4,771
60-64 years	1,564	1,874	2,049	2,075	2,617	2,966	3,446	4,117
65-69 yyears	1,030	1,383	1,648	1,833	1,888	2,048	2,371	3,135
70-74 years	692	852	1,122	1,379	1,544	1,523	1,598	2,019
75+ years	902	1,028	1,188	1,473	1,818	1,934	2,087	2,283

e/f = BMI estimate/forecast. Source: World Bank, UN, BMI

Table: Thailand's Population By Age Group, 1990-2020 (% of total)

	1990	1995	2000	2005	2010	2012f	2015f	2020f
0-4 years	9.55	8.94	7.97	7.34	7.12	7.04	6.90	6.58
5-9 years	10.03	8.94	8.59	7.51	7.10	7.03	6.93	6.75
10-14 years	10.43	9.41	8.59	8.09	7.25	7.09	6.92	6.78
15-19 years	10.73	9.60	8.54	8.11	7.82	7.46	7.05	6.76
20-24 years	10.17	9.64	7.99	8.26	7.85	7.80	7.59	6.88
25-29 years	9.31	9.34	8.36	8.21	7.93	7.76	7.56	7.36
30-34 years	8.30	8.74	8.88	8.42	7.78	7.70	7.56	7.28
35-39 years	6.89	7.81	8.73	8.38	7.95	7.67	7.39	7.25
40-44 years	5.31	6.52	7.93	8.08	7.94	7.81	7.58	7.10
45-49 years	4.24	4.98	6.48	7.26	7.60	7.61	7.54	7.25
50-54 years	4.08	3.89	4.73	5.87	6.73	6.95	7.14	7.14
55-59 years	3.57	3.66	3.59	4.23	5.39	5.79	6.25	6.68
60-64 years	2.76	3.12	3.29	3.15	3.84	4.31	4.93	5.77
65-69 years	1.82	2.30	2.64	2.78	2.77	2.97	3.39	4.39
70-74 years	1.22	1.42	1.80	2.09	2.27	2.21	2.29	2.83
75+ years	1.59	1.71	1.90	2.23	2.67	2.81	2.99	3.20

f = BMI forecast. Source: World Bank, UN, BMI

Table: Thailand's Key Population Ratios, 1990-2020

	1990	1995	2000	2005	2010f	2012f	2015f	2020f
Dependent ratio, % of total working age [1]	53.0	48.6	46.0	42.9	41.2	41.2	41.7	43.9
Dependent population, total, '000 [2]	19,632	19,677	19,632	19,812	19,878	20,084	20,554	21,789
Active population, % of total [3]	65.4	67.3	68.5	70.0	70.8	70.8	70.6	69.5
Active population, total, '000 [4]	37,041	40,464	42,715	46,134	48,262	48,787	49,334	49,583
Youth population, % of total working age [5]	45.9	40.6	36.7	32.8	30.3	29.9	29.4	28.9
Youth population, total, '000 [6]	17,008	16,414	15,674	15,127	14,628	14,579	14,498	14,352
Pensionable population, % of total working age [7]	7.1	8.1	9.3	10.2	10.9	11.3	12.3	15.0
Pensionable population, '000 [8]	2,625	3,262	3,958	4,684	5,250	5,505	6,056	7,437

e/f = BMI estimate/forecast; [1] 0>15 plus 65+, as % of total working age population; [2] 0>15 plus 65+; [3] 15-64, as % of total population; [4] 15-64; [5] 0>15, % of total working age population; [6] 0>15; [7] 65+, % of total working age population; [8] 65+. Source: World Bank, UN, BMI

Table: Thailand's Rural And Urban Population, 1990-2020

	1990	1995	2000	2005	2010	2012	2015	2020
Urban population, % of total	29.4	30.3	31.1	32.3	33.9	34.7	35.9	38.3
Rural population, % of total	70.6	69.7	68.9	67.7	66.1	65.3	64.1	61.7
Urban population, '000	16,661.9	18,222.4	19,389.9	21,300.5	23,099.5	23,898.0	25,089.4	27,335.1
Rural population, '000	40,011.1	41,917.6	42,957.0	44,645.2	45,040.5	44,972.3	44,797.6	44,035.9

Source: World Bank, UN, BMI

BMI Methodology

How We Generate Our Industry Forecasts

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling. The precise form of time-series model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined. For example, data for some industries may be particularly prone to seasonality, ie seasonal trends. In other industries, there may be pronounced non-linearity, whereby large recessions, for example, may occur more frequently than cyclical booms.

