Recent Development of Thai Economy – Opportunities and Challenges

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Recent Economic Development and Outlook
Emerging Asia

ASEAN economies picked up and recovered fairly quickly after the 2008 Global Financial Crisis.

GDP Growth

- Bankruptcy of Lehman Brothers
- Greece enters IMF program
Accommodative monetary policy and fiscal stimulus both help to support the Thai economy during the 2008 global financial crisis.

“Strong Thailand project “ (FY 2009 -2012), totaling around 3.5% of GDP.
Fiscal room available from years of prudent macroeconomic policies

Thailand’s Public Debt

Fiscal sustainability framework (60% of GDP)

Public debt 4,448 billion baht
42.3% GDP

Source: Public Debt Management Office

Fiscal Year

Sep 2011
Changing Structure of the Thai Economy

Breakdown of GNP by Industry

% of GNP

1980
2001
Recent Economic Development

The recovery which began to gather momentum during 2009-2010, was interrupted by domestic and external shocks, economic growth for 2011 is likely to turn out weaker than previously assessed.

Note: Q4 GDP growth is BOT Staff’s forecast

Source: BoT staff’s forecast at Nov 30, 2011
Recent Economic Development

Preliminary estimate of total output loss due to the flood is projected at around 2.0% of nominal GDP with manufacturing and agricultural production as well as tourism being among the most severely affected sectors.

Estimated loss due to the flood for each production sector (%NGDP)

Comparison of Effect from disasters
- NZ earthquake: - 0.6 % of GDP
- JP Tsunami: - (2.25 - 4) % of GDP
Export Growth

Despite improvement in export growth since the financial crisis in 2008, exports to major export markets had slowed down since August 2011 and contracted for the first time in October 2011. The contraction is attributed largely to the fall in manufacturing products due to the flood.
## Growth of Thai Exports to Major Markets

<table>
<thead>
<tr>
<th></th>
<th>(%) Share</th>
<th>%Δ 2010</th>
<th>H1</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Oct</th>
<th>Nov</th>
<th>YT D</th>
<th>Nov-11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASEAN</strong></td>
<td>22.7</td>
<td>36.5</td>
<td>22.1</td>
<td>20.6</td>
<td>23.5</td>
<td>34.7</td>
<td>14.4</td>
<td>3.2</td>
<td>25.2</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>EU (27)</strong></td>
<td>11.2</td>
<td>20.2</td>
<td>20.7</td>
<td>21.7</td>
<td>19.7</td>
<td>22.5</td>
<td>-12.4</td>
<td>-28.0</td>
<td>17.6</td>
<td>-3.0</td>
</tr>
<tr>
<td><strong>New EU</strong></td>
<td>1.3</td>
<td>24.1</td>
<td>9.9</td>
<td>5.0</td>
<td>15.2</td>
<td>1.4</td>
<td>-21.6</td>
<td>-19.9</td>
<td>3.8</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>11.0</td>
<td>33.2</td>
<td>23.8</td>
<td>24.8</td>
<td>22.7</td>
<td>62.8</td>
<td>21.1</td>
<td>-9.8</td>
<td>35.6</td>
<td>-1.1</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>10.5</td>
<td>29.8</td>
<td>28.7</td>
<td>30.2</td>
<td>27.2</td>
<td>21.0</td>
<td>4.2</td>
<td>-8.8</td>
<td>26.0</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>10.3</td>
<td>21.3</td>
<td>19.3</td>
<td>21.3</td>
<td>17.5</td>
<td>5.2</td>
<td>-5.5</td>
<td>-13.9</td>
<td>11.8</td>
<td>-1.4</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td>6.7</td>
<td>38.5</td>
<td>48.6</td>
<td>70.3</td>
<td>30.1</td>
<td>37.9</td>
<td>-15.1</td>
<td>-43.6</td>
<td>38.3</td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>Middle East</strong></td>
<td>4.9</td>
<td>14.4</td>
<td>15.2</td>
<td>17.5</td>
<td>14.2</td>
<td>13.1</td>
<td>0.6</td>
<td>-32.3</td>
<td>12.7</td>
<td>-4.2</td>
</tr>
</tbody>
</table>

Source: Compiled from Customs Department’s data
Breakdown of Goods Exported by Sector (% of Total export goods)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural Products</td>
<td>9.0</td>
<td>8.2</td>
<td>8.8</td>
<td>10.8</td>
</tr>
<tr>
<td>2. Fishery Products</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>3. Manufactured Products</td>
<td>88.0</td>
<td>88.9</td>
<td>88.7</td>
<td>86.6</td>
</tr>
<tr>
<td>A. Labor intensive products</td>
<td>9.3</td>
<td>10.8</td>
<td>9.8</td>
<td>9.0</td>
</tr>
<tr>
<td>B. High-tech products</td>
<td>62.7</td>
<td>60.6</td>
<td>61.9</td>
<td>58.5</td>
</tr>
<tr>
<td>C. Resource-based products</td>
<td>10.5</td>
<td>11.8</td>
<td>11.0</td>
<td>11.8</td>
</tr>
<tr>
<td>D. Others</td>
<td>5.5</td>
<td>5.8</td>
<td>6.0</td>
<td>7.3</td>
</tr>
<tr>
<td>4. Forestry Products</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>5. Mineral Products</td>
<td>1.4</td>
<td>1.1</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Compiled from Customs Department’s data
Economic Outlook

Economic growth is projected to rebound firmly in 2012 on the back of domestic demand to help cushion some possible weakness in exports due to global demand slowdown.

Downside Risks

- Weak global demand
- Ineffective government policies (flood prevention and stimulus program)
- Relocation of production bases if flood recovery delays

Source: BoT staff’s forecast at Nov 30, 2011
### Examples of Government Flood-Relief Measures

The Cabinet has approved in January 2012 a set up of the Flood Recovery and Restoration Committee on Infrastructure with a budget of 11,026.607 million baht to specifically focus on flood rehabilitation issues.

#### Income Support Measures
- Tax exemption for flood victims
- Income tax exemption
- Import tax exemption for machinery imports
- Extension of period for tax payment
- Up to 2 years leasing fee exemption for flood-affected property owners

#### Expense Support Measures
- Financial assistance scheme for flood-affected households
  - 5000 Baht Emergency fund
  - 30,000 Baht Residential restoration fund
  - 10,000 Baht Household asset restoration fund
- Provision of free rice seeds for flood-affected farmers
- Expressway toll fee exemption

#### Credit Measures
- Loan for Micro businesses total 90,000 million Baht
- Loan for SMEs total 235,000 million Baht
- Extension of repayment timeframe, exemption or partial payment of interest and waive transfer fees for transfers to flood-affected area

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Source: Cabinet synopsis, Royal Thai Government website www.thaigov.go.th
Cross Border Collateral Arrangement (CBCA)

- In October 2011 Bank of Thailand and the Bank of Japan have collaborated to implement an arrangement for liquidity provision in Thai Baht to Financial Institutions in Thailand utilizing Japanese Government Securities as collateral.
- One aim of this measure is to facilitate the funding of financial institutions operating in Thailand including Japanese banks, which provide financial services to firms, including Japanese firms operating in the flood-affected areas of Thailand.
Total FDI Gross Inflow from Japan

Million USD


Agriculture, Forestry, and Fishing
Manufacture of motor vehicles, trailers and semi-trailers
Manufacture of rubber and plastics products
Manufacture of chemicals and chemical products
Manufacture of computer, electronic and optical products
Manufacture of food products
Mining and quarrying
Manufacture of electrical equipment
Manufacture of machinery and equipment not elsewhere classified
Manufacture of fabricated metal products, except machinery and equipment
Manufacture of basic metals
Other Manufacturing
Other Sectors

Total (RHS)
Challenges and Opportunities
Where is Thailand?
Challenges and Opportunities

Megatrends

- Realization of AEC
- Rising China
- Troubling U.S. & EU
- Thailand

Opportunities
- Growing Chinese middle-class
- ASEAN Economic Community

Challenges
- Middle Income Trap
- Crises in US and EU
Development of Economic Integration

Source: AEC 2015: Ambitions, Expectations and Challenges (Kanithasen, Jivakanont and Boonnuch, 2011)
Opportunity from AEC: Thailand’s strategic location

Heart of ASEAN

- Logistic hub, gateway to Indochina
- Resource cluster: energy, labor, minerals
Dawei (Tavoy) Deep-sea Port Project

- Land bridge linking India, Africa and Europe with China and East Asia nations
- Lowers transport time of goods by an average of 10 days when compared to the traditional sea route through the Malacca Strait
- Easier access and transport of energy resources

Source: Dawei Port: Thailand's Megaproject in Burma by Pavin Chachavalpongpun
Growing border trade among neighboring countries

![Graph showing trade value between Thailand and its neighboring countries (Cambodia, Laos, Burma, and Southern China) from 2003 to 2010. The trade value is measured in THB mn. Each bar represents the trade value for a specific year, with different colors indicating the contributions from each country. The trade value shows a steady increase over the years.]
Japan-Thailand Economic Partnership Agreement (JTEPA)

- Signed in April 2003 and effective in November 2007
- Extends beyond ordinary FTA schemes to include 3 pillars of

<table>
<thead>
<tr>
<th>Liberalization and Facilitation</th>
<th>Cooperation in 9 areas</th>
<th>Special Cooperation in 7 projects</th>
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</thead>
<tbody>
<tr>
<td>• Trade in goods</td>
<td>• Agriculture, forestry and fisheries</td>
<td>• “Kitchen of the World” Project</td>
</tr>
<tr>
<td>• Rules of original of products</td>
<td>• Education and human resource development</td>
<td>• “Automotive Human Resources Development Institute” Project</td>
</tr>
<tr>
<td>• Trade in services</td>
<td>• Financial services</td>
<td>• Japan-Thailand “Steel Industry Cooperation Programmer”</td>
</tr>
<tr>
<td>• Investment</td>
<td>• Information and communication technology</td>
<td>• Cooperative Project in the Textile and Garment Industry</td>
</tr>
<tr>
<td>• The movement of natural persons</td>
<td>• Science technology</td>
<td>• Energy Conservation project</td>
</tr>
<tr>
<td></td>
<td>• Energy and environment</td>
<td>• Value-Creation Economy Project</td>
</tr>
<tr>
<td></td>
<td>• Small and medium enterprises</td>
<td>• Public-Private Partnership</td>
</tr>
<tr>
<td></td>
<td>• Tourism</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Trade and investment promotion</td>
<td></td>
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</tbody>
</table>
Structure of ASEAN+3 Macroeconomic Research Office (AMRO) as of end 2011

Executive Committee

Members: Finance and Central Bank Deputies of ASEAN+3 countries

Advisory Panel

Members: Distinguished and respected economists

provide strategic, technical and professional guidance to AMRO

Setting broad policy and overseeing operation of AMRO

Director

(Group 1)

Senior economist

Supporting staff (Admin)

Economist

Economist

Economist

(Group 2)

Senior economist

Economist

Economist

Economist