Our approach varies from industry to industry. Common to our analysis of every industry, however, is the use of vector autoregressions. Vector autoregressions allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

It must be remembered that human intervention plays a necessary and desirable part in all of our industry forecasting techniques. Intimate knowledge of the data and industry ensures we spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Tourism Industry

There are a number of principal criteria that drive our forecasts for each tourism sector variable. Figures for the tourism sector data are based, where possible, on industry associations/operators, government/ministry sources and official data. Where these are unavailable, tourism forecasts are based on a range of variables:

- Government policy, industry trends, expenditure levels stated in international and national press;
- Industry trends, expenditure levels stated in tourism company official financial reports/releases;
- Likely expenditure/growth patterns owing to international developments/demographic patterns;
- Likely alterations in expenditure patterns owing to economic/political activity.

Tourism Ratings – Methodology

Our approach in **BMI**'s Tourism Risk/Reward Ratings is threefold. First, we seek to capture the operational dangers to companies operating in this industry globally. Second, we attempt to identify objective indicators that may serve as proxies for indicators traditionally evaluated on a subjective basis. Finally, we include aspects of **BMI**'s proprietary Country Risk Ratings (CRR) that are relevant to the tourism industry. Overall, the ratings system, which integrates with those of all industries covered by **BMI**, offers an industry-leading insight into the prospects/risks for companies across the globe.

Ratings System
Conceptually the ratings system divides into two distinct areas:

Rewards
Evaluation of sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development.

Risks
Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period.

Indicators
The following indicators have been used. the rating uses three subjectively-measured indicators, and 41 separate indicators/datasets.

Table: Tourism Risk/Reward Rating Indicators

Indicator	Rationale
Rewards	
Market Structure	
International tourism revenue, US$bn	The larger the sector the greater the opportunities available.
Revenue growth, % chg y-o-y	Rapid growth will result in increased opportunities.
Tourism employment, % of total	Proxy for extent to which economy is already oriented towards the sector.
Country Structure	
Physical infrastructure	Rating from BMI's Country Risk Ratings (CRR). Poor power, water or transport infrastructures serve as bottlenecks to sector development.
Labour costs	Rating from CRR to denote cost of labour. High costs will hinder international competitiveness and vice versa.
Risks	
Market Risks	
Security/external risks	Subjective evaluation against BMI-defined criteria. The tourism industry is especially vulnerable to security risks.
Environmental issues	Subjective rating of changes to perceived risk of natural disaster. The tourism industry is especially vulnerable to shocks emanating from natural disasters.
Country Risk	
Long-term external risk	Rating from CRR, to denote vulnerability to external shock, the principal cause of economic crises. Such a crisis will complicate long-term planning by suggesting risk of growth volatility and cutting access to investment funding domestically.
Regional competitiveness	Subjective rating evaluating changes in sector's cost competitiveness in relation to key peers. Demand in the tourism industry is highly vulnerable to changes in price.
Market openness	Subjective rating from CRR, to denote predictability of openness to foreign investment trade.
Bureaucracy	Rating from CRR to denote ease of conducting business in the state.
Legal framework	Rating from CRR, to denote strength of legal institutions in each state. Security of investment can be a key risk in some emerging markets.
Corruption	Rating from CRR, to denote risk of additional illegal costs/possibility of opacity in tendering/business operations affecting companies' ability to compete.

Source: BMI

Weighting

Given the number of indicators/datasets used, it would be wholly inappropriate to give all subcomponents equal weight. Consequently, the following weight has been adopted.

Table: Weighting of Components

Component	Weighting
Rewards	70%, of which
– Tourism market	65%
– Country structure	35%
Risks	30%, of which
– Tendering process	40%
– Country risk	60%

Source: BMI

Sources

Sources used in tourism reports include national industry associations, government ministries, global tourism organisations, officially released tourism company results and international and national news agencies